

Extractive Industries Transparency Initiative

Australia's Pilot Progress Report, February 2013

Purpose

To provide the Board with a progress report on Australia's Pilot of the EITI including key issues identified so far.

Introduction

Australia is now over 12 months into its Pilot to test EITI principles in Australia since first announcing its intention to do so at the Commonwealth Heads of Government Meeting (CHOGM) in October 2011. The development and design of Australia's Pilot has evolved significantly since its initial conception, being shaped by the specific circumstances of the Australian system and through the considered expertise of the members of Australia's Multi-Stakeholder Group (MSG).

Australia recognises the work being undertaken by the EITI Board and its member countries and organisations to enhance the EITI Rules and Standard. Members of Australia's MSG are actively following these international developments including the recent '*Building on Achievements*' paper. To add to discussions around the future of the EITI, the MSG considers that there is value in sharing Australia's experience in delivering its Pilot; and in the interest of contributing to the proposed strengthened standards of the EITI, the MSG would like to provide the follow progress report.

Status

- Considering the complexity of Australia's established revenue and regulatory systems, the Australian Pilot is proving a valuable exercise to allow EITI application to be tested outside the formal candidacy process and timeframes, and has highlighted the need to maintain flexibility in the EITI for countries to adapt according to domestic conditions.
- In Australia, ownership for onshore minerals and petroleum (including gas) are ordinarily owned by, and royalties payable to states and territories. (i.e. subnational governments). Any application of EITI principles in Australia needs to be delivered within its federated system and requires participation from these subnational governments to provide meaningful revenue coverage.
- Three states, namely Queensland, South Australia and Tasmania have been actively participating as MSG members (Western Australia is also an observer at meetings) and have been instrumental in shaping the Pilot's design to include a 'systems analysis' that is examining the strength of Australia's existing governance and revenue reporting arrangements, and the value EITI principles could add to these.
- Privacy protection around company data was raised as an early issue when considering the scope and constraints of the Pilot. Australia is currently considering how to manage legal privacy restrictions that prevent the Australian Taxation Office (ATO) releasing company data to a third party. One option being considered is a password locked arrangement to allow the ATO to release through companies while providing confidence to figures.
- These protections have implications for the public release of disaggregated data. While MSG discussions continue, one option is that a level of disaggregated data

may be provided to MSG members, while a public report would focus on aggregated figures, key issues and findings.

- The data collection phase of the Pilot has commenced, initially focused on trialling a template design using 2010-11 financial year figures. To accommodate the Pilot's delivery in alignment with reporting timeframes 2011-12 financial year data will be used for the Pilot.

The Process in Context

In providing an outline of Australia's experience testing EITI principles, the two following clarifications should first be made. Noting these boundaries, Australia has made significant progress in delivering its Pilot:

1. Australia can only provide its experiences in setting up and delivering a pilot, which does not come under the jurisdiction of the EITI Board or its criteria; and
2. the Pilot constitutes a scoping exercise that limits the number of companies, payments and reporting requirements involved, and to some extent has more of a focus on the story or issues around the payments rather than the reconciliation of figures. By way of example, the Pilot has eight reporting companies, however there would be significantly more should implementation be agreed given there are approximately 4000 extractive companies operating in Australia.

Establishment of the MSG

Following the Government's agreement to undertake a pilot, a Multi-Stakeholder Group (MSG) was established to best represent the Australian extractive sector and broader community. A 7/7/7 model equally representing industry, civil society and government (including Commonwealth and three state governments) was adopted. To remain consistent with EITI requirements, each constituency self-nominated its participation. A list of members and observers is at **Attachment A**.

Broadly, industry is represented by peak industry bodies (as voting members or observers) and a mix of eight mining, oil and gas companies ranging in size from multi-national companies to small operations, across various jurisdictions. Civil society has representatives from Indigenous peoples, a union representative and non-government organisations targeting corporate social responsibility, community engagement and social wellbeing. Finally, government is represented by various Commonwealth agencies (Department of Resources, Energy and Tourism (RET) acting as Chair and Secretariat), and three states (Queensland, South Australia and Tasmania).

