

EITI NEWSLETTER

2009-03

EITI International Secretariat Oslo, 25 August 2009

Dear friends and partners of the EITI,

In this edition we highlight some of the recent developments in the EITI universe, among others **Nigeria's launch of its second EITI Report** and the enactment of new **EITI Laws in Liberia and Norway**.

As six new countries have been accepted as EITI Candidates so far in 2009, transparency of revenue flows from natural resources is gradually becoming part of mainstream business practices. The EITI supporting community continues also to grow. In this edition we report on that **Switzerland**, the **Inter-American Development Bank**, as well as the oil and gas companies **GDF Suez** and **Santos** all have joined as EITI Supporters. The recent efforts from the **Obama Administration** and **US lawmakers** to promote the EITI are also of great significance. **"The solution starts with transparency"**, said US Secretary of State Clinton during her trip to Africa earlier this month, stating "African countries are starting to embrace this view through participation in the Extractive Industries Transparency Initiative".

This momentum will be tested over the next months when many countries are approaching the deadline for their first **EITI Validation**, the quality assurance mechanism of EITI implementation. There is encouraging news in many implementing countries, such as in Gabon where they are about to appoint their EITI Validator.

Much work remains ahead of us. We should all commend the many people who are working hard these days to make sure that their countries undergo EITI Validation.

As always we welcome your questions, comments and suggestions in our efforts to improve transparency in the extractive sector.

Best wishes,



Peter Eigen
Chair of the EITI Board

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The EITI Newsletter

The EITI Newsletter is sent out bimonthly from the International Secretariat. To subscribe to this newsletter, visit our website. There you will also find French and Russian versions of the newsletter, as well as earlier editions. Comments and questions about it can be sent to Communications Manager Anders Kråkenes.

Nigeria EITI Report Shows US\$ Billions Owed to Government

The latest report on oil and gas revenues released by the Nigeria Extractive Industries Transparency Initiative (NEITI) on 11 August has shown financial discrepancies and outstanding payments totaling over US\$5bn for revenues generated by the sector in 2005.

By conducting a financial, physical and process audit of the sector, the report identified unprecedented financial discrepancies, mispaid taxes, and system inefficiencies. Over US\$800m of unresolved differences between what companies said that they paid in taxes, royalties and signature bonuses, and what the government said it received were identified. Of this amount, US\$560m was identified as shortfalls in taxes and royalties owed to the government and around US\$300m in payment discrepancies relating to signature bonuses, payments of dividends, interest and loan repayments. The largest amount owed to the government in the report is an estimated US\$4.7bn by the state-owned Nigerian National Petroleum Corporation (NNPC), for payments of domestic crude. However, the NNPC claims it is owed US\$1.7bn in subsidies from the government.

The release of its 2005 audit of the oil and gas industry is a strong signal of the Government of Nigeria's determination to increase transparency in the sector. The quality and detail of the report itself demonstrates the huge potential value of a thorough EITI process, but also the immense challenge faced in Nigeria.

This point was reinforced during a 12 August visit to Abuja by US Secretary of State Hilary Rodham Clinton when she stated, "We strongly support and encourage the government of Nigeria's efforts to increase transparency". Assistant Secretary of State for African Affairs Johnnie Carson added that "Nigeria is undoubtedly the most important country in sub-Saharan Africa [and that] it also faces challenges with respect to corruption and has been described by a number of organisations as the most corrupt state in Africa and we all know what corruption can do to public confidence".

Peter Eigen, EITI Chairman remarked that "This 2005 NEITI report offers a great opportunity to inform the better management of Nigeria's most important sector and bring the benefits - rather than the harm - of these resources to ordinary Nigerian citizens. The findings of this report will serve as a wake-up call to address the fundamental problems in the industry."

This latest NEITI Report has highlighted numerous issues that call for urgent attention and action by all stakeholders. NEITI has now presented its report to the Federal Executive Council to get Presidential and Ministerial approval for the implementation of the report's key recommendations.

For a longer account about the NEITI report, see the EITI website.

Inter-American Development Bank Becomes EITI Supporter

The Inter-American Development Bank, an international financial institution that supports economic and social development in Latin America and the Caribbean, is now a supporter of the EITI. IDB's Board of Executive Directors approved the endorsement 5 August. In their announcement, available on the IDB website, it stated that "the IDB will work with other members of the coalition that support the EITI to promote its principles and participate in policy dialogues with natural resource-rich countries."

