



global witness

Mr Orujov  
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**3<sup>rd</sup> March 2015**

Dear Mr Orujov,

Many thanks for your letter of 25 February 2015.

This response attempts to address each of your points in turn, citing relevant correspondence between the State Oil Company of Azerbaijan Republic (SOCAR) and Global Witness. Each of the following points starts off with an *italicised* section that represents your words from your letter.

1. *The Global Witness report, Azerbaijan Anonymous, contains erroneous and unsubstantiated allegations...that remain uncorrected*

Our 10<sup>th</sup> December 2013 report Azerbaijan Anonymous called for information of high public interest to be made known. It called for the release of information concerning who the real owners are of companies involved in the extraction and trading of oil that belongs to the Azerbaijani people, and how these companies got access to these deals. SOCAR, the state-owned oil company, had struck dozens of separate deals with companies that appeared to be owned or controlled by a businessman who, at the time of Azerbaijan Anonymous' publication, was not a publically known figure. We believe these matters to be factually correct and substantiated by the evidence. While SOCAR may have followed best practice in Azerbaijan that these deals lacked transparency was a fact. A key aim of our report was to highlight the current lack of requirement to disclose information about beneficial ownership of companies operating, investing in, trading or bidding on extractive assets and to encourage greater transparency in the Azerbaijani oil industry.

Prior to the release of our report, Azerbaijani civil society and a member of the Azerbaijani parliament voiced concerns about transparency in oil deals. Our report called for SOCAR to explain how and why these deals were made and for greater transparency of future deals.

All of our reports, including *Azerbaijan Anonymous* are rigorously researched, fact-checked and referenced with detailed appendices.

We published our report in December 2013. Before that, we made requests for information from SOCAR and numerous SOCAR subsidiaries. We wrote to SOCAR several months before we published our report with very specific questions. SOCAR responded with a page and a half letter with descriptions of its activities and business rationale, but did not answer many of the specific questions we had asked. We published the letter from SOCAR in full on our website and quoted substantially from it in our report.

SOCAR has criticised our reporting but has since published some of the information the report called for. It is regrettable that SOCAR chose not to provide this information before we published, despite our invitations to do so. Nevertheless, the release of this information, even if belated, is a positive step.

We have published links to the information SOCAR has published, including your website [www.azerbaijananonymousexplained.com](http://www.azerbaijananonymousexplained.com), launched in December 2014, a year after our report. The website was useful, although we still had questions that we felt were not answered and we articulated these to SOCAR. We also continue to call for SOCAR to support the routine disclosure of information relating to the real beneficial owners of partners involved in oil trading, as well as in oil exploration and extraction.

## 2. *...despite requests to meet with Global Witness...*

Additional to our attempts to garner information from SOCAR before the publication of our report, Global Witness took part in a dialogue with SOCAR after publication. This has included offers to meet with SOCAR. Examples are as follows:

**19<sup>th</sup> December 2013:** Following SOCAR's December 2013 statement in response to our report, which we referred to on our website and linked to, Global Witness publicly stated that we would "welcome dialogue with SOCAR" whilst challenging the claim about inaccuracies made in the SOCAR statement.

**15<sup>th</sup> January 2014:** Global Witness wrote to SOCAR's President Rovnag Abdullayev correcting the claim that our information was false or inaccurate whilst offering to "correct any factual error if you are able to provide us with the correct information. If you disagree with the other findings of the report we would ask that you respond, making clear specifically which points you consider to be "false or outdated"."

**27<sup>th</sup> January 2014:** Global Witness Director Simon Taylor wrote a follow up email to SOCAR President Rovnag Abdullayev using an email address provided by the SOCAR press office. The email invited a meeting saying: "We believe this provides an opportunity for further dialogue on the issue of transparency and we would very much welcome the chance to meet and discuss this.

We reiterate that we would be happy to meet you or another member of the SOCAR board if you are in London at any point in the near future, or alternatively we could arrange a video conference between yourself and/or members of the SOCAR board, and senior managers and campaigners of Global Witness." We did not receive a response.

**11th April 2014:** Global Witness sent a letter to SOCAR's President at the company's headquarters in Baku. Amongst other issues, the letter responded to a claim that we had made a mistake about the ownership of a subsidiary. We provided all the details of our information relating to this conclusion, including citing company registration documents. The letter also contained further questions and concluded: "We therefore look forward to continued dialogue with SOCAR on these matters, and would be happy to meet to discuss these matters, as set out in our invitation in the January email." No response was provided.

**24th October 2014:** Global Witness sent another letter to SOCAR's headquarters in Baku, which concluded: "The offer made by Simon Taylor for further dialogue – be it by phone conference or in a face-to-face meeting is of course still open."

SOCAR replied to this letter via Hamlins, its London law firm, stating that all correspondence for SOCAR should go to them in future. The letter stated: "It is our client's intention to provide you with the necessary information and to work with you towards a proper dialogue."

