A TRILLION DOLLARS' WORTH OF TRANSPARENCY

JONAS MOBERG
HEAD OF SECRETARIAT
EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

The EITI is the global standard for governance transparency and accountability in the extractive industries. It is now implemented by 44 countries, including major oil and gas producers like Iraq, Nigeria, Norway and the United States. Several others are preparing to become members, including Colombia, Myanmar and the United Kingdom. The EITI has brought transparency to tax and royalty payments well in excess of $1 trillion. Over 400 professionals work full time around the world on the EITI and over 800 people serve on the 44 EITI national commissions.

Is the EITI leading to reforms and better energy production? Yes. Is the EITI helping fight corruption, improve accountability and build trust? Yes. Is the EITI creating a level playing field for oil and gas operators? Yes. Is the EITI revealing commercially sensitive information, including about reserves? No. EITI and the Joint Organisations Data Initiative (JODI); do we need it all and more? EITI is about transparency of the fiscal environment and of payments made; JODI is about aggregated production volumes. A number of different complementary efforts are required before sound governance of the oil and gas sector is achieved.

Over the following pages, the above statements are considered, drawing on experience from EITI-implementing countries and the EITI's development from a set of principles into an extensive standard. The reasons countries in very different situations implement the EITI are explored, as well as the EITI's role in informing public debate and encouraging wider reform. Finally, a look is taken at remaining challenges and opportunities in making transparency lead to less corruption, more efficient markets and competition and improved accountability.

RECONCILIATION OF REVENUE AND MORE: EITI-implementing countries publish annually a report that includes the reconciliation of all payments by producers with government receipts. These reconciliations are almost always done by an independent auditing firm, with Deloitte and EY amongst those that have produced EITI reports for several countries. In brief summary, these reports will often have a single table listing the producing companies, the taxes and royalties they pay, the receiving government entities and how much they report that they have received. Once a country decides to implement the EITI, all producing companies have to report, thereby creating a level playing field in terms of the transparency demanded. Drawing on early EITI experience and reflecting growing demands for further transparency, the EITI took a big leap forwards in May 2013 when the EITI Standard was approved.

The standard amends the mandate of the EITI from revenue transparency to coverage of a wider range of issues along the extractive industries value chain. From now on, EITI reports must include information about the sector beyond revenue transparency that will make the reports easier to read, analyse and use. Drawing on the experience of many producing countries already publishing their contracts, the new EITI standard encourages all implementing countries to disclose contracts and licence information. Also new is that the EITI requires that mandated social payments are disclosed and all voluntary payments are encouraged to be included in the EITI reports. For more detail on what is required, see the EITI standard here: eiti.org/document/standard.

So far, almost 200 national EITI reports have been published. They have identified missing revenues and weaknesses in legal and fiscal frameworks in, for example, Nigeria. These have in many countries led to reforms and improvements in tax collection and management systems as well as legal reforms. In its 2011 EITI report, Iraq reconciled its full export sales. Given that almost all of these companies are extra-territorial and not subject to Iraqi law, this is an impressive process and shows the way for other countries in which state oil sales make up a considerable amount of total income, for example Nigeria and Indonesia. In Norway, EITI reports make information on the oil and gas sector easily available.

Norway's Minister of Petroleum and Energy Tord Lien said at the publication of the 2012 report: "Transparency and oversight of financial flows from oil and gas are important in order for these resources to be a source of national prosperity. Our oil revenues in 2012 correspond to around 75,000 Norwegian kroner [$13,000] per citizen." This year, the first reports including more data in line with the 2013 EITI Standard will be published.

> "Countries face different challenges and in order to be meaningful, EITI implementation needs to link with other reforms and national priorities."

WHY COUNTRIES IMPLEMENT THE EITI: Producing countries implement the EITI for a wide variety of reasons. It is a way of minimising the risks for corruption, of attracting quality foreign direct investment and of building trust with citizens and other stakeholders.

A better understanding of how the sector is managed and governed creates a sense of trust and stability that is necessary to reduce investment risk. The reliable and timely data published in EITI reports informs public debate on the real contributions of the extractive industry, and multi-stakeholder dialogue builds trust among groups.