The president of the IDB, Luis Alberto Moreno said: "Extractive industries are key drivers of economic growth in many Latin American and Caribbean countries. The EITI offers a useful framework for encouraging best practices, and it complements the IDB's existing work in the areas of public sector transparency and modernization of the state."

Peter Eigen, the Chair of the EITI said following the announcement: "The EITI looks forward to working together with the IDB in furthering the EITI in Latin America. Drawing on implementation in Peru and the support the EITI has from companies like Petrobras and Pemex, the EITI is of growing interest in the region."

Most recently, the Government of Bolivia has been in discussions about implementing the EITI.

The support of the IDB now means that all major international financial institutions around the world are supporters of the EITI. The six others are AfDB, ADB, EBRD, EIB, IMF, and World Bank Group.

Liberia EITI Act Signed Into Law

On 10 July 2009, the President of Liberia, Ellen Johnson-Sirleaf, signed into law the Act Establishing the Liberia EITI. The LEITI Act is only the second dedicated piece of EITI legislation (following the NEITI Act in Nigeria), though many implementing countries have issued presidential or ministerial decrees or have amended existing legislation to establish a legal framework for the initiative. The LEITI Act requires that all government agencies and extractive companies comply with the Liberia EITI process. It goes far beyond the core EITI requirements, in that it covers the forestry and rubber sector, as well as oil, gas and mining. It also requires that EITI Reports publish payments on a company-by-company basis, and that operating contracts and licenses are published and reviewed.

EITI Chairman, Peter Eigen, welcomed the Act by saying *"The Liberia EITI Law is a further signal of the commitment of the Government of Liberia to improve the management of their abundant natural resources. I admire how Liberia has taken the initiative and adapted and extended it to address the key issues in the country. This sets an excellent precedent for other implementing countries in the region."*

Global Witness, an international NGO, issued a press release on 13 July, calling the LEITI Act "a new benchmark for transparency because of its wide scope and clarity about what needs to be disclosed". Radhika Sarin from the global civil society coalition Publish What You Pay said the Act "puts Liberia at the forefront of transparency and governance efforts in the extractive sector" in a press release on 14 July.

The Liberia EITI website (www.leiti.org.lr) has the full wording of the LEITI Act. For more information, contact Regional Director Eddie Rich at the EITI Secretariat.

Norway EITI Regulation Passed

Six months after being accepted as an EITI Candidate, Norway has formalised its multi-stakeholder group, enacted EITI regulation and begun work on its first EITI Report.

All extractive companies and relevant governmental agencies operating in Norway are now required to report all of their tax, license and royalty payments and receipts by 17 August. The reporting requirements are specified in the "Regulation on reporting and reconciliation of revenue flows from petroleum activity" that went into effect on 1 July. The completed reporting templates will be compiled and reconciled by the audit firm that was chosen to act as EITI Reconciler after a public tender.

A week before the enactment of the EITI regulation, on 26 June, the Norwegian multi-stakeholder group was formalised when it was appointed by the King-in-Council.

For more information contact Communications Manager Anders Kråkenes at the EITI Secretariat.

G8 Calls for Countries and Companies to Adhere to the EITI

At the 8 July G8 meeting in L'Aquila, Italy, G8 leaders confirmed their support of the EITI, and promised to intensify G8 countries' efforts to promote Validation by all EITI implementing countries. The G8 has expressed its support of the EITI at its summits since the G8 Summit in Evian in 2003. This year, the G8 leaders called for other developing and emerging countries and companies to adhere to the EITI.

The G8 backing of the EITI is affirmed in the G8 Leaders Declaration, which this year is titled "Responsible Leadership for a Sustainable Future":

35. We continue to support the Extractive Industries Transparency Initiative (EITI) to improve governance and reduce corruption in the extractive sector. We will intensify efforts to promote validation by all implementing countries and all companies operating in those countries. We also strongly encourage EITI candidate countries to complete implementation within their agreed timeframe and call on other developing and emerging countries and their companies to adhere to the initiative.

The G8 also launched a G8 Expert Group Report that reviewed the implementation of anti-corruption commitments. In this first accountability report, the G8 countries account for what they have done to meet their prior commitments to the EITI and other efforts.

Film about the EITI

The short film *Making Resources Work for People* that premiered at the EITI Global Conference in Doha this year can now be viewed at the EITI website.