Global Witness corresponded with Hamlins from **November 2014 to February 2015** about the possibility of arranging a meeting. During this correspondence, Hamlins informed Global Witness of your website [www.azerbaijananonymousexplained.com](http://www.azerbaijananonymousexplained.com) which Global Witness linked to from our website. Hamlins also requested that Global Witness let them know of the questions and areas we would like to discuss with SOCAR.

**9th February 2015:** Global Witness replied with areas for discussion and offered again to meet: "We are very interested in discussing the promotion of transparency through positive and constructive engagement that takes into account SOCAR's important role as a major producer and supplier of oil. In particular we would like to discuss SOCAR's view of the EITI process, SOCAR's engagement with civil society both in Azerbaijan and abroad, and get the company's perspective on the possibility of furthering cooperation in the future as regards improving the clarity of what information is made publically available. We also have some clarification queries relating to the information submitted in response to our report, including issues relating to the initial structuring of SOCAR Trading and SOCAR International, and the issue of funding, share purchases, company valuation and company personnel."

**18th February 2015:** Hamlins responded by making it clear that SOCAR did not want to meet on this basis: "Our client has comprehensively answered the misleading and inaccurate allegations in your article, insofar as they pertain to our client, in particular the website [azerbaijananonymousexplained.com](http://azerbaijananonymousexplained.com). We are therefore extremely concerned to see from your most recent email that you persist in seeking to raise issues which are inappropriate for our client to address or that we have already explained fully. That you propose to discuss issues of the EITI process and of "civil society" at a meeting with us displays a fundamental misunderstanding of the nature of SOCAR, which is a commercial and not a political entity."

Please note that at no point has Global Witness refused to meet with SOCAR.

We continue to remain open to meeting representatives of SOCAR, its legal advisors or its public relations agents, as well as receiving and continuing to publish any additional information.

3. *...and despite the publication of full explanations on our website: [www.azerbaijananonymousexplained.com](http://www.azerbaijananonymousexplained.com).*

See above. Global Witness welcomes these disclosures, which go some way in addressing the lack of information identified in Azerbaijan Anonymous, and has actively drawn attention to them by linking to them on the Global Witness website, allowing readers to assess all of the information that has been disclosed.

4. *By taking a prominent role, SOCAR has demonstrated its commitment to the [EITI] initiative and the company aims to help the EITI be better implemented in Azerbaijan.*

We welcome SOCAR's stated commitment to the EITI and improved implementation and note the new recent practice of disclosing payments made to State Oil Fund of Azerbaijan (SOFAZ).

Despite the existence of the EITI process, civil society reported that the process was in some important ways failing them. As reported in *Azerbaijan Anonymous*, civil society had a number of criticisms of the operation of the EITI in the country, including that SOCAR did not reply to questions.

Additionally in our report we identified areas that urgently required transparency in Azerbaijan, including the ultimate beneficial owners of privately owned companies that were partnered with SOCAR. As made clear in our report, SOCAR was not obliged to disclose this information through the EITI, as this was not an EITI requirement, only an encouragement. In the report, we called on SOCAR to publish (amongst other things) the beneficial owners of partner companies. We also called for International Board of the EITI to make this required.

We suggested that these disclosures cover not only extractive activities in Azerbaijan, but also oil trading, given the value of this activity to the Azerbaijani economy and people, and given the specific examples we highlighted in *Azerbaijan Anonymous*.

5. *We believe that Global Witness, which claims to deliver hard-hitting investigations into issue of public interest, has created a report which wrongfully criticises SOCAR and in fact misleads the public.*

The fact that SOCAR, a state company, had struck dozens of separate deals with a businessman who, at the time of Azerbaijan Anonymous' publication, was very little known is of obvious public interest. That these deals lacked transparency was a fact.

6. *The report is based on the highly selective interpretation of documentation and the careful formulation of superficial questions to create the impression of wrongdoing.*

See above. In producing the report, Global Witness examined all of SOCAR's public disclosures regarding deals with the companies in question. SOCAR had several opportunities to correct the record, pre-publication, as outlined above.

The questions posed by the report are fundamental in assessing who is benefitting from Azerbaijan's oil and gas resources that belong to its people.

7. The laws of Azerbaijan which govern procurement and production sharing agreements are publicly available (as commented on and analysed in the KPMG Report available on SOCAR's official website). However, Global Witness chose to ignore this material and repeatedly raised the issue of public tendering for the sole purpose of creating a negative impression of SOCAR's business activities.

