

TRANSPARENCY OF EXTRACTIVE INDUSTRIES: HEARING REPORT

Transparency of Extractive Industries

High Stakes for Resource-Rich Countries, Citizens and International Business

Lawmakers heard from extractive industry experts at a Congressional hearing on Wednesday, October 25th, 2007 to discuss the debilitating impacts of the “resource curse” and policy measures that the U.S. Congress can adopt to address it. The hearing was convened by Rep. Barney Frank (D-MA), Chairman of the House Committee on Financial Services, as part of an ongoing examination of global poverty and growing income inequality.

Witnesses discussed the causes and effects of the “resource curse”, the phenomenon whereby countries richest in natural resources are ironically also the poorest, most corrupt and prone to conflict. They also outlined responses of the international community to date, and additional steps that the bilateral and multilateral communities should take to address this critical problem. While the diverse group of witnesses offered varied viewpoints, the following themes emerged (*see pg.4 for full recommendations*):

- Extractive industries have a significant role in the economies and politics of resource-rich countries. In the absence of sound policies, the wealth from natural resources can contribute to corruption, conflict and poverty.
- Transparency of extractive industry revenues is fundamental to establishing the systems of accountability necessary for effective use of resource revenues.
- The U.S., as the home of many of the world’s multinational extractive companies, is in a unique position to press for transparency. Several witnesses called on Congress to adopt mandatory reporting of resource revenue payments.

Witness List:

- ◆ PROFESSOR TERRY LYNN KARL - Professor of Political Science, Stanford University
- ◆ MR. IAN GARY - Senior Policy Advisor for Extractive Industries, Oxfam America
- ◆ FATHER PATRICK LAFON - former Secretary General, Catholic Conference of Cameroon
- ◆ MR. DAVID A. BAKER - VP, Environmental and Social Responsibility, Newmont Mining Corp.
- ◆ MR. PAUL MITCHELL - President, International Council on Mining and Metals

What causes the Resource Curse?

- Witnesses identified a lack of transparency in extractive industries as a factor in the resource curse. While the non-profit and academic speakers saw transparency as key to alleviating the poverty impacts of the resource curse, industry representatives saw it as only one, but not the most potent, tool to addressing the resource curse.
- Lafon and Karl echoed Gary’s statement that “transparency is a key ingredient for systems of accountability in resource-rich states.” Transparency of revenue payments, they argued, would provide citizens of resource-rich countries with information about how much their government earns from extractive companies, thereby allowing citizens to identify instances of corruption and demand greater investment in social services.
- All witnesses acknowledged that transparency is but one tool in the toolkit for addressing the resource curse. Karl and Gary pointed out that addressing other factors such as “Dutch Disease,” respect for human rights, democratic processes and an open budget process is also important to growth rates.
- While acknowledging the importance of revenue transparency, industry representatives stressed that the key factor for socio-economic prosperity is good governance, particularly economic and legal reform. “The key is to strengthen the focus on managing and utilizing the generated government revenues transparently,” stated Baker.

What is the impact of the Resource Curse?

- Several witnesses attested to both the economic and socio-political impacts of the resource curse, especially in facilitating conflict and corruption. Others pointed out that such outcomes are not inevitable and resources might contribute to positive economic growth when sound policies are in place.
- Lafon stated from first-hand experience that “lack of transparency can breed corruption and has done so...” Oil-exporting countries are a prime example: as Karl pointed out, “corruption in these countries is significantly greater than the world average.” It was noted that corruption is also linked to higher rates of conflict.
- Several witnesses also drew attention to the more obvious economic impacts of the resource curse. As Karl stated, “Corruption raises the transaction costs of doing business in energy and mineral countries, negatively influences the amount of foreign direct investment, lowers the productivity of infrastructure expenditures, and perversely affects decisions about which projects to undertake.”
- Conversely, industry representatives stated that extractive industries can actually lead to economic growth and poverty alleviation when basic policy and institutional reforms are in place. Studies conducted by the ICCM found that mismanagement of revenues “can be avoided when sound policies are adopted.”

Congressman Barney Frank (D-MA)
Chairman, House Committee on Financial Services

“Intuition says that if a particular country is lucky enough to have physical resources that are valuable in world commerce, that’s a good thing – and it certainly ought to be. There is considerable evidence that this does not in practice work out as it should be in many cases. ..The question is how do we encourage policies that ensure that these resources are a positive and not a negative?”

What steps have been taken to try to increase transparency in the extractive industries?

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

Witnesses pointed to the Extractive Industries Transparency Initiative (EITI) as an important step that the international community has taken to address the resource curse. However, some testified that despite signs of progress, EITI is limited in its ability to fully address the resource curse.