Switzerland Joins as Supporter

The Swiss State Secretariat for Economic Affairs (Seco) made it known on 8 June that Switzerland will support the EITI with a US\$3m (SFr3.27m) contribution to the EITI Multi Donor Trust Fund. In a statement, Seco said "Switzerland wishes to boost its involvement in internationally coordinated efforts to promote transparency in mining and oil and gas and support the worldwide fight against corruption".

On the eve of the "Extracting Natural Resources, Transparency Wins" conference organised by the NGO Swissaid, EITI Chairman Dr Peter Eigen welcomed Switzerland as an "important new supporter of the EITI". This Conference demonstrates the country's commitment to transparency in the extractive industries."

GDF Suez and Santos Becomes EITI Supporting Companies

French company, GDF SUEZ, and Australian company, Santos, became officially EITI Supporting Companies in July 2009. They are now the 42nd and 43rd company to support the EITI on the international level.

GDF SUEZ is the leading buyer of natural gas and importer of LNG in Europe, and Europe's 5th largest electricity producer. It has exploration and production activities in the EITI implementing countries Norway, Mauritania, Cote d'Ivoire and Azerbaijan.

Santos is among Australia's largest 30 companies. It supplies over 20% of Eastern Australia's domestic gas and produced 54.4 million barrels of oil equivalents in 2008. Santos also has operations in Bangladesh, Egypt, India, Indonesia, Kyrgyzstan, Papua New Guinea and Vietnam.

EITI Chairman Peter Eigen welcomed the companies into the EITI family: "It is welcome to have the involvement of Santos and GDF Suez. Their work along the entire value chain adds a welcome dimension to our efforts. The EITI looks forward to engaging with Santos and GDF Suez in the implementing countries where they operate, as well as other countries as the EITI family continues to grow".

For further information about company support of the EITI, visit www.eiti.org/supporters/companies or contact Eddie Rich at the EITI Secretariat.

Professor Collier in the Guardian

In an op-ed about the recently launched Natural Resources Charter in The Guardian 25 May, Prof Paul Collier at Oxford writes the following:

"The Extractive Industries Transparency Initiative (EITI) is an international standard to which governments can make a commitment. Introduced in 2003, it was the right place to start in the struggle to break with the past. But it would be the wrong place to stop: integrity is not enough."

EITI Supporting Investors Are Managing US\$16trn in Assets

Over 80 institutional investors have now signed the Investors' Statement on Transparency in the Extractives Sector, declaring their support for the Extractive Industries Transparency Initiative (EITI) and its principles of improving governance and transparency in the extractives sector. Investors made their case for supporting the EITI stating:

"As institutional investors with exposure to companies operating around the world, we believe it is in the interest of the companies in which we invest to operate in a business environment that is characterised by stability, transparency and respect for the rule of law. These factors are essential to securing economic prosperity and social cohesion, which, in turn, enable the companies in which we invest to prosper. However, they are frequently undermined by poor standards of governance and transparency, which can give rise to corrupt operating environments."

In 2007, institutional investors supporting the EITI had over US\$12trn in assets under management and by early 2009 this figure had grown to an estimated US\$16trn. Given this, it appears likely that the principles of socially responsible investment will play an increasingly important role in how business is being conducted in the extractives sector for a long time to come.

The EITI Institutional Investor Group is represented on the EITI International Board by Julie McDowell, Head of SRI, Standard Life Investments, and David Diamond, Co-Head of SRI Development, Allianz Global Investors France.

The Investors' Statement is available at www.eiti.org/supporters/investors

The Obama Administration Backs EITI

In a speech on 5 August in Nairobi, US Secretary of State Hillary Clinton lauded African countries for participating in the EITI. Addressing Africa's challenges, Secretary Clinton said:

"The solution starts with transparency. A famous judge in my country once said that sunlight is the best disinfectant, and there's a lot of sunlight in Africa. African countries are starting to embrace this view through participation in the Extractive Industries Transparency Initiative. Creating a favourable investment climate requires countries to translate politics into governing."

A few months earlier, the EITI Board and other partners met with Deputy Assistant to the US President, Michael Froman. At the meeting Froman expressed his government's strong support for the EITI and its principles, while speaking at a reception hosted by EITI Chairman Peter Eigen. Member of the EITI Board, Anthony Richter, reported from the event:

Froman recalled that among President Obama's very first official acts he issued an executive order directing that "government should be transparent...government should be participatory...and government should be collaborative" and that every move the administration makes is thought through from this perspective. Among the key words of encouragement were "the Obama Administration strongly supports EITI" and notes its unique achievement of bringing together public sector, private sector and the nonprofit sector.

