



EITI Coalition Information Bulletin

№ 20

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Azerbaijan has become a full member of EITI

The 4th Extractive Industries Transparency Initiative (EITI) International Conference was held on February 16-18, 2009 in Doha, Qatar. The Azerbaijani delegation represented by Alimammad Nuriyev, Sabit Bagirov, Ingilab Ahmedov and Zohrab Ismayilov, representatives of the NGOs Coalition for Improving Transparency in the Extractive Industries (ITED), Samir Sharifov, Minister of Finance of the Republic of Azerbaijan, Shahmar Movsumov, Chairman of the National EITI Committee, a member of the EITI Board and the Executive Director of the State Oil Fund of the Republic of Azerbaijan (SOFAZ), Adil Mammadov, Head of EITI Secretariat of Azerbaijan participated at the conference.

During the first day of the Conference, the Board discussed approval of Azerbaijan as the first EITI Compliant country. The discussions had positive outcome. Azerbaijan's full member status has been approved by the Supervisory Board.

The issue of selection of EITI International Board members has been also discussed at the conference and Azerbaijan was re-elected as EITI International Board member for the next two years.

The Coalition has raised several important issues as well as the representation of the civil society sector in the validation process conducting in Azerbaijan. The establishment of multilateral Working Group with the representation of three parties participating in the EITI process in Azerbaijan, approval of the Activity Plan of this Group . were raised by the Coalition. Full member status has been given to Azerbaijan under condition of adopting of Coalition's suggestions.



XII General Meeting has been held

NGOs Coalition for Improving Transparency in Extractive Industries (ITEI) has held its next XII General Meeting on Feb.21, 2009 at the Caspian Plaza. Azer Mehtiyev, Coordinator of Coalition Council informed participants about works done by the Coalition Council in the period of 2008-2009, main directions of the program, development of international relations, validation process of EITI, existing obstacles and future plans.



According to the information, number of Coalition's members has reached 130 now, 116 of them are NGOs and 14 are individual members.

Speaking about the Coalition's position in the international arena, Azer Mehtiyev said that during last periods a series of meeting have been held with Tim Ruffer, representative of Coffey International Company, conducting validation of the Extractive Industry Transparency Initiative in Azerbaijan, Trond Kubberud, expert on oil-gas sector of IPAN Company, Ali Nabiye, director of "Balance-Audit" Company that is functioning in Azerbaijan. The purpose of the meeting was to be acknowledged with the position of Coalition regarding with EITI implementation in Azerbaijan.

Regarding with the works done by the NGOs Coalition during this period, Azer Mehtiyev noted that the Coalition has analyzed opinion of the Audit Company on the 9th report on EITI and disclosed its opinion.

Following general lectures thoughts of Coalition members have been listened and discussions around of matters related to function of Coalition have been conducted.

Council member Alimammad Nuriyev and Coalition member Ingilab Ahmadov gave profound information about results of conference of EITI Secretariat held in Doha and decided decisions.

One of the discussed issues was about the vacant place in the Monitoring Group. Several suggestions have been made in relation to this matter. It was also decided that, the group will continue its function to the next General Meeting in this group consisted of four persons.



SOFAZ budget approved

Ilham Aliyev, the President of the Republic of Azerbaijan the Decree signed approving budget of the State Oil Fund of the Republic of Azerbaijan for the year 2009 on February 26, 2009. The amount of revenues and expenditures are 8 361 016,3 thousand AZN and 5 319 534,9 thousand AZN respectively.

According to the President's Decree, 7, 992 300,0 thousand AZN of revenues have been proceeded from the sale of the Republic of Azerbaijan share of hydrocarbons (exclusive of hydrocarbons' transportation costs, banking expenses, customs costs, independent surveyor, marketing and insurance costs, and also exclusive of the revenues from the SOCAR's share in the projects, of which it is an investor, shareholder or partner).

According to the reports, 150 784,0 thousand AZN are dividends from realizing of oil and gas projects (from BTC) , 5 600,0 thousand AZN are revenues generated from oil and gas transit over the territory of the Republic of Azerbaijan, while 211 432,3 thousand AZN are revenues from management of SOFAZ's assets and 900 thousand AZN make other revenues and incomes.

Direction of expenditures is following: 4 915 000,0 thousand AZN - Transfer to 2009 State Budget, 110,000,0 thousand AZN – financing the reconstruction of the Samur-Absheron irrigation system, 100 000,0 thousand AZN = financing construction of the Oguz-Qabala-Baku water supply system, 80 000,0 thousand AZN - the expenditures for financing some projects concerning solution of the social and settlement problems of the refugees and internally displaced persons, 80 000,0 thousand AZN - financing "Baku-Tbilisi-Kars railway" project, 10 000,0 thousand AZN - financing "State Program on education of Azerbaijan youth in foreign countries in 2007-2015", 24 534,9 thousand AZN - SOFAZ's operating expenditures.