From its first meeting, observers (i.e. non-voting participants) were welcomed to attend and participate in MSG meetings and activities; in addition they participate fully in discussions. Various government, industry and civil society representatives have taken up this offer, further increasing the expertise and perspective brought to the group.

To remain aligned with EITI principles, the MSG agreed to be governed by a Terms of Reference. Importantly, it was the intention of the MSG to develop this document to support the spirit of collaboration and consensus in the Pilot's operation and

decision making of the group. This was developed as one of the first initiatives of the Pilot and agreed by MSG members.

Initially, the MSG operated successfully under its first version of the Terms of Reference, however as more conflicted issues were raised, particularly around payments to include in the Pilot, it became apparent that wording in the Terms of Reference around voting rules were being interpreted differently by members.

The MSG recognised that consensus was an important aspect for the Australian Pilot and transparent voting. To provide greater clarity and confidence in decisions, a representative from each constituency volunteered to revise existing voting arrangements. The group brought a recommendation to the September 2012 meeting where it was unanimously accepted. The MSG noted that the new Terms of Reference provide greater emphasis on consensus decision making, compromise and discussion, and maintains a hierarchical voting protocol that activates only if every effort to build consensus is not achieved. The Terms of Reference, including the revised voting arrangements is at **Attachment B**.

Pilot Design and Methodology

An early issue for the MSG was to establish a clear and common understanding of the Pilot's objectives, design and scope. Understandably, the MSG membership and its three constituencies had varied expectations of Pilot deliverables, costs and benefits. This was apparent at the very first meeting of interested stakeholders as there were expectations that the Pilot would produce a 'big number' highlighting payments made by industry. As the Pilot evolved, it moved away from this understanding to focus on identifying gaps in governance arrangements.

A key issue considered in developing the Pilot was the best approach to test EITI principles in the Australian context. The participating state governments provided an alternative model for the Pilot which, with modification, was ultimately adopted by the MSG. The alternative model recognises that Australia is a relatively large and multi-jurisdictional country, which has established data collection and reporting mechanisms for extractive industry and robust governance and compliance arrangements to support these mechanisms.

The alternative model will use or build on these existing and proposed mechanisms and arrangements. Initially this will involve undertaking a 'systems analysis' of relevant government revenue datasets and reporting mechanisms. Governance and compliance arrangements supporting such mechanisms will also be analysed. For example, in respect to royalty revenue, the Administrator will identify and collate the sources and basis of published royalty revenue data from participating jurisdictions. Details of each participating jurisdiction's governance and compliance arrangements will also be collated to determine the mechanisms used to obtain and verify the revenue data. A gap analysis will be used to identify any material deficiencies in existing mechanisms and arrangements in comparison with EITI requirements.

This alternative model suggests that focusing the Pilot on data collection and reconciliation alone will not provide a complete picture of established financial frameworks in Australia that support transparency and accountability; and that any

decision on EITI implementation should take into account how these principles are already absorbed in existing arrangements. The alternative model proposes that an examination of the current systems and a focus on gaps and/or opportunities for enhanced transparency will be a better fit in an Australian context. This analysis will be undertaken alongside data reconciliation, with the expectation that recognising existing systems will provide a better examination of the costs and benefits of full EITI implementation.

While initially thought of as supplementary to the Pilot's data reconciliation requirements, the 'systems analysis' has evolved to be a fundamental principle of the Pilot, providing opportunity to consider Australia's circumstances by highlighting the components of its established and often complex regulatory environment. As a result, the Australian Pilot is on course to deliver a informed analysis of the impacts of EITI candidature, moving beyond data capture alone to consider a broader narrative around relevant payments; and the value and effectiveness EITI principles could add to existing revenue collection and reporting, and compliance and governance controls. Divided or differing MSG opinion has shaped and influenced Pilot design and methodology in several areas. The following outlines three key methods that were drawn on to address and resolve issues raised throughout the Pilot so far, particularly around inclusive payments, materiality and Pilot scope.