The meeting with Froman took place before the 9th EITI Board meeting on 15 May where Albania, Burkina Faso, Mozambique and Zambia were accepted as EITI Candidates. Other meetings during the week involved some 100 people from 50 countries, covering issues including improving EITI reporting, subnational implementation of the EITI process, and civil society engagement in the EITI process.

Secretary Clinton's full remarks from the 8th Forum of the African Growth and Opportunity Act are available at the EITI website

Next EITI Board Meeting in Baku

EITI will hold its 10th Board meeting in Baku 14-15 October 2009. The Government of Azerbaijan, the first country to complete EITI Validation, will host the meeting. The 20-person Board is made up of representatives from governments, companies and civil society. The meeting will focus on the progress of EITI Candidate Countries towards completing Validation. The Board will also visit the Sangachal Terminal, one of the largest oil and gas facilities in the world.

For more details on the meeting, please contact Leah Krogsund at the EITI Secretariat.

US Lawmakers Supporting EITI

US lawmakers continue to demonstrate their support for the EITI. On 13 June the New York Times published a letter from Senator Richard Lugar (R-Indiana) where he highlights the EITI as one of the few promising developments in the fight against corruption in Africa, writing "While it is indeed discouraging that the fight against corruption is faltering in much of Africa, there is at least one bright spot: the Extractives Industry Transparency Initiative, begun in 2003 to promote responsible and honest management of oil and mineral revenues, which are too often a source of corruption. Given the natural resource wealth of the continent, it is encouraging that 21 of the 29 EITI candidate countries are African".

On a similar note, during an Organisation for Security and Cooperation in Europe (OSCE) Parliamentary Conference in Ireland earlier this month Congressman Alcee L. Hastings (D-Florida) reiterated his support of the EITI and encouraged the Obama Administration to play a responsible role in promoting the initiative. In his speech Congressman Hastings stated, "I strongly believe that the best thing we [US] can do to help boost EITI is to follow the lead of other OSCE member States such as Azerbaijan, Kazakhstan, Kyrgyzstan and Norway and become a Candidate Country with the goal of becoming fully compliant with EITI standards."

EITI Validator Appointed as US International Energy Coordinator

David Goldwyn was appointed by Secretary of State Hillary Clinton and sworn in 17 August. Goldwyn was President of Goldwyn International Strategies LLC, which until the appointment has been a certified EITI Validator.

EITI Website Relunched at www.eiti.org

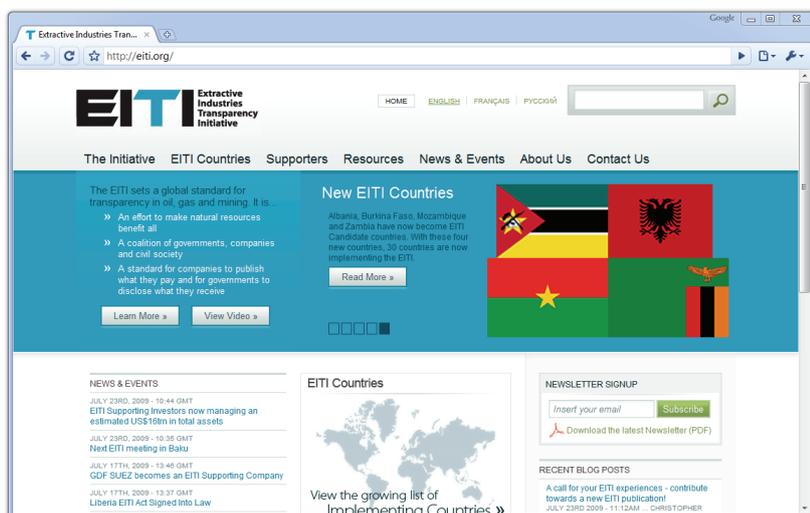
Over the years the EITI website has seen increasing traffic from all corners of the world. In 2008, the website had 60,000 unique visits. During the first seven months of this year the site has already had more visitors than the whole of last year.

A growing proportion of these visitors come from developing countries. As well as reflecting the overall trends of improving internet access, it reflects a rising interest in transparency and in learning about the EITI.

