



Extractive Industries Transparency Initiative: Investor Briefing Note

What is the EITI?

The Extractive Industries Transparency Initiative (EITI) is a project endorsed by the G8 as part of its anti-corruption initiatives, and initiated by UK Prime Minister Tony Blair. It is aimed at improving governance standards in resource-rich developing countries by boosting disclosure of revenues earned by governments from natural resource contracts. It was announced by Mr. Blair at the Johannesburg Summit in 2002, and has subsequently been endorsed by several developing countries, including Nigeria, Azerbaijan, Gabon, Ghana, Guinea, Kazakhstan, the Kyrgyz Republic and Mauritania, in addition to the G8. It encourages host governments and extractive companies to sign agreements in which the companies publish what they pay and the governments publish what they receive.

Who is involved?

The EITI brings together extractive companies, investors, governments, non-governmental organisations and multilateral finance institutions.

Why disclose payments and receipts?

In developed economies in Europe and North America, payments such as taxes, royalties and signature bonuses are a matter of public record and governments are therefore accountable to their citizens. In many developing countries, these payments are deliberately confidential, which leaves them vulnerable to misappropriation by government officials. This not only leads to impoverishment of the local population, but often fuels civil conflict and political instability.

What has happened so far?

In June 2003, the EITI issued a Statement of Principles and Agreed Actions, which all interested parties were asked to support. Companies, investors, governments, multilateral institutions and NGOs indicated their support by issuing statements of support for the EITI Principles. Several host governments and companies have subsequently started to implement the EITI, and an International Advisory Group (IAG) was created to decide on the EITI's future governance structure and how to coordinate and verify the implementation. In the last 18 months, the IAG has crafted a detailed Validation methodology that determines which countries and companies meet the EITI's requirements. In addition, some companies, notably Statoil and Anglo American, have started to publish details of all their payments to governments around the world.

What is the response of oil and mining companies?

To date, most leading extractive companies and several industry associations have issued statements supporting the EITI; these include ExxonMobil, BP, Shell, Chevron, Total, Rio Tinto, Anglo American, as well as the American Petroleum Institute (API), the International Association of Oil & Gas Producers (OGP), and the International Council on Mining and Metals (ICMM).

Why would oil and mining companies support this?

The companies that have led this initiative all agree that poor governance and corruption breed social and political instability, which damages business prospects. In addition, companies are increasingly subject to accusations of complicity in corrupt behaviour, impairing their local and global "licence to operate", rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in those markets. Reform will give extractive companies an opportunity to be seen as contributors to, and not just beneficiaries of, economic development and reconstruction.

What are the obstacles to success?

The successful take-up of the EITI in any individual country is contingent on action by the host government to remove confidentiality requirements, permit or compel disclosure by companies and commit to disclosure of government receipts. Although a few countries have achieved real progress and several more have announced their commitment to implement the EITI principles, several key oil and mineral-rich nations appear reluctant. Other countries, after an initial announcement of support, have made no progress. Progress is more likely to happen if host governments recognise that companies and their investors may downgrade them as investment locations as a result of poor governance practices.

What is the role for investors?

- At the original launch of the EITI in June 2003, 38 investment institutions signed the '*Investors' Statement on Transparency in the Extractives Sector*' supporting the EITI. This group has since grown to over 60 investors, who collectively control over US \$8.6 trillion. The process was led by F&C Asset Management, a UK-based investor with £107.0 billion¹ under management, and signatories included CalPERS, Dresdner RCM Global Investors, Fidelity Investments, Merrill Lynch Investment Managers, New York State Common Retirement Fund, PGGM, Schroders Investment Management, SSgA Limited and TIAA-CREF.
- The Investors' Statement is intended to demonstrate to extractive companies and host governments that the capital markets unambiguously support the EITI principles.

Does support by investors imply a change in investment policy?

- The purpose of the Investors' Statement is to send a clear message to host countries that the capital markets place a value on strong and transparent fiscal practices, and support constructive moves towards better governance – but it remains a decision for the extractive companies themselves as to whether or not to invest in individual projects and countries.
- There is therefore NO EXPECTATION that investment institutions will refrain from investing in certain companies as a result of their involvement or otherwise in the EITI. However, by backing this statement, institutions are signalling that it is in the self-interest of companies to support the EITI.

Next steps for investors

- Investment institutions are invited to add their name to the *Investors' Statement on Transparency in the Extractives Sector*.
- **The next biennial EITI Conference will take place in Oslo on 16-17 October. The updated list of signatories and total amount of Assets Under Management will be announced at that time.**
- The involvement of investors is coordinated by F&C Asset Management. Interested investors should contact Karina Litvack (karina.litvack@fandc.com tel +44 20 7506 1219) or Robert Barrington (robert.barrington@fandc.com, tel +44 20 7506 1216) as soon as possible but no later than 11 October 2006.

¹ As at 31 December 2005