- EITI, a voluntary initiative involving companies, home and host governments and civil society, was identified as a positive effort to encourage transparency and identify discrepancies in revenue payments and allocations. In Cameroon, “EITI audit data and analysis by the IMF,” reported Lafon, “highlights a difference of about \$286 million in reported oil revenues from 2001-2004.”
- Some witnesses pointed out that EITI progress has been slow to date and faces limitations in what it discloses. According to Gary, “EITI is also undermined by the fact that contracts can stay secret; that it allows ‘lump sum’...reporting; and that it does not require the publication of audits of company and government accounts.”
- Several witnesses suggested that EITI’s voluntary nature undermines its impact, particularly as it relies on the political will of host countries and thus will not “capture many countries where problems of secrecy, corruption and mismanagement are most severe.” For this reason, Lafon, Karl and other witnesses recommended that the U.S. “opt for a mandatory rather than voluntary approach to EITI.”

Witnesses pointed out the unique role of the International Financial Institutions (IFIs), including the International Monetary Fund and the World Bank, in promoting resource revenue transparency in extractive industries. All called for further policy and operational steps to be taken by the IFIs.

- IFIs, particularly the World Bank, were described as having an influential role to play in oil, gas and mining industries because of their heavy involvement in extractive projects and because of their poverty alleviation mandate.
- Karl and Gary called for transparency conditionalities to be attached to all loans and assistance to resource-rich countries as well as to all Export Credit Agency assistance to extractive industry companies. Karl stated that “countries and companies that do not abide by these conditions should receive no further assistance and those that engage in ‘best practices’ should be rewarded.”
- Others stressed the importance of transparency in IFI mandates and operational policies. “The World Bank/IFC should strengthen implementation of its revenue disclosure requirement...” stated Gary, and “the IMF should increase disclosure of information it receives from governments on revenues and contract terms.”
- The World Bank was also called upon to increase capacity building for countries’ management and governance of the extractive sector. The institution “must be encouraged to pursue capacity building because the resources sector is the only significant source of private investment in poor countries,” stated Mitchell.

Congresswoman Maxine Waters (D-CA) *House Committee on Financial Services*

“One way to address the problem of the resource curse is through revenue transparency requirements. Oil, gas and mining companies should be required to report all of the revenues they pay to resource-rich developing countries. Such reports should include all payments made to government agencies and national and local elites... These reports should be made public, so they will be available to the local population. They should also be made public in the developed world, where the resources are purchased and consumed.”

What further steps should be taken to ensure transparency?

Witnesses recommended a variety of measures that can be taken to combat the resource curse, with Gary noting that “a ‘cocktail’ of mandatory disclosure requirements” are needed to tackle this complex issue. Rep. Frank, the Chairman of the Committee, placed a particular emphasize on identifying steps that the U.S. Congress could take. In response, the witnesses by and large focused on the need for Congressional legislation to make revenue disclosure a mandatory reporting requirement.

- **GOVERNMENTS OF OIL, GAS AND MINERAL CONSUMING COUNTRIES:** The non-profit and academic witnesses stressed the importance of going beyond the voluntary approach of EITI by opting for mandatory reporting of revenue payments. Karl and Gary called for “...new legislation that creates mandatory disclosure requirements, both in the U.S. and in Europe.” Some witnesses expounded upon this idea by calling for the U.S. to remove confidentiality clauses from contracts as some companies are concerned that these clauses may inhibit companies from disclosing. Lafon appealed to developed country governments to combat corruption by investigating “questionable bank accounts belonging to third world dictators.”
- **GOVERNMENTS OF OIL, GAS AND MINERAL PRODUCING COUNTRIES:** Some witnesses called on host country governments to integrate all extractive industry revenues into national budgets and widely publicize expenditure allocations. Mitchell identified host governments as “the key leverage point” and stressed the importance of host governments adopting policies that encourage “resource investment, social cohesion and investment security, and foster effective use of resource revenues.”
- **OIL, GAS AND MINING COMPANIES:** Karl called on companies to publicly disclose all payments made to host governments. This viewpoint was reinforced by Lafon, who underlined the importance that revenues be disclosed in a disaggregated format, meaning the payments are broken down by company and type.
- **NATIONAL AND TRANSNATIONAL CIVIL SOCIETY:** All witnesses called for increased capacity building and coalition-building of civil society groups to monitor governments, companies and IFIs and hold them accountable. “Donor agencies and governments should support programs that build the capacity of citizens, parliamentarians, journalists and civil society groups to understand and use the information to increase accountability,” stated Gary.

Publish What You Pay United States

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The **Publish What You Pay** campaign calls for the transparency of oil, gas and mining revenues. We are a global coalition of over 300 human rights, development, environmental and faith groups all working together to curb the devastating impact of the corruption and mismanagement of associated with the oil, gas and mining industries so that they can contribute to sustainable poverty alleviation and development. For more information, visit

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