Sub-groups

As the MSG was developing its work plan, preliminary meetings agreed that a sub-group arrangement would be applied to the Pilot's implementation and program of work. The sub-groups include at least one representative from each constituency and represent the broader MSG; and are responsible for delivering much of the Pilot's work streams. The sub-group system has proved highly effective in delivering Pilot outcomes allowing each constituency opportunity to influence and manage specific deliverables, and equitably establishes responsibility throughout the membership.

Sub-groups are either permanently assigned throughout the life of the Pilot or established as necessary for specific purposes. Sub-groups include: Reporting Template; Communications, Evaluation, Terms of Reference; and Administrator (a temporary sub-group tasked to procure the Administrator, later determined to be Deloitte).

As an example, the Reporting Template Sub-group comprising mostly tax or accountancy experts was heavily relied on in the initial stages to evaluate which payments are material and appropriate for the Pilot. Around the earliest meetings of 2012, the Reporting Template Sub-group examined numerous payments out-of-session as suggested by the MSG. This provided opportunity to undertake further research and investigations for each specific payment, including a comprehensive list of the benefits of inclusion versus the resources needed for data collection. In most instances, the sub-group was able to provide a recommendation to the MSG, but where the group was divided it would provide the key arguments around inclusion for broader MSG consideration. Use of the sub-group greatly assisted the MSG to determine Pilot revenues to be included, namely:

- Minerals Resource Rent Tax (MRRT)¹
- Petroleum Resource Rent Tax (PRRT)
- Company Tax
- Upstream excise paid by the North West Shelf
- Northern Territory Uranium Royalty
- State royalties

A major issue for Australia is confidentiality provisions in corporation and tax legislation around release of financial data, which also required consideration by the group. The Administrator has proposed a password locked arrangement where ultimately, the taxpayer releases all information on revenue payments as a way of managing legal privacy restrictions that prevent the ATO (a member of the sub-group) releasing company data to a third party. This provides confidence to ATO figures that pass through the corresponding company before release. This proposal is currently being tested and if proven effective may be a useful approach for other countries with similar privacy controls. There is a caveat however, that data collection under the workaround depends on consent from reporting entities to enable release and reconciliation of payments.

This sub-group continues to examine more technical aspects of the Pilot before broader MSG discussion.

The Narrative

During MSG discussion, to better understand the implications of applying EITI in Australia (and to support compromise when MSG division occurred on which payments were material) it was proposed that a narrative accompany all Pilot revenues; and payments given close consideration by the MSG but were ultimately not voted in for inclusion. This allowed ‘other payments’ to be examined further in other areas except data reconciliation. These payments include the carbon price; Fuel Tax Credits; Research and Development Concessions; and Concessional Loans and Grants. Payments that were brought to the MSG but unanimously voted out will not be extensively covered (for example accelerated depreciation), which will be covered at a higher level under income tax.

Development of the narrative will be a collaborative effort, comprising principles of the ‘system analysis’ and developed through the expertise and perspectives of all MSG members. This will be amalgamated into an *MSG Report to Government* due at the end of 2013, which will include findings from the Administrator (Deloitte Australia) and the Evaluator (engaged by the MSG to assess quality of Pilot processes and outcomes). A public report could then draw on key findings covered by the narrative (and aggregated figures), better adapting Pilot results to a public audience.

Inclusion of a narrative was first used by the Reporting Sub-group when examining the costs and benefits of including local government payments under the Pilot. Investigations indicated a high cost and resource burden given the number of local governments impacted by mining operations in Australia, and that the revenue was

¹ Initially voted in as a Pilot payment, MRRT reporting timeframes prevented its full inclusion. As a practical alternative, a participating company agreed to undertake a 6 month case study to allow reconciliation to occur for part of the financial year.

not considered material by comparison. The MSG was presented with the evidence gathered by the sub-group and agreed with its recommendation for exclusion, with an explanation be outlined in the narrative.