To accommodate the increasing user base and feedback we have received from you over the last year and a half, we have now launched an improved EITI website at the domain www.eiti.org. Some of the features of the new site are:

- ◆ A lightweight front page with fast load time in low-bandwidth areas;
- ◆ Improved multi-lingual support (English, French and Russian);
- ◆ A structure and menu system that are easier to navigate;
- ◆ An expanded “Resources” section with downloadable versions of all EITI materials, as well as research and reports relating to the EITI, www.eiti.org/resources;
- ◆ An interactive world map with the EITI countries, www.eiti.org/countries; and
- ◆ The EITI Blog that gathers together ideas about the role of transparency and natural resources in creating economic growth and fighting poverty and corruption. The blog is authored by members of the EITI Secretariat and key stakeholders, www.eiti.org/blog

We will continue to improve the EITI website over the coming months. Your comments and suggestions are very welcome. Send them to Communications Manager Anders Tunold Kråkenes.



Peter Eigen: “Transparency as a Tool for Trust-Building”

Peter Eigen writes in an article for the 2009 report from Business Action for Africa:

In the land of the blind, the one-eyed man is king. When it comes to knowing how the global financial crisis will affect Africa we are all living in the land of the blind. This is where I believe that transparency comes in. We have all seen cases in the extractive sector where opacity and silence has created mistrust and suspicion. Affected communities and ordinary citizens often assume that the government and companies are in cahoots to keep the wealth for themselves.

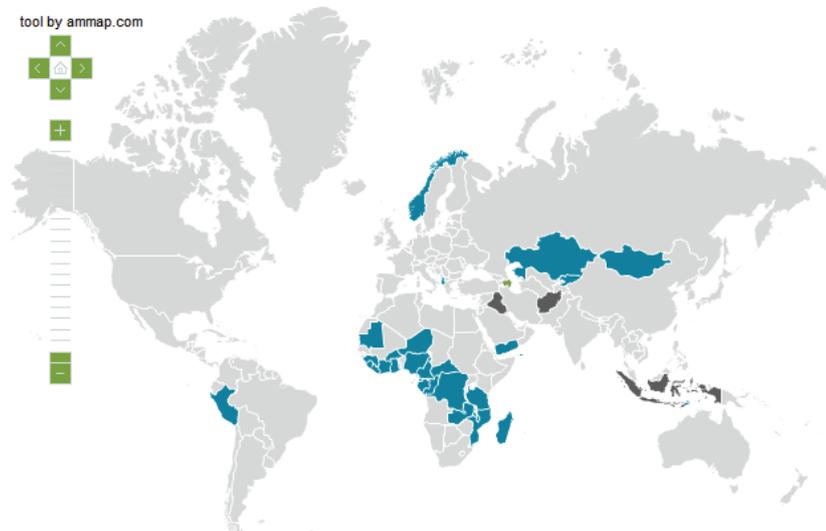
The Extractive Industries Transparency Initiative (EITI) has long been held up as a shining example of how multi-stakeholder initiatives can address these kinds of challenges. But much of this praise has been premature. The initiative is still young. In the past 18 months the number of EITI implementing countries has risen to 30, with 20 of them in Africa – 8 African countries have now produced EITI Reports. As these countries approach validation – the test of whether they have met all of the indicators in the EITI governance standard – we are for the first time getting a clear picture of how the relationship between transparency, multi-stakeholderism and development works.

EITI is morphing well beyond a ‘resource-curse’ initiative and into a vehicle to build trust at regional/local level. This, I believe, could provide some salutatory lessons for a world and a continent facing the dangers and difficulties of financial volatility and distrust.

The unabridged version and reactions to the article can be found at the EITI website.

The EITI Countries

Per August 2009. Up-to-date map is available at www.eiti.org/countries



EITI Compliant countries

Azerbaijan

EITI Candidate countries

Albania

Mauritania

Burkina Faso

Mongolia

Cameroon

Mozambique

Central African Republic

Niger

Côte d'Ivoire

Nigeria

Democratic Republic of Congo

Norway

Equatorial Guinea

Peru

Gabon

Republic of the Congo

Ghana

São Tomé e Príncipe

Guinea

Sierra Leone

Kazakhstan

Tanzania

Kyrgyz Republic

Timor-Leste

Liberia

Yemen

Madagascar

Zambia

Other countries

Afghanistan

Indonesia

Iraq

A country that has fully and to the satisfaction of the EITI Board met the four sign-up indicators becomes a Candidate country. These indicators are explained in the EITI Rules. Once a country has obtained the Candidate status it has two years to be validated as a Compliant country.

Several other countries have signalled their intent to implement the EITI. As soon as the EITI Board considers that a country has met the four first indicators, the country becomes an EITI Candidate Country.

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