

Position paper:

Transparency & accountability in the extractive industries

1. Collaboration between Intermón Oxfam and FRIDE

Over the last few years, La Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE) and Intermón Oxfam have dedicated increasing efforts to analysing and understanding the impact of the extractive industries on development and poverty reduction processes in countries rich in natural resources. Our work has revealed that these industries have significantly stunted human and economic development in countries rich in this type of resource, above all in Africa, despite the enormous profits generated by hydrocarbon and mineral exploitation.

The “resource curse” has laid bare widespread practices in this sector, which have often fuelled corruption, exacerbated internal conflict, marginalised the rights of the most vulnerable communities, and weakened the economic and institutional development of countries rich in natural resources, with devastating repercussions on the lives of the poorest people.

However, Intermón Oxfam and FRIDE share the conviction that the transparent development of the entire extractive industry chain - from contract negotiation through to the investment of revenues obtained by governments in development policies - can contribute to improving the lives of millions of people.

The desire, commitment and timeliness of our working together is born of this shared conviction, the aim being to **support and promote the adoption of policies and best practices favouring transparency in the industry**. In this vein, since December 2007, we have been continually exchanging analysis, research, policy advice and incidence of the issue. The upshot of this has been the emergence of a **common vision of the role that Spain should play in the proper working of the industry in those countries rich in natural resources that lie in its sphere of influence**.

Respecting each other’s mandates and comparative advantages, our organisations will work together to stimulate the development of this vision, working along the following two lines:

- Promoting dialogue and debate on transparency in the extractive industries, the role of Spanish actors and solutions to the problem.
- Training, exchanging information on best practices and drawing up proposals.

2. Vision of transparency in the extractive industries

The extractive industries (oil, gas and mining) generate enormous resources in more than 50 developing countries that are highly dependant on these activities. This financial potential could result in important advances in the human and economic development of millions of people if the resources generated were to be invested in a transparent and efficient way in poverty reduction policies. However, the facts tell another story: two thirds of the world’s poor live in countries rich in natural resources; half of the OPEC’s oil producing countries are poorer today than they were 30 years ago; and in Africa, countries with no natural resources are growing four times more than those rich in natural resources.

The absence of transparency and accountability throughout the extractive chain has led to an inadmissible imbalance between the riches flowing from the exploitation of natural resources and the low human and economic development of local populations. In all of this, the opaqueness which has characterised the industry has played a determining role in:

- the public tendering and negotiation of contracts;
- the payments which companies make to governments for different concepts (royalties, bonuses, taxes on utilities etc.);
- the amount of revenues received by governments as a consequence of natural resource exploitation;
- the public management of these revenues and lack of control over it

This is why FRIDE and Intermón Oxfam particularly value the international community's efforts to develop policies and practices in favour of transparency, such as the **Extractive Industries Transparency Initiative (EITI)**.

3. Spain's role

We believe that a definitive cure for the "resource curse" and the reform of the extractive industries requires the participation of governments from countries rich in natural resources, international organisations, civil society and **governments of multinational home countries (which, at one and the same time, are the main energy consumers and donors of Official Development Aid)**.

In this regard, we think that countries like **Spain**, which play all three roles at the same time (donor / energy consumer / home country of multinationals which do business in countries with no transparency), can play a determining role in creating an environment conducive to transparency. Faced with the complexity of the corruption problem in the extractive industries, countries like Spain are in a privileged position to coordinate their domestic policies (ODA/ support for the internationalisation of business/ influencing through multilateral agencies, etc.) through which they can generate powerful incentives that can contribute to changing practices in favour of transparency.

The signing of the EITI by the Spanish government in December 2007 amounts to a positive milestone which will allow Spain to form part of an international multi-party bargaining process (with governments, companies from the extractive industries, international finance organisations and civil society) aimed at establishing consensus formulas on transparency, particularly with regard to the generation and management of extractive resources.

Likewise, Spain's adhesion to the EITI will favour greater visibility and influence on the part of our country in matters of transparency and good governance, opening up new perspectives, political responsibilities and room for leadership (for example, in Latin America) for our government in its commitment to a progressive model of global governance. In order to take advantage of this enormous opportunity and ensure an effective and coherent Spanish adherence to the EITI, we believe the government needs to consolidate its role as a relevant EITI actor in the following aspects:

1) **The overarching nature of the EITI**, in which governments of the north assume a specific responsibility for the success of the initiative, requires a decisive push towards the effective and coherent participation of ministries which have an interest in the extractive industries. Given the current prominence of Spanish Aid, (which, in the draft of its Plan Director 2009/12,

expressly mentions the EITI as a formula to promote and support room for dialogue and joint action amongst countries' social, economic and political actors), the commitment to the EITI needs to be articulated through a **government policy**, led by the President's Office, which encompasses and actively involves the Ministry of Foreign Affairs and Cooperation, the Treasury (which supported the initiative from its beginnings in the International Monetary Fund and The World Bank) and the Ministry of Industry, Tourism and Trade, all of which have important responsibilities in matters related to the EITI which must be put into practice in a way which is both effective and based on dialogue.

2) We deem it to be especially important for Spain to put the EITI's **multi-stakeholder philosophy** into practice at the national level, seeking the proactive interaction of all actors, especially Spanish companies from the extractive industries. To that end, we suggest that **negotiations be established (between government, companies and civil society) on transparency in the extractive industries**, in which visions and strategies regarding policies and practices can be exchanged so as to favour transparency both in Spain and in the countries within our sphere of influence.

3) Signing up to the EITI forms part of the parliamentary mandate expressed by the Spanish Congress in its **Parliamentary Recommendation (Proposición no de Ley or PNDL)** of December 2005. This recommendation provides the framework according to which the Spanish government should act in matters concerning the transparency of the extractive industries. To complement Spain joining the EITI and demonstrate the government's real commitment to transparency, the rest of the recommendations contained in the PNDL need to be carried out, particularly the following:

- The proposed amendment of **Law 24/1988, dated July 28th, on the Mercado de Valores (the Spanish stock market regulator)**, to demand that companies from the extractive industries listed on the Spanish stock market disclose all payments made to the governments in the countries where they operate. This change will bring Spain into line with other countries, such as the USA, which are moving forward in this regard.
- Promotion of and support for the establishment of **European and international rules** which oblige companies from the extractive industries to disclose payments made in the countries where they do business, particularly through Directive 2004/109/CE on the admission of securities to official stock exchange listings and on the information to be published on those securities (TOD Directive). In the same framework, modifications to International Accounting Standards are included.
- **Encourage Spanish extractive industry companies to join the EITI.**
- Promote the adoption of **transparency conditions**, for both companies and governments, in multilateral organisations which provide assistance or aid to these countries, and promote transparency measures in the heart of the World Bank for the financing of projects linked to the extractive industries.