Global Witness welcomes the commissioning of reports such as a recent study by KPMG<sup>1</sup> on SOCAR's procurement procedures and legislative framework for joint ventures and production sharing agreements. One of the KPMG report's conclusions is that: "Azerbaijani legislation does not contain mandatory requirements for negotiation of issues in connection with establishment of JVs or their structuring, as well as any specific mandatory criteria for selecting venture partners through conducting tenders."<sup>2</sup> In Azerbaijan Anonymous, we state that we found no details indicating that Azerbaijan held a tender with regards to several deals. Azerbaijan Anonymous argued not that mandatory tender requirements had been ignored, but that the lack of evidence of tenders' results resulted in opacity around joint ventures and other deals. More rigour and transparency around procurement worldwide is something we have campaigned on for several years.<sup>3</sup>

8. SOCAR has created a specific website referred to above which covers all the "issues" raised by Global Witness to remove any supposed secrecy and confusion about the way SOCAR conducts its business in Azerbaijan and abroad.

Please see above.

It is also worth noting that despite being given an opportunity to give a full statement before publication of Azerbaijan Anonymous, SOCAR waited one year post-publication before creating azerbaijananonymousexplained.com.

9. It is hoped that after reading this information, any observer will be able to draw their own conclusions about SOCAR's business ethics...

We also hope so. Global Witness encourages all interested parties to read both Azerbaijan Anonymous and azerbaijananonymousexplained.com and all the other material that we have linked to.

10. ...and also question the motivation behind Global Witness publishing such an outrageous report.

SOCAR's December 2013 response to Azerbaijan Anonymous, issued in December 2013, asserted that we were in some way "env[ious] [of] the increasing influence of SOCAR". As

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<sup>1</sup> <http://SOCAR.az/1/report-az.pdf>

<sup>2</sup> *Ibid.* p2.

<sup>3</sup> <http://www.globalwitness.org/rigged/index.html>

an internationally renowned transparency NGO with over twenty years' experience investigating natural resource deals, and a co-nomination for the Nobel Peace Prize in 2003 for this work, we find this absurd.

11. We attempted to engage...

Please see above.

12. ...have provided material to Global Witness

Global Witness has linked on our website both to your December 2013 press statement and to your December 2104 website.

13. ...and have requested details of the actions they propose to correct this slur on the reputation of SOCAR.

Global Witness has reported responsibly on the issues as they stood in December 2013 and has updated its website to take into account SOCAR's subsequent disclosures. In any future publication, we will reference any relevant information supplied by SOCAR on the questions raised in our report.

14. ...but in correspondence they wished to repeat questions we have already answered.

Please see above. It is our opinion that certain issues about these deals remain open, and it is necessary for responsible reporting to ask follow up questions.

15. ...and emphasise rather political issues that are beyond SOCAR's competence

This appears to be a reference to EITI. The EITI is not a political initiative but one that seeks to provide greater engagement between companies, government and civil society on the issue of raising the accountability of extractive revenues. In the course of our report, we identified Azerbaijani civil society's dissatisfaction with a lack of response to requests for information made to SOCAR and increasing frustration with the Azerbaijan EITI process. As stated in our report, SOCAR might wish to consider their engagement with civil society.

We also noted the declining enabling environment for civil society in the country, although we make no claim to SOCAR having a role in this decline.

16. We suspect that the only purpose of the production of such an inaccurate report by Global Witness is to use SOCAR as a means to attack the EITI process in Azerbaijan...

See above. Our report was an attempt to encourage the EITI to address information, process and accountability gaps to ensure that the process is meaningful.

Alongside a global constituency of civil society organisations, we have been a vocal and active supporter for the strengthening of the EITI, including the new standard that was agreed by governments, companies and civil society representatives in Sydney in 2013. We believe that EITI countries must comply with the agreed requirements in order to remain within the EITI, and should be judged by the International Board of the EITI as compliant or not based on verifiable and factual information submitted through the validation process.

17. ..based on groundless critical comments regarding so-called Human Rights ‘problems’ within the country.

Azerbaijani civil society, as well as agencies from across the world, have expressed deep concerns about human rights and civil society ‘space’ in Azerbaijan. Please see reports from the EU High Representative, the European Parliament, the UN Working Group and United Nations Human Rights experts. Civil society participation is one of the fundamental tenets of the EITI, and without free and independent civil society involvement, there can be no meaningful EITI process.

18. Therefore Global Witness displays a fundamental misunderstanding of the nature of SOCAR, which is a commercial and not political entity.

We believe that all stakeholders in the EITI process have a responsibility to uphold its principles. The EITI was created to improve the accountability of extractive companies and governments. Please see 2, 5, 9 and 12 of The EITI Principles, stated in The EITI Standard 2013.

19. We believe that the use of an unwarranted, misleading and inaccurate report against SOCAR to further the Global Witness’ position is wrong and an abuse of the EITI principles.

Global Witness strongly supports the EITI principles and seeks full implementation of EITI rules and requirements, and constant strengthening and improvement of the initiative. Our report emphasised that EITI principles should be adhered to.

As always, we continue to welcome the opportunity to meet with representatives from SOCAR to discuss our and their concerns. Please find our contact details below, and in previous correspondences as referenced above.

Kind regards,

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