Case Studies

Case studies have become a valuable part of the Pilot's process. A case study type approach was adopted in early meetings focused on defining 'materiality' for Australia. The MSG agreed that the MRRT (i.e. a profits tax) was to be included as a Pilot payment. As further investigations occurred, it became apparent that the reporting period for this tax would not allow figures to be available within the timeframes of the Pilot (this was the first year of the tax so there was no historical data to draw on). As an interim measure, an industry representative of the MSG agreed to undertake a 6 month case study to allow at least some data to be captured within the available timeframes and for issues around the MRRT to still be examined. This will help inform a decision on future inclusion of the MRRT should Australia move to full implementation.

A further example related to the carbon price, introduced on 1 July 2012, was not successfully voted to be included under the Pilot. Members were divided on whether the carbon price was in the scope of the EITI, also confidentiality issues and reporting timeframes complicated its inclusion. It was agreed that even though it would not be reported and reconciled, a participating company would undertake a closer examination of transparency of the payment. While not as extensive a case study as for the MRRT, a comprehensive overview will occur and be detailed in the narrative. A case study will also be developed regarding payments to first peoples.

Other Issues

- As previously stated, agreement from state and territory governments to participate in the EITI is vital to providing a complete picture of revenue collection in Australia's extractive industries. While the Pilot is trialling across three state jurisdictions, should Australia move to full implementation it will be necessary to effectively engage with all subnational governments through the Coalition of Australian Governments (COAG) and its Standing Council on Energy and Resources (SCER). Without the states and territories' participation (which cannot be mandated by the Commonwealth – as proposal 7 from the Building on Achievements paper refers), onshore mineral royalties will not be available to Australia's EITI application.
- The Pilot has shown the importance of early communication with stakeholders to ensure a meaningful process and encourage sign on; including identification of the most pertinent people from all levels of government, industry and civil society. Strong communication supports stakeholder understanding of the EITI and develops an inclusive process from the earliest stages.
- Considering the established legislative and regulatory controls in Australia's revenue and corporate systems, for EITI candidacy to remain an option for Australia, flexibility and adaptability in the standard must be maintained. This might include consideration of a 'systems analysis' focus to support data reconciliation. This will also provide greater context and meaning to figures.
- Discussion continues in the MSG around a final definition of materiality, particularly on potential thresholds to activate reporting requirements and level of disaggregation. It was agreed in mid 2012 that final decision on these issues

should be delayed until details and findings on collection processes were better understood.

- Commercial-in-confidence legal protections may prevent disaggregation of company data to the public. The MSG is discussing how relevant Pilot data could be presented in respect of these restrictions. All members of the MSG have signed Deed of Confidentiality agreements.
- Statutory confidentiality restrictions, legal complexities and additional costs would need to be considered in order to determine whether it would be practical for Australia to report on a contract by contract and project by project basis. At present the MSG membership is not aligned on these issues. Depending on broader outcomes these provisions are attempting to achieve, it is worth noting that licencing and royalty structures and distribution are already well documented in Australia.
- The Pilot is framed according to the current EITI Standard and will not test changes proposed for the Board's consideration at its February 2013 meeting.
- An early issue to resolve in the MSG was whether the Pilot would apply to cash or accrual accounting. This discussion expanded to consideration of the various reporting periods for each payment, which included instalment reporting across financial (or calendar) years. Given this complexity, it was agreed that the total tax liability for the period would be assessed for the full reporting period, not according to amounts paid by instalments (as these are often based on estimates and will therefore not give an accurate and true reflection of 'actual' taxes paid).