Making reliable information available to the public and bringing stakeholders together to discuss and clarify concerns, helps to manage the expectations created by oil and gas discoveries.

Countries face different challenges and in order to be meaningful, EITI implementation needs to link with other reforms and national priorities. A common goal across countries is more informed debate and better management of the extractive industries. Even in countries where information is widely available and governance structures are strong, gathering data in one report and presenting it in an accessible way provides added value to citizens, companies and governments alike. The fact that the United States is now implementing the EITI shows that revenue transparency is relevant for resource-rich countries of all sizes and income levels.

When committing to implementation, President Barack Obama said, "The United States will join the global initiative in which these industries, governments and civil society, all work together for greater transparency so that taxpayers receive every dollar they're due from the extraction of natural resources."

There is a growing recognition that good governance leads to improved recovery rates. In badly governed producing countries, the government and its regulatory bodies and the producing companies may be more interested in relatively short-term maximising of production and profits, rather than taking a longer-term view, requiring more investment but ultimately leading to improved recovery rates. Transparency of contracts and revenue payments contribute towards long-term planning.

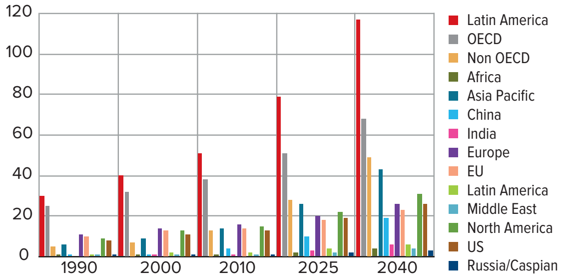
MOVING FORWARDS TOGETHER: Ten years ago, the industry, governments and civil society agreed on 12 EITI principles. The principles recognise that the "prudent use of wealth should be an important engine to sustainable economic growth," and that well-informed public debate can help choose appropriate options for sustainable development. Since agreeing on these principles, the EITI has evolved into a global standard. Eighty-five of the world's largest companies support the EITI. Among them are also a growing number of national oil companies including Statoil, Pemex and Petrobras.

Helge Lund, the president and CEO of Statoil, recently said, "[EITI's] work is important to us – and indeed for our industry. Your work is an essential part of an increasingly broad understanding that greater transparency around our business enhances stability and trust. This in turn encourages better governance and improved conditions for long-term investment, leading to more secure and reliable energy supply." The EITI has gained support because all stakeholders have seen benefits from being part of the process. This has helped to create an expectation of transparency in the extractive industry, which was previously too often opaque and murky. There remain, however, challenges in translating expectations into practice. In some countries, EITI reporting suffers from significant delays, with several years between the reporting period and the publication of the EITI report bringing transparency to the various payments from the companies to the government. Thus, one challenge is to ensure that reporting becomes timelier. The 44 implementing countries, and a growing number of officials, company and civil society representatives working on the EITI, represent an immense pool of innovation and creativity that is constantly reshaping the EITI to make it more meaningful in different contexts.

Nigeria, for example, is planning real-time data collection to improve the timeliness and the usability of the data. Twelve countries are undertaking a pilot programme to map the beneficial owners of extractive companies. The EITI has also begun to reveal information on oil sales, namely who buys oil and gas and at what price. But whilst the EITI can scrape the surface of the oil trading business, it needs to work with others to deepen the coverage of secondary and tertiary sales to bring transparency to this business.

TRANSPARENCY IS REALITY: Stakeholders have during the last couple of decades campaigned for more transparency. Whilst a lot of information is still hard to access and understand and in some countries, only most limited information is available, practices are changing. Contracts and licence information are becoming public, payments are reported by company and increasingly by project, and transparency is becoming a reality. The geography of energy is in constant flux, and challenges – social, environmental, technological and economic – have reached a new scale. Energy resources have enormous potential to improve the lives of billions of people, if governed well. This requires that those billions have the chance to understand and monitor their development. ■

inproduct



GDP by region

Source: ExxonMobil 2014 Outlook for Energy