Falling of oil prices in the world market has caused to calculate SOFAZ's 2009 revenues almost 50 percent lower. However, Shahmar Movsumov, SOFAZ's Executive Director has announced that SOFAZ's 2009 revenues have been calculated with 70 USD for oil. He announced that the calculations were done also with 50 USD for oil and in this case, the total amount of SOFAZ's revenues in 2009 made 9-10 billion US dollars.

Delay of approval process of the SOFAZ's budget raised concern by NGOs Coalition for Improving Transparency in Extractive Industries (ITEI). The Coalition had made a statement regarding this delay.



The Coalition has voiced its opinion regarding the validation

NGOs Coalition for Improving Transparency in the Extractive Industries (ITEI) held a press conference on March 11, 2009. The Coalition Coordinator Azer Mehtiyev, council members Mehriban Vazir, Dunya Sakit, Ogtay Gulaliyev, and member of EITI Board and Coalition Ingilab Ahmadov took part in the press conference held in Caspian Plaza.



Making an opening speech Azer Mehtiyev said that the Coalition has determined its opinion about 9th report on the payment of companies, operating in the extractive industry to the government before, however hence it was not discussed together with government and companies it was impossible to publish the report in time.

“We would like to publish it after mutual discussion of parties of the Memorandum. But, due to the validation process and other causes this discussion has not been occurred yet. We hope we can get responds to our questions after this conference,” Mehtiyev added.

Mehtiyev brought to participants’ attention position of Coalition on the 9th report and range of opinions given to him by Auditor Company.

The Coalition member Ingilab Ahmadov spoke about validation of the EITI implementation process in Azerbaijan. He gave wide information about development stages of EITI, necessity of validation, work done on local and international level in this direction. He also spoke about Coalition’s participation in the process, and expressed opinion on some of the validation indicators.



The Coalition has disclosed its opinion regarding with the 9th report

NGOs Coalition for Improving Transparency in the Extractive Industries (ITEI) has disclosed its opinion following the report released by Moore Stephens Audit Company on the bilateral (the government and companies) about payments of companies operating in the oil and gas sector of Azerbaijan within the implementation of the International Extractive Industry Transparency Initiative (EITI). The 9th report covers the first six months of 2008 year.

According to the Coalition's experts, the timeline covered in the report of the first six months of 2008 is very significant. Precisely during that period of time sharing proportions in Azeri-Chirag-Gunashli, which called "Contract of Century" Production Sharing Agreement (PSA) had been changed. This proportion was 30/70 (the government/companies) in the period of 2003-2007. However, as of the beginning of 2008 year the proportion changed and made 45/55, in the second quarter of the last year the proportion made 80/20. At the same time, there had been gradual increasing of payments on gas-condensate deposit of "Shahdaniz" during the time the report was prepared.

"Considerably increasing of payments to the government in first six months of 2008 year comparatively with 2007 year attracts attentions. Azerbaijan's share in produced benefit oil in Azeri-Chirag-Gunashli deposit was 30,349 million barrel in 2007; this number has been increased for 2.2 times in report period and was 65,705 million barrel. Inclusions by cost to government had been recorded much more than inclusions by nature on the background of rising prices of oil in World Market for 2 times comparatively with 2007 year. At the same time, the report shows that the volume of benefit oil in payments of foreign oil and gas companies were decreased. During the first six months of 2007 year 1 942, 560 million AZN has been paid as well as profit tax to the government by foreign companies. This figure was 1 296,852 million AZN during the report period. This is connected with increasing of Azerbaijan's share in the division of profit oil on the Azeri-Chirag-Gunashli," the report says.

According to UTEI Coalition, starting payments on Shahdaniz deposit had raised new difficulties for of pursuing of profits. In previous period, payments of foreign companies to the government happened only on the Azeri-Chirag-Gunashli deposit. Therefore, there were opportunities to collate BP's information with the figures of EITI report. However, in the current situation, limitation of information about profits of Shahdaniz deposit creates difficulties on comparison numbers on reports with appropriate indicators on agreements. In its turn, this problem doesn't enable to assess efficiency of different agreements based on report results. "Therefore, we think that companies' transformation to individual accountability or publication payments on separately agreements is significant," the Coalition stated.

While commenting on the content of the report, the Coalition experts pointed out that "incomes from the price difference in the oil sale" section under the item called "other payments to the government" of the 4th part of the document ("Other incomes of the government from companies") must be clarified. "It must be clarified, what it means. This type of payment has been calculated during the report period, but did not enter to the government balance? Was there any income on this source? Taking into consideration that oil prices was in the highest level in the world market during the report period, income on this source must be higher than it was during the past period," experts said.

