

U.S. Helsinki Commission Hearing
“Natural Resources, a National Responsibility”
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Testimony by Karin Lissakers, Director of the Revenue Watch Institute

The Natural Resource Charter

Chairman, Members of the Helsinki Commission,

I thank you for the opportunity to talk to you about the Natural Resource Charter – an effort by an independent group of experts to create a road map for countries to manage their mineral resources for the long term economic benefit of their people.

The Revenue Watch Institute is an independent, not for profit organization dedicated to promoting effective, transparent and accountable management of mineral resources in resource rich countries. My team and I have participated in the creation of the Resource Charter and are involved in its dissemination.

My colleague Mr. Joe Bell has summarized the principle elements of the Charter. I would like to tell you a bit about what is being done with the Charter and how it can evolve as an instrument for national and international policy.

The goals of the Charter group are two-fold. The first is to provide a practical guide for policy makers in resource rich countries, particularly developing countries, who struggle with the complexities of managing valuable, finite, capital-intensive mineral resources well and meeting the challenges of highly volatile revenue streams that these will generate. Of course, as we have seen in the United States with the fight

over royalties for mineral production on US federal lands and the difficulty the Interior Department has in collecting them, these challenges are not limited to poor developing countries.

The second objective for the Charter is to move the world toward a set of global norms for the management of extractive resources that will guide not only producing countries but also extractive companies and their home governments.

The first goal helped bring the Charter group together. All of us involved in drafting the Charter are actively working in resource rich countries, with governments, with parliaments, with civil society activists. One of the principal motivations for writing the Charter was that we found we kept getting many of the same questions from officials we were helping: How do we maximize our share of resource rents without driving away investors? What happens when prices fall? How much should we spend, how much to set aside in a fund? What do other countries do? What are the successful models? We decided that it would be useful to pull together the answers, the best wisdom and experience in one place, one document.

Professor Paul Collier is perhaps the preeminent scholar on the relationship between mineral wealth, development and conflict and advises governments the world over as well as international institutions like the World Bank. The idea of a Charter is his. Nobel laureate Michael Spence led the Commission on Growth and Development¹. that found the key distinction between fast growing developing countries and slow growing developing countries was the huge difference in capital investment rates. If well managed, mineral resources in periods of high prices should generate ample revenues for producers to greatly increase their capital investment in the non-minerals sector, including investing in human capital. On the other hand, tax expert Robert Conrad and Joe Bell have worked in countries from Mongolia to Liberia where decades of large scale mineral exports have yielded

¹ Commission on Growth and Development: *The Growth Report: Strategies for Sustained Growth and Inclusive Development*. Washington, D.C.: World Bank 2008

limited or no revenue for the state, and have failed to provide jobs or technical skills transfers. The Charter seeks to help countries rectify that imbalance.

You will note that the Charter is still a “draft for consultation.” While the authors of the Charter among them have both broad and deep expertise on the issues the Charter addresses, we do not think we know it all. The authors have laid out a clear set of guiding principles, but have also tried to pull together state of the art guidance from multiple sources including government practitioners, industry, international financial institutions like the World Bank and IMF, academics, NGOs. We want to be sure we have it right, so the Charter is being put through a series of consultations at various fora around the world, from the annual meetings of the Asian Development Bank and the EBRD to the African Union meeting of heads of state, discussions with the International Council for Mines and Metals, major petroleum companies, the Publish What You Pay international conference, meetings of development economists. There will be a conference in Oxford this fall to discuss and revise the Charter based on the consultation results. A grant from the Bill and Melinda Gates Foundation has supported the first stage of work on the Charter; the UK government’s DFID is funding the consultation and dissemination stages.

Once the Charter has been revised following consultations, there will be a concerted effort to have individual governments consider adopting the Charter as an overall policy guide for their resource sectors.

The second goal for the Charter, creating global norms for extractive resource management, may seem lofty and a tad unrealistic. We don’t agree. We see it as both as highly necessary and as doable. There have been dramatic changes in attitudes toward resource governance and industry practices in past decade. To give just three examples. When UK Prime Minister Tony Blair launched the Extractive Industries Transparency Initiative to make company payments and government receipts from extraction public, few companies were interested and civil society doubted that any governments would sign on to a voluntary scheme.

Eight years later, 32 countries, more than half the resource rich countries in the world, have signed on and are in various stages of issuing payment and revenue reports. Many of these candidate countries have fallen short of EITI's schedule and requirements, but this is still significant progress. The major Western oil and mining companies now support EITI. All of the major international financial institutions including most recently the Asian Development Bank have endorsed EITI.

In the mining sector, the CEOs of the seventeen largest companies have banded together in the International Council on Mining and Metals (ICMM) to develop binding guidelines for their members to promote sustainable mining practices, including transparency, that will benefit the source countries as well as the companies and their shareholders. While their Sustainable Development Framework falls short in some regards, it is encouraging that the leaders of these important companies recognize that responsible practices are good for the bottom line.

The U.S. Congress has led the US debate on the link between resource governance and energy security. As reflected by the bi-partisan sponsorship of S1700 the Energy Security Through Transparency Act (S1700), there is growing recognition that these cannot be separated. We look forward to passage of this important bill through both the Senate and the House this session. This legislation is fully supportive of and consistent with the principles and purposes of the Natural Resource Charter. I was recently in Brussels and I can tell you that the European Parliament and EU Commissioners are following these developments with great interest.

While these developments are very encouraging, we still live in a multi-track world where resource policies are concerned. There is a very serious risk that as competition to control access to resources intensifies with the global economic recovery, voluntary good practices will go out the window. (One of the reasons a

legal listing requirement is important.) We need common standards and global acceptance of core principles and practices, otherwise we are likely to see a race to the bottom again. To make sure that progress continues, we are promoting the Charter as a framework for a global dialogue on sustainable resource policies and practices. It has guidelines not only for producing countries, but also for the extractive industries and for the consuming and investing countries and their governments.

With the help of the Charter Oversight Board chaired by former Mexican President Ernesto Zedillo and including African philanthropist and entrepreneur Mo Ibrahim, we are campaigning to have resource management issues taken up by the G20 later this year or next. The G20 is becoming the premiere forum for discussing and taking concrete actions on economic issues of global importance, which resource management certainly is. It also happens to include the most important minerals producing, importing and investing countries. Successful mining and oil countries like South Africa and Brazil can be engaged and encouraged to exercise important leadership on these issues. China, Korea and India must be brought into the dialogue as their governments and companies are increasingly important in the extractive sectors around the world. They are leading members of the G20, and Seoul will host the November summit.

It is possible that the Natural Resource Charter could eventually become a formal international convention, with signatories and an adherence mechanism under the United Nations or some other inter-governmental organization. We do not know if that will become a reality. What we do know is that it is a matter of vital, mutual interest for producing countries, consumers and investors that there be international norms for the management of the non-renewable mineral resources upon which all modern industrial economies depend.

The Commission titled today's briefing "Natural Resources, a National Responsibility". I would add that it is also an International Responsibility. ##

