

# NATURAL RESOURCE TRANSPARENCY

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## THE CHALLENGE

Management of natural resources should contribute to growth and development rather than incentivize corruption and conflict. Transparency on the part of companies and governments works towards this objective. However with 680 million people living in resource-rich countries surviving on less than US\$2 per day, the *resource curse* hypothesis shows that the extractives sector can actively undermine a country's long-term economic growth and development if not appropriately governed. Company reporting on relationships and financial flows of their subsidiaries and partners is a first step that allows for financial oversight by all stakeholders and improved governance. In addition, greater transparency of governments' management of resources including in both exploration and extraction helps to make it harder for corrupt public officials to syphon off assets.

## CURRENT STATUS

Both G20 governments and G20 businesses could play a key role in enhancing transparency and reducing corruption risk in the natural resource sector via two complementary approaches;

### **Corporate Transparency**

**Mandatory disclosure of payments to governments and operations on a project-by-project and country-by country basis** would mitigate political, legal and reputational risks and increase the long-term stability that investors seek. Mandatory reporting can also generate timely, disaggregated and easily comparable data which can better inform governments' decisions about management of resources, allows citizens to be better informed about the role and impact of companies in their areas and allows companies to reduce suspicion and enhance trust. Country-by-country disclosure allows local citizens and civil society organisations to monitor companies' business relations, transfers and value sharing practices, as well as the money transfers to governments in the form of taxation and licensing. G20 governments in the US, EU, UK and Canada have all committed to implement mandatory disclosure legislation that will require transparency on payments to governments by extractives companies listed in their jurisdiction.

### **Government transparency**

Governments have a responsibility to ensure their own transparency in relation to the natural resource sector. **The Extractives Industry Transparency Initiative (EITI)** comprises a set of activities that governments voluntarily commit to in order to strengthen their own accountability and transparency in resource-rich countries. Complying with the basic EITI standards involves the publication and third-party reconciliation of all payments from companies to governments. In addition, standards revised in 2013 now include a requirement to disclose production figures and to disclose the ownership of the licence holders. They also encourage disclosure of ultimate beneficial ownership and of production contracts. Enhanced government transparency makes governments more accountable. For companies, greater transparency about payments made to governments can positively show the level of their contribution to a country's economy.

Globally, 37 governments have opted to implement EITI and six G20 governments have publicly committed to piloting or fully implementing the EITI. G20 leaders reaffirmed their support for the EITI in St Petersburg, welcoming "initiatives aimed at increasing extractive transparency, including voluntary participation in the Extractives Industries Transparency Initiative (EITI)".

## RECOMMENDATIONS

- **G20 countries**, should commit to domestic legislation that requires mandatory project-by-project and country –by-country disclosure at the highest level.<sup>1</sup> This is urgent for those with sizeable extractive industries such as Australia, China, Brazil, and South Africa.
- **G20 leaders** should agree on a new global standard on natural resource transparency requiring mandatory country-by-country and project-by-project reporting, to better hold companies and governments to account for the revenues generated by resource extraction. This would draw on existing legislation from the EU and US.
- **G20 countries** should publicly commit to open, competitive, and transparent bidding processes for natural resources exploitation, as well as budget and revenue transparency.
- **G20 countries** should commit to implement EITI in their own countries.

## SUPPORTING INFORMATION

There is growing and widespread recognition of the importance of revenue transparency in reducing corruption risks, increasing the economic growth potential of extractive industries and providing an improved business climate.

**Industry has supported** revenue transparency through the EITI, with over 80 companies contributing as official supporters. In addition more than two-thirds of the world's listed mining companies will soon be subject to **mandatory disclosure legislation** in the US, UK, EU and Canada. Tullow Oil was the first among its oil, gas and mining company peers to publish the revenues it pays to governments worldwide on a project-by-project and country-by-country basis.<sup>2</sup> Several major companies have taken the logical next step and voiced support for a **global reporting standard**<sup>3</sup> that would create a 'level playing field' for companies and reduce their reporting burden whilst creating the transparency that is a necessary pre-condition for development.

**Investors** have extensively supported revenue transparency (over 95 institutional investors formally support the EITI) because it helps reduce reputational and corruption risks and contributes to a more stable business environment.<sup>4</sup>

**Civil society** also supports greater resource transparency because it facilitates the holding of their governments to account for the collection of revenue and could shed light on the theft of state assets by government officials. In the absence of country-by-country reporting, the public will be unable to determine how much profit a company is earning in their country, how much the company is contributing to public budgets, and whether or not the company has any especially attractive deals with the government (which could be a red flag for corruption).

**The G8** championed greater transparency in the extractive industries in 2011 and said they would "make progress towards common global reporting standards to make extractive industry payments more transparent".<sup>5</sup>

<sup>1</sup> Currently, EU legislation provides for the highest level of such disclosures.

<sup>2</sup> <http://www.trust.org/item/20140325041315-emu9w/>

<sup>3</sup> <http://www.revenuewatch.org/news/blog/g8-launches-partnerships-extractive-industries-transparency-and-governance>.

<sup>4</sup> <http://eiti.org/files/Investors-statement-2013.pdf>

<sup>5</sup> <http://eiti.org/news-events/g8-calls-full-implementation-eiti#>