

Extractive Industries Transparency Initiative
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*EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE:
PILOT COUNTRIES EXPERIENCE*

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Vision for future of EITI

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First, I'd like to set the context for BP's engagement in the EITI process.

If you like – our incentive for taking part.

Implementation of our and other companies' business strategies and the resulting investments in countries such as Azerbaijan, Angola, Indonesia and Trinidad and Tobago will significantly increase government revenue in these countries, creating opportunities for accelerated development.

In the past, cash flows generated from the extractive industries have been associated with the risk of macroeconomic instability, exchange rate over-valuation, and corruption, as shown by research from the World Bank, the IMF and as highlighted by several NGO reports. To help moderate these risks, we aim to work with host governments in creating a more widely shared understanding of resource revenue management.

BP is committed to the principle of transparency. We believe that improving accountability which is an inevitable outcome of increased transparency, strengthens governance and reduces corruption, conflict, and poverty. This is good for society, and for business. It reflects

responsible business. In the words of Bjorn Stigson, President of the WBCSD “Business cannot succeed in a safety that fails.” Therefore, we strongly support EITI’s fundamental objectives of promoting transparency and accountability in extractive industries and the efforts of the IAG to strengthen EITI implementation and effectiveness on the ground.

We also believe that transparency of industry payments to government is only one part of promoting good governance – an essential condition to ensure sound revenue management and consequent poverty reduction.

Revenue outflows are as important as revenue inflows, to achieve this purpose. We will work with host governments and industry partners to develop mutually acceptable mechanisms for reporting.

Having said that, I want to offer three things to this discussion. I’m not sure if they are visionary but I offer them based on our experience thus far in this process:

- First, we must never forget the ultimate purpose of transparency, which is to foster greater accountability and good governance.
- Second, we must avoid creating a centralized bureaucratic process and keep the focus of EITI effort on in-country implementation in resource-rich developing countries.
- Finally, we can and should seek to use third party benchmarks as indicators of performance against the purpose of EITI.

Let me develop these ideas a little.

EITI aims “to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments”.

The reason for pursuing this aim is that transparency is a means to the higher ends of better governance, lower corruption, less conflict and reduced poverty.

Forgive my repetition but not all of you have heard this analogy, which seems particularly appropriate here in Baku. Drilling deep into the data on resource revenues and letting in the fresh light of day has been immensely valuable – and we shall continue to support a spreading of the principles of EITI. But in the oil business, when you have drilled deep and hit your target, your next step is to drill somewhere else, not to continue to drill deeper in the same place.

A hallmark of EITI thus far has been the intensity of local energy in implementing the initiative. The progress of EITI in Azerbaijan has been particularly impressive, and in large part is due to the hard work of Mr Samir Sharifov of the State Oil Fund, who has shown great leadership, with whom we in BP have been pleased to work, and who, I believe, is owed a great deal of credit for making EITI a success. And of course none of this would have been possible without the leadership, commitment and support of President Ilham Aliyev.

With respect to avoiding centralised bureaucracy, let me draw on the experience of my company. For BP, a decentralized organization works well, but goes hand in hand with a performance model that uses benchmarks against which to assess that performance. I think that we can similarly use external benchmarks, such as for example the IMF's assessments of country performance against their Guide on Resource Revenue Management that sets out a set of world-class standards for transparency and good governance.

At a national level, the EITI is a government-led initiative. However, the EITI principles and criteria call for the active involvement of companies and civil society. We acknowledge and support the position of the Company and Country Validation process that there should be a complementary, or better still unified, validation process for all participants to confirm that the agreed EITI principles and criteria have

been met and that they are being applied fairly and consistently in each implementing country.

The validation process should not be unnecessarily burdensome or complicated. EITI validation process should focus on EITI progress and should not duplicate either the already complex series of actions necessary to implement the EITI.

So let us focus on the true purpose of the EITI, avoid burdensome, bureaucratic, centralised process, aim to support and reward leadership, enthusiasm and energy in the implementing countries and look for external benchmarking opportunities such as those of the IMF in order to judge and validate our progress.

Thank you.