EITI Multi-Stakeholder Group Representatives

EXTRACTIVE INDUSTRY REPRESENTATIVES

- Melanie Stutsel, Minerals Council of Australia (MCA)
- Andrew Mattiske, Mandalay Resources
- Ian Wood, BHP Billiton
- Richard Atkinson, Rio Tinto
- Chris Welberry, ExxonMobil Australia
- Andrea Laing, Shell Australia
- Maria Soares, BP Australia

CIVIL SOCIETY REPRESENTATIVES

- Serena Lillywhite, Oxfam
- Carmelan Polce, Jubilee Australia
- Brian Wyatt, National Native Title Council
- Peter Colley, Construction, Forestry, Mining and Energy Union (CFMEU)
- Greg Thompson, Transparency International Australia
- Julia Leske, Corporate Analysis Enhanced Responsibility (CAER)
- Les Malezer, National Congress Australia's First Nations Peoples

GOVERNMENT REPRESENTATIVES

- Tania Constable, Department of Resources, Energy and Tourism (non-voting Chair)
- Kathy Harman, Department of Resources, Energy and Tourism (member)
- Scott Rogers, Treasury
- Domenic Vetere, Australian Taxation Office (ATO)
- Lorraine Fietz, Department of Foreign Affairs and Trade (DFAT)
- Simon McKee, Queensland Treasury
- Ted Tyne, Department of Manufacturing, Innovation, Trade, Resources and Energy, SA
- Matthew Fitzgerald, Department of Infrastructure, Energy and Resources, Tasmania

OBSERVERS

- Michelle Andrews, Department of Mines and Petroleum, WA
- James Kernaghan, ENI Australia
- Troy Hey, MMG
- Andrew Schloeffel, AusAID
- Bronwen Burfitt, AusAID
- Adam Welch, Australian Petroleum Production and Exploration Association (APPEA)
- Troy Hey, MMG

EITI Multi Stakeholder Group (MSG)

Terms of Reference

Purpose

To define the scope and function of the Multi-Stakeholder Group (MSG) formed to direct Australia's pilot for the Extractive Industries Transparency Initiative (EITI).

Objectives of the Australian Pilot of the EITI

The aim of the Australian domestic pilot of the EITI is to test the applicability of EITI principles and criteria (attached at **Annex I**) in the Australian context and inform the Government's decision on whether Australia should move to full implementation of the EITI.

The outcomes of the pilot will be presented in an Administrator's report to the MSG (the report). The report will also disclose all material revenues and payments within the scope of the pilot. The pilot will be guided by the MSG with advice of the MSG sub-groups.

The pilot's objectives are therefore to:

- test the applicability of EITI rules and principles to existing governance and transparency arrangements for revenues and payments across the Commonwealth and State and Territory governments and the Australian extractive resources sector, and whether there are any possible enhancements of the EITI methodology that might be appropriate for Australia;
- identify the costs, benefits and challenges of domestic implementation of the EITI, particularly for industry, community and Commonwealth and State and Territory government stakeholders, to inform any decision by the Commonwealth Government on whether Australia should move to full implementation;
- identify any knowledge and transparency gaps with respect to extractive industry revenues and payments and assess the costs and benefits of the reporting process and outcomes; and
- assess the potential implications and benefits, internationally, of Australian EITI implementation, including increased engagement with EITI implementing and support countries.

Role of the MSG

The MSG is established in order to ensure that views of key stakeholders are taken into account in the direction and conduct of the pilot. Under EITI rules, national MSG play the central role in determining how each candidate country implements EITI. Overseeing the pilot through an MSG will therefore help identify and anticipate issues that would need to be addressed were Australia to implement EITI, as well as in establishing a degree of consensus on how implementation might proceed. It could also save time and resources at the implementation stage insofar as much of the initial work undertaken by the MSG might not need to be repeated.

