

Publish What You Pay Norway
c/o Norwegian Church Aid (NCA)
P.O.box. 7100,
St. Olavs plass
0130 Oslo
Norway

Cell: + 47 922 08 412
mona.thowsen@publishwhatyoupay.no

www.publishwhatyoupay.no
www.publishwhatyoupay.org

To:
The Ministry of Finance

Ethical guidelines for transparency and a sustainable value creation in the Government Pension Fund – Global and the relation to transparency and accountability in the extractive industries

We would like to welcome The Ministry of Finance and Norges Bank and the Council on Ethics for the Government Pension Fund – Global for inviting to a public consultation as a part of the evaluation of the ethical guidelines for the Government Pension Fund – Global (GPFG).

We would also like to use the opportunity by offering three areas that arise from our experience of work with the extractive sector that would benefit greatly from the support of Government Pension Fund –Global:

- The Extractive Industries Transparency Initiative
- A new International Accounting Standard for the extractive sector
- New listing requirements for extractive companies

We believe that our suggestions on these areas are coherent with the long-term perspective of the GPFG as well as the Ministry of Finances' strategy and management principles. In particular, we would point to the Ministry's statement that there is a special responsibility in applying ethical guidelines to the GPFG's on areas where ethics and high financial returns are obviously synergetic. Transparency on company business, with reduced uncertainty, and thus risk, as well as increased information for key stakeholders is such an area.

Publish What You Pay

Publish What You Pay (PWYP) is a global network representing over 350 civil society organisations from over 68 countries working to improve the transparent and effective use of revenues generated by the oil, gas and mining industries¹.

Natural resource revenues are an important source of income for over 50 resource-rich countries in the world. However, despite billions of dollars in revenues, many citizens in most of these countries still have poor access to basic needs and choices for human development. This link between extractive revenue wealth but poor human well being has been termed the 'Resource Curse' and research has demonstrated clear correlations with civil war, large-scale corruption, slow economic growth, and poverty. 2/3 of the world's poor live in resource rich countries. This accounts for over 3.5 billion people left in deep misery, or, in Paul Colliers words; "*The bottom billion*"².

¹ There are established national coalitions (or affiliated national campaigns) in 27 countries (Azerbaijan, Cambodia, Cameroon, Canada, Chad, Cote d'Ivoire, Democratic Republic of Congo, France, Gabon, Ghana, Guinea, Guinea-Bissau, Indonesia, Kazakhstan, Kyrgyz Republic, Liberia, Mali, Mauritania, Mongolia, Niger, Nigeria, Norway, Sierra Leone, Republic of Congo, Timor-Leste, and United States and Zambia), and active member organisations in additional 14 countries (Azerbaijan, Cambodia, Cameroon, Canada, Chad, Cote d'Ivoire, Democratic Republic of Congo, France, Gabon, Ghana, Guinea, Guinea-Bissau, Indonesia, Kazakhstan, Kyrgyz Republic, Liberia, Mali, Mauritania, Mongolia, Niger, Nigeria, Norway, Sierra Leone, Republic of Congo, Timor-Leste, and United States and Zambia). In the remaining 27 countries, there are organizations signed up to PWYP as members, therefore showing their support, but not currently engaged in the campaign (Algeria, Belgium, Botswana, Brazil, Burundi, Chile, Czech Republic, Ireland, Italy, Japan, Kenya, Lesotho, Mauritius, Morocco, Pakistan, Philippines, Poland, Portugal, Romania, Senegal, Slovakia, South Africa, Sudan, Swaziland, Switzerland, Tanzania and Zimbabwe.)

² <http://www.oup.com/us/catalog/general/subject/Economics/Developmental/?view=usa&ci=9780195311457>

The 'Resource Curse' includes severe impacts on transparency, accountability and governance, which can also have devastating effects on company profitability and returns to investors. Citizens unaware of the significant resource flows to their government often blame companies for their poverty. Companies and investors may experience attacks on staff and installations, interruptions in production, political instability, nationalisation of assets and being undercut by less scrupulous companies.

This has created an agenda for a more sustainable value creation that is shared between extractive companies, investors and civil society organisations working for development in resource-rich countries.

Publish What You Pay have high expectations for the Government Pension Fund – Global and would like to see it as the best managed fund in the world and also the most ethical managed fund in the world.

We would like to take the opportunity to suggest ways to enhance even more the ethical profile of the Fund and at the same time secure more coherence in Norwegian foreign policy.

We commend the effort to put children in front and the climate that children will have to live in. And, we believe that there are ways to contribute to safeguard the protection of children and the climate from an additional financial perspective.

Two thirds of the worlds poor live in resource rich countries. Most of these are women and children. And most of them are living in an external climate that they have little means to protect. In resource rich countries, people are left to live in deep misery, while only a few get rich on the country's extractive industry. *If managed correctly by companies and governments, such revenues could contribute to the development of a country.*

The Extractive Industries Transparency Initiative

PWYP has played an instrumental role in the creation of the Extractive Industries Transparency Initiative.³ The EITI is an international initiative in which producing countries voluntarily agree to follow established processes to improve the transparency of the payments made by companies, receipts by government and the reconciliation of the two sets of figures. 23 countries are currently members of EITI though not all have actually reached the stage of publishing their reports. A large number of companies, civil society organisations, investors, industry associations and international organisations are also supporting the initiative. The EITI highlights a growing global movement towards improved transparency and PWYP encourages investors to support it actively. We are pleased that GPFPG has subscribed to the Investors' Statement on Transparency in the Extractives Sector, similarly, an important part of the world's biggest extractive companies are listed as supporting companies. Still, experiences show a lack of proactive in many contexts. Thus, we take the opportunity to challenge the GPFPG in further pushing the transparency agenda by voicing a clear expectation to all its companies that they proactively pursue the EITI-agenda in every country of operation, regardless of the host governments' position on EITI.

