SESSION SUMMARY - CONFERENCE DINNER AND KEYNOTE

**Inspiring change**

**Professor Michael L Ross**

Over the last decade governments in the developing world have stepped up and embraced the Extractive Industries Transparency Initiative (EITI), but now the time has come to shine the light of disclosure on companies.

This was the key theme of the speech delivered at the Mining for Development Conference Dinner 2013 in Sydney last night. Professor Michael L Ross, Professor of Political Science and Director, Centre for Southeast Asian Studies, The University of California, said that EITI was born from a recognition at the turn of the century that many companies were not making the kind of contribution to development that they should. According to Professor Ross, money for development was an aspiration, not a reality.

In its first decade of operation the EITI along with many international aid agencies focused on improving governance and achieved important results.

“But EITI is the Extracted Industries Transparency Initiative - it isn't called the Extracted Governance Transparency Initiative,” Professor Ross said.

He called on companies to become full partners with governments in both the organisation and process of EITI, and said the time had come to use the tools of transparency and independent validation to reward those doing the right thing. This would in turn create stronger incentives for other companies to follow.

“We all know that to turn subsoil wealth into wealth above the ground through sustainable development requires activities from both governments and companies,” Professor Ross said. “When it began over a decade ago the idea of the movement was to bring transparency both to governments and to corporations.”

During its initial phase the EITI focused on bringing transparency to governments.

“They have set important and meaningful standards, developed an extensive disclosure processes, set out standardised templates and required that there be meaningful validation,” Professor Ross said.

The validation process itself must be approved by the EITI board in order for a country to get the privilege of the EITI stamp. The hurdles for companies associated with EITI brand were much lower.

“They make a small financial contribution to the secretariat and they sign onto some rather simple and bland principles,” Professor Ross said.


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He suggested there was often a misunderstanding about companies associated with the EITI and that too much could be read it. “For companies, EITI does not mean having to disclose all their payments to all the governments in all the jurisdictions they work in. They only have to disclose in the jurisdictions that are governed by countries which are part of the EITI process.”

Companies associated with the EITI could still employ all kinds of devices to avoid disclosure and transparency including putting subsidiaries into tax havens to minimise tax or engage in illicit transfer pricing arrangements.

These companies could still do deals with companies where the beneficial owners were not disclosed, they don’t have to agree to release their contracts even when governments agree to release them, and they don't have to adhere to the ICNN's ten principles.

“It doesn't even mean that the companies who are members of the EITI are supporting transparency in all forums,” Professor Ross said.

“For instance in the US there are some EITI members that are hiring lobbyists and lawyers in Washington to try and overturn the Dodd Frank disclosure. So at the same time that they are investing in transparency in the EITI they are investing in overturning transparency in the US, one of their most important countries.”

“Now for those of us who care about this issue of turning mineral wealth into sustainable development this is a massive missed opportunity.”He said companies were extraordinarily important in making development work and bringing health, education and infrastructure to remote communities.“The poorer the country the more important the work.”

Professor Ross also stressed that many EITI companies went above and beyond the process and deserved recognition and credit, mentioning Talisman and Statoil in particular. He said those two companies do disclose what they pay governments outside the EITI framework, but they are the exceptions.

While companies have enormous capacity to do good, they also have capacity to do great harm, Professor Ross added.“Just to give you some perspective on the scale, think of the annual revenues of Shell for example which last year were double the entire GDP of Nigeria and four times the entire GDP of Angola. So the capacity is enormous. And yet our leading global framework for encouraging good behavior and setting high transparency standards has focused on the mouse and not the elephant.”

Given how important governance is to development, this focus was not initially a mistake. However Professor Rossasked whether it was really appropriate that 100 per cent of resources were devoted to trying to encourage good behavior in governments while zero per cent was committed to encouraging good behavior in companies.

“Maybe it is time to invest a little bit more,” he said.“Right now governments are hampered in their deals with companies because companies are opaque. How do you know you are working with companies that meet the highest global standards of integrity and social responsibility?”

Applying EITI disciplines to companies could also help government's strike a better bargain even with reputable companies. The companies themselves would also gain from the arrangement, he said.

“Most of the companies associated with EITI are already doing many of the good things that we would like to see, but they don't get recognition for it. They are lumped together with everybody else. And when there is a scandal and someone gets arrested for corruption in one company or another everyone is tainted.”

That was because there were no standards to distinguish good from bad companies.“EITI company certification would allow well performing companies with high standards to get the recognition they deserve,” he said.

Governments would know they were working with a partner who met the highest standards of corporate citizenship, and that the company's conduct was certified by a respected third party organization.

Of course the bottom line also matters, Professor Ross said.“Investors will come to realise that projects carried out by EITI companies are better bets. For instance they are less likely to be subject to renegotiation by the subsequent governments.”

Professor Ross concluded they might discover that it’s easier to raise capital or borrow at a lower rate.“We should set a standard, have a template, have third party validation, and then reward and recognise those who meet that standards.”

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