The MSG will provide direction to the Australian pilot of the EITI to ensure that the pilot meets its objectives. It will be responsible for developing and endorsing an EITI work program, scope of pilot, actions, sequencing, timetable, responsible parties, costs, communications and funding sources. Specifically, the MSG will:

- develop and apply a work plan and communications plan for the term of the pilot;
- establish and support any sub-groups to examine specific issues, which may include the engagement of an Administrator, and preparation of reporting templates and evaluation methodology;
- agree on an appropriate definition of “extractive industries” and “materiality” for the purpose of the pilot;
- define and assess the scope of revenues and payments to be covered by the pilot;
- work within Australian laws and regulations;
- analyse and map established data collection and reporting mechanisms, and governance and compliance arrangements operating in the Commonwealth and State and Territory stakeholder jurisdictions, utilising appropriate aggregated revenue and payment datasets;
- identify, assess and report, through a GAP analysis any material deficiencies in existing reporting and reconciliation mechanisms and arrangements in comparison with EITI requirements;
- develop the Terms of Reference for and select an independent Administrator to provide advice to the MSG;
- develop and agree on the format of the report;
- develop the Terms of Reference for and select an independent Evaluator; and
- develop recommendations to Government on whether moving to full EITI implementation is appropriate in the Australian context.

It is recognised that the MSG has flexibility to adapt EITI principles to Australian circumstances when developing and implementing the EITI pilot. These adaptations will be disclosed in EITI pilot related reporting as appropriate. The MSG may engage in other tasks as it considers appropriate, consistent with the stated objectives and its Terms of Reference.

Membership

The MSG will be chaired by the Commonwealth Department of Resources, Energy and Tourism. The EITI MSG shall consist of a 7/7/7 split of industry, government (Commonwealth and up to 4 States and Territories) and civil society. Industry, in consultation with their peak representative bodies will select its membership and will represent both the onshore and offshore extractive industries sector and different company profiles. Civil society membership will be self elected and cover a broad range of civil society interests. Government will select its Members through an Inter-Departmental Committee (IDC) and direct engagement with participating States and Territory governments, and possibly local government.

Term of Membership

Members shall be appointed for the duration of the pilot. While the tripartite nature of the group must be maintained (i.e. government, extractive industry companies, and civil society must always be represented), the group may agree by broad consensus at any time to change, add, or reduce the number of Members. The MSG shall exist only for the duration of the pilot and will be disbanded once the Australian government has accepting the reported finding of the MSG. Should the decision be made to pursue full EITI implementation, a process will be established which could include formation of a new MSG with its own Terms of Reference.

Meetings

The MSG shall meet monthly or as otherwise agreed until the pilot is completed and its findings published.

The Chair will set the agenda for meetings. The meeting announcement, agenda, and any background documents shall be circulated to MSG Members a minimum of one week before the meeting date. The Chair and MSG shall be supported by the Department of Resources, Energy and Tourism acting as Secretariat. The Secretariat shall conduct all coordination and administrative functions necessary to support the MSG and ensure the fulfilment of its outlined responsibilities. If there are any necessary or urgent issues which need to be discussed and decided, the Chair will call an extraordinary meeting.

The Chatham House Rule² will apply to meetings and to the minutes of meeting discussions to be kept by the Secretariat. Minutes of meetings (respecting the Chatham House Rule) will be circulated to the MSG and will be made publicly available after agreement among the Members. Members and observers should respect that differences of opinion may arise during the development of a final work plan and should refrain from engaging in public discourse which would be disruptive to the development of a draft work plan prior to release for public review and commentary.

² See Chatham House Rule at <http://www.chathamhouse.org/about-us/chathamhouserule>

All MSG members and observers shall respect and not discuss outside of MSG meetings any sensitive information that may become available at any point during the period of the EITI pilot, and will sign confidentiality agreements on or before the second MSG meeting. All instances of failure to adhere with this confidentiality agreement would be reviewed by the MSG and may result in dismissal from any further participation in MSG meetings.

Decision-Making/Voting

The MSG will make decisions on the basis of consensus wherever possible. Where consensus is not possible the decision-making principles and voting rules will be applied.

The Decision-Making Protocol for the EITI Multi-Stakeholder Group is set out in Schedule I. This Protocol identifies:

- how decisions will be made, including consensus requirements and a 3 tiered decision-making hierarchy that applies if consensus cannot be reached;
- how members can be represented in decision-making if they are not able to be present at a meeting; and
- how abstentions will be managed.