The experts also have pointed out to the several contradictory moments in the explanation of audit regarding with the report. The audit says that the difference in the payment as a form of money on the “Share of government in the form of money in the volume of oil exploration of foreign companies” (NOTE 1) is connected with the wrong perception of the respective company. So, the company has mixed it with the payable bonus. “Following this logic, we have to find this amount in the “Bonuses” section of companies’ report. However, this figure absent which means that this question should be clarified. On the another hand, explanation of the audit about difference regarding with “Transport Tariffs” (NOTE 6) shows that a part of this difference in amount that has been paid by foreign company to SOCAR for the North pipeline, in fact was calculated not as a transit fee of the government, but as a commercial fee of SOCAR. There is need to the additional explanation of the Governmental Commission regarding with this,” the Coalition says.

Coalition members signified their anxiety related to prolonging time of representation of the report. So, 9th report was represented in the middle of December, as before, 3 months later than it was considered on Memorandum.

The audit company has expressed its concern about double status of SOCAR in the Azeri-Chirag-Guneshli Agreement during the presentation of the 9th report. The Coalition has welcomed audit’s efforts to attract attention to solution of this important issue. However, the Coalition expresses its concern about non-reflecting of this issue at the Opinion (Forum).

Independent audit opinions on the collating of reports and the government’s report are placed on the website of State Oil Fund (SOFAZ), International Secretary on EITI and NGOs Coalition for ITEI. However, it limits opportunities of citizens to get enough information on these reports. The Coalition believes that in order to deliver information to the society in understandable and clear language, there is a need to publish the reports in newspapers, distribute them thorough booklets and brochures.

The Coalition recommends following actions in order to improve accountability process:

- To indicate the presentation of reports of the government, local and foreign companies during the period determined in the Memorandum, in case of delays in reports introduce reasons and explain the causes of the delays. The Coalition offers Audit Company to inform the parties of Memorandum while getting report (from the government and companies). A respective change must be made to the Memorandum regarding with this
- Independent Audit Company must increase its attention to reducing of period for removing of misunderstandings and presentation of reports in time. There must be certain limitations regarding timelines of preparing and presentation of audit reports
 - Taking into consideration the Memorandum of Understanding (MoU), new discussions among sides to improve the current reporting system should take place.
- Important works must be done to removing of differences appearing in several fuges and terminologies in the reports presented by the government and companies (local and foreign)
- A special training must be held before a month of reporting period (March 15 and August 15) for staff of companies, who is responsible for filling out of report forms for removing of mistakes repeated frequently.

- Initiatives of the Governmental Commission and NGOs Coalition for ITEI must be expanded in the joint format for disclosing of individual reports of companies, especially SOCAR's
- In order to deliver country report on EITI and audit opinions to the society, their publication in newspaper is preferred.

The Coalition hopes that the Governmental Commission and companies will take into consideration the offers aiming at improvement of Azerbaijani experience on EITI and make significant steps to realize this. It could play a great role in increasing of trust in EITI process and accountability system.



SOCAR to reduce non-production expenditures



The State Oil Company of Azerbaijan Republic (SOCAR) has taken serious steps to decrease impact of the global financial crisis. SOCAR President Rovnag Abdullayev approved SOCAR's anti-crisis program on Feb. 26, 2009. A meeting on the implementation of the anti-crisis program was held on March 31, 2009 with participation of Rovnag Abdullayev and Company's leadership, heads of several SOCAR's offices.

Abdullayev said that in the situation of globalization and strong international economic relations SOCAR might face with the possible negative cases. According to SOCAR President, falling of oil prices in the world market more than three times has resulted in decrease of revenues of SOCAR's budget. In order to improve preparations for the possible negative situation, it is important to develop supervising system regarding world financial and economic crisis and to increase effectiveness of measures to prevent tendencies that might become a real danger for SOCAR. Abdullayev expressed his interest in the work implemented by several SOCAR offices regarding with the implementation of the Anti-Crisis Program.

Khoshbakt Yusifzade, the first Vice-President of SOCAR, Vice-Presidents Suleyman Gasimov, Mukhtar Babayev, General Director of the "Azneft" Production Union Sabuhi Ahmadov, Head of Complex Drilling Company Isgandar Shirali, Director of the Baku Oil Processing Factory named after Heydar Aliyev, Elman Ismayilov, Caspian Oil Marine Mubariz Madatov and others participants of the meeting informed SOCAR President about measures taken in the direction of struggle against crisis. The participants of the meeting have stressed that the importance of main measures of the SOCAR's anti-crisis program maximum is reducing company's expenditures in main activity areas, particularly in non-production sphere, improving governance, carrying out structural changes to optimize expenditures, bringing the number of company's and organizations' staff in line with requirements.



Turkish Government fined BP in the amount of \$300 million



The Turkish Government has fined BP in the amount of \$ 300 million. According to the Turkish media, the reason of the fines is violation of tax legislation and avoiding from payments. The amount of unpaid amount is approximately \$100 million.