An International Accounting Standard for the Extractive Sector

However, the EITI is a voluntary approach. It requires the government of each individual producing government to implement it and each have different requirements so progress is inevitably somewhat varied. It does not ensure a level playing field for companies globally. However, an international mandatory standard on company reporting would have a much more global and systematic impact and be more efficiently achieved.

Hence, the need for a new international accounting standard.- a requirement that companies report their payments to government , their reserves, production data and costs etc on a country-by-country basis.

This would give investors much greater information to judge company exposure in different country contexts. This would empower individual shareholders and the securities market in general to better to evaluate the risk/reward profile of individual extractive projects, and better to compare different projects within and among companies.

Better financial analysis of extractive companies' country exposure and risk would facilitate more accurate pricing of corporate securities. As Robert Jenkins (Chairman, F&C Investments, Board Chairman, Investment Management Association) said recently, while giving testimony in support of country-by-country reporting by extractive companies, "Seventy nine pension funds, asset managers, banks and insurance companies, who collectively manage in excess of \$14 trillion, publicly support greater transparency. The riskier the arena, the greater the craving for transparency"¹. At the same hearing, Faith Stevelman (Director of the Center on Business Law and Policy, New York Law School) stated that country-specific reporting, "would empower individual shareholders and the securities market in general better to evaluate the risk/reward profile of individual extractive projects, and better to compare different projects within and among companies".

Citizens of producing countries would also be able to use the companies' reports to see how much revenue their governments were receiving, a step towards holding them to account for these resources and reducing the 'Resource

³ <http://www.eitransparency.org/>

Curse'. Thus this step of good corporate governance would go beyond maximising shareholder value. Recognizing multiple stakeholders is an important reflection of the broader society use of information in supporting a sustainable value creation.

Substantial research supports that anticipating a broader society movement and picking up where the market is going bodes well for future profitability⁴. Designing good corporate governance and supporting regulations will not cause loss of return, but will in the long run do better.

A global standard of transparency will be equally of value for investors as it will be for civil society. It can both improve the stability of operating environments and give sustainable value creation for investors while improving citizens' lives. It is a genuine 'win-win' for investors and the poor of resource-producing countries.

The International Financial Reporting Standards already cover a huge range of countries. However, with the planned convergence with the US, Canadian and Chinese standards, this would have almost global coverage.

To achieve this, two main features of company reporting are necessary:

1. **Country by country reporting** – companies need to report on their activities in each country of operation
2. **Key information required** – this should be presented in the following categories
 - a. Benefit streams to government
 - b. Costs
 - c. Production volumes
 - d. Turnover and profits
 - e. Key subsidiaries and properties
 - f. Reserves

US bill for mandatory listing requirements

The Extractive Industries Transparency Disclosure Bill is currently before the US House of Representatives, proposing country-by-country reporting. It is currently being tabled in the US by the head of the House Financial Services Committee, Barney Frank. It would require country-by-country reporting of all companies listed with the Securities and Exchange Commission.

Support to date for new mandatory requirements

There is already high-level international acknowledgement of the need for such a reform highlighted in these mechanisms towards improved transparency and company disclosure in the extractives sector:

The International Accounting Standards Board has created a sub-group of the Board to look in to the development of a new standard for country-specific reporting by extractive companies. This has been assigned to the Working Group on Extractive Activities. Initial meetings have been undertaken. A high-level round table is planned for September 15th, 2008 in London during which the proposals will be discussed.

The 14th November 2007, the European Parliament called for a new international accounting standard requiring oil, gas and mining companies to report critical financial information, such as payments to governments, on a country-by-country basis.

In the USA, the "The Extractive Industries Transparency Disclosure Bill has been tabled in the House of Representative and support generated across the floor.

Areas of potential action by Norges Bank and the Council on Ethics for the Government Pension Fund – Global;

With this letter, PWYP kindly *Norges Bank and the Council on Ethics for the Government Pension Fund – Global* to support our very concrete suggestions already endorsed by EU and being proposed in the US, and recommended by prominent economists and investors such as George Soros.

⁴ Nobel prize winner Joseph Stiglitz, public lecture on *Socially Responsible Investments in a global, long-term perspective*, 25th August, 2008 (Accessed 26th August 2008 at: http://media01.smartcom.no/Microsite/dss_01.aspx?eventid=3386

Recommendations:

We conclude by asking Norges Bank and the Council on Ethics for the Government Pension Fund – Global to;

- Increase its pressure on extractive companies in order for a proactive pursuit of the EITI-principles in all host countries;
- Publicly support a new accounting standard requiring country-by-country reporting by extractive companies;
- Express their support for “The Extractive Industries Transparency Disclosure Bill” currently before the US House of Representatives and for development of similar listing requirements for other stock exchanges.

In order to build on already existing strategies, one way of pursuing the above mentioned could be to elaborate an “Investors expectations on transparency” in line with our recommendations.

If the Ministry would like to commission any external reports we would be happy to assist.

We look forward to hear the findings from the evaluation that will be presented to the Storting in the annual report to the Storting on the management of the Fund, in spring 2009

Thank you for your kind consideration.

Oslo, September 15th, 2008

Yours sincerely,



Mona Thowsen
Coordinator, Publish What You Pay Norway

ⁱ *The Extractive Industries Transparency Disclosure Act, H.R. 6066: Hearing Report. Washington DC, USA, June 26 2008.*