Decision–Making Protocol for the EITI Multi-Stakeholder Group (MSG)

Principles

1. Decision–Making Principles

- 1.1. The MSG is committed to operating in the spirit of collaboration and cooperation with the aim of reaching general agreement amongst all members on all decisions.
- 1.2. In cases when general agreement cannot be reached, a formal vote will be taken at the discretion of the Chair and voting rules will be applied. While consensus is not always possible, decision-making principles are designed to build the greatest possible consensus.
- 1.3. All 21 MSG members will be represented in decision-making.
- 1.4. Simple majority voting is the least desirable preference and will only occur as a last resort.

2. Decision-making Rules

2.1. Decision-making will occur by a three tiered hierarchical system as follows:

- a) *Consensus*. The Chair will seek to achieve consensus for all decisions. If this is not achieved then modified consensus will be sought.
- b) *Modified Consensus*. Consists of a two thirds or greater majority of exercised votes (i.e. minus abstentions) and includes a minimum of 2 representatives from each constituency. If this is not achieved, a working group will be formed comprising equal representation from each constituency, to discuss and negotiate a recommendation to proceed to the MSG. This may occur at the meeting; post meeting (with the intention to provide a recommendation by the next MSG meeting); or be considered out-of-session. Once the sub-group has provided its recommendation, the MSG will seek to make a decision on the basis of consensus or modified consensus.
- c) *Simple Majority*. If modified consensus is still not achieved the motion will be passed by simple majority i.e. greater than 50 % in favour. Decisions made by simple majority will be identified in the minutes as such, with recognition that simple majority decision-making is the least-desirable and lowest grade of decision, reflecting substantial dissent by MSG members

2.2. One vote will be recorded per member, and abstentions will be recorded.

2.3. All 21 MSG members will be represented for each vote. The number of votes required to pass a motion will adjust according to any abstentions to maintain a two-thirds or simple majority of participating votes.

3. Proxy Arrangements

- 3.1. All 21 MSG members will be counted for each motion. Where a member is unable to be present at a meeting, that member will appoint another person to act as proxy at that meeting, and advise the EITI MSG Secretariat of the appointment in advance of the meeting.
- 3.2. All proxy appointees will be required to sign confidentiality and conflict of interest forms where necessary.
- 3.3. An MSG member may appoint any other person as their proxy for a specific meeting.
- 3.4. No person may hold more than two proxy votes for MSG members at a time with the exception of the Chair
- 3.5. In exceptional circumstances and at the Chair's discretion, when no advice on a proxy has been given and a member is absent from a meeting, the proxy will default to the Chair. The Chair may allocate the vote, abstain or use the vote as she sees fit.
- 3.6. Should the Chair hold a significant number of unallocated proxies they have the discretion to decide if votes are to be ratified out-of-session.

4. Abstention

- 4.1. Where a member intentionally abstains from a decision-making process, their vote will not be counted for or against the decision. Their vote will be discounted from the number of eligible votes.
- 4.2. To ensure abstention by a member is intentional, a member will notify the Secretariat of this intention, where possible in advance, and ensure that the abstention is recorded in the minutes of the meeting, or the record of decision for an out-of-session purpose.
- 4.3. Should the Chair determine that a significant number of abstentions are being exercised they have the discretion to decide if votes need to be ratified out-of-session.

Annex I

The EITI Principles

The EITI Principles, agreed at the Lancaster House Conference in June 2003, provide the cornerstone of the initiative. They are:

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
3. We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
6. We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.
9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,
10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.
11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.

The EITI Criteria

Implementation of EITI must be consistent with the criteria below:

1. Regular publication of all material oil, gas and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator’s opinion regarding that reconciliation including discrepancies, should any be identified.
4. This approach is extended to all companies including state-owned enterprises.
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.
6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

For more information on EITI requirements please see the EITI Rules:

http://eiti.org/files/2011-11-01_2011_EITI_RULES.pdf