According to Tamam Bayatli, Head of the Public Relations Department of BP-Azerbaijan, BP-turkey has received information regarding fining decision of the respective government body. "This issue is connected with the activity of the petrol filling stations of BP in Turkey. It doesn't affect BP's project in Turkey related to Azerbaijan," Bayatli said.

Bayatli also added that the Company has not been satisfied with that decision and applied to the court. "The Company has announced that it has not avoided paying taxes or violating the tax legislation. The court is investigating BP's appeal now. Everything will be clear at the end of this process," Bayatli said.



SOCAR sponsors Georgian chess-players



SOCAR-Georgia Company of Azerbaijan will sponsor Georgian Chess Federation. According to Trend Information Agency, an agreement on sponsorship was signed between the General Director of SOCAR-Georgia Mahir Mammadov and president of the Federation Giya Georgadze.

In accordance with the agreement, SOCAR-Georgia will finance projects of the Federation until end of 2009. According to Georgadze, the Federation has never had any sponsorship. "Opportunities provided by our sponsor make us happy. We will get assistance from the company, which is the fan of the Georgian chess," Georgadze said.



Start of gold production delays in Azerbaijan



Starting to gold exploration in Gadabay region of Azerbaijan has been cancelled again. Azerbaijan International Mining Operation Company (AIMOC) has informed APA Information Agency that equipments bought from Canada and Australia for decomposing of gold from other ores has not yet been brought to the country. According to the Company, installation of those equipments will take approximately a month and the factory will be ready for production during the first decade of May.

Regardless that gold exploration in Azerbaijan has been scheduled for the last quarter of 2008, due to several technical reasons the process has been delayed. In the

beginning of 2009, AIMOC President Rza Vaziri said that the exploration in Gadabay would start at the end of March and early April. According to Rza Vaziri, \$60 million has been invested in exploration and exploitation works in the “Gadabay” gold field since 2004.

In his announcement in early February, Huseyngulu Bagirov, the Minister of Ecology and Natural Resources, said that gold exploration in Azerbaijan to begin in mid-2009. It is expected that 15 tons of soil to be refined for an ounce of gold with possible of extracting 2 grams of gold from one ton soil in Gadabay field. In accordance with the latest estimation conducted by AIMOC, gold equivalent of Gadabay gold field is a million ounce.



Council members visit Dashkesen and Ganja

Ilham Huseynli and Ogtay Gullaiyev, members of the Coalition Council, have visited Dashkesen and Ganja. The visit came as a part of the “Organizing of advocacy in the area of attracting of non oil and gas sector to the EITI process” project implemented by the Coalition.

The Coalition members have met with the representatives of the Executive Body of Dashkesen region. Along with the activity of NGOs Coalition for ITEI and its purposes, the sides have discussed natural resources of Dashkesen region, volume of mineral resources, exploration history.

After discussions the Coalition members visited Dashkesen Ore -dressing Factory and met with the General Director Mehmet Kaya. Mehmet Kaya informed guests about the factory. According to him, the factory hires 300 employees, while the area contains approximately 400 million tons of ore resources. Mehmet Kaya added that he was informed about the Transparency Initiative; however, certain type of information could be revealed only to the official bodies within the current rules and protocols.

The Coalition members also have met with heads of NGOs operating in Ganja. The meeting was held at the regional office of the Open Society Institute – Assistance Foundation with participation of mass media. The Council members informed participants about the context of the validation process, its implementation and Coalition’s role in this process, and attracting of non-oil and gas sector into the EITI process.



SOCAR to invest \$ 52 million in “Petkim” in 2009

Despite the global financial crisis, State Oil Fund of the Republic of Azerbaijan (SOCAR) is planning to invest \$52 million in “Petkim” complex in 2009.

According to “Hurriyyet” Newspaper of Turkey, SOCAR President Rovnag Abdullayev announced about this move at the event in Turkey devoted to 44th anniversary



Türkiye'nin Gururu



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of establishment of “Petkim”. Abdullayev said that “Petkim” will turn into one of the companies with the biggest revenues in the world, as the result of several projects implemented by Azerbaijani side. “”Petkim”’s share will be reached frn 25 percent to 40 percent in the Turkey market,” Abdullayev added.

According to SOCAR President, \$47 million has been invested in “Petkim” in 2008.

Tender on the selling of 51 percent share package of “Petkim” was held in June of 2007. Kazakhstan-Russia joint company “TransCentralAsia Petrochemical Holding” offering \$2,05 billion became the tender winner with the offer of 2,05 . However, the tender commission declined this decision afterwards and “SOCAR-Turcas-İnjaz”, owner of offer in the amount of \$2,04 billion has been announced a winner of the tender.