



global witness

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Vickie Wood
Alternatives to Regulation Team
Department for Business, Innovation and Skills
3rd Floor, Spur 2
1 Victoria Street
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16th May 2014

Re: Letter of support for Publish What You Pay's submission to the Accounting Directive consultation

Dear Vickie,

We are writing to express our support for Publish What You Pay UK's joint submission to the Department for Business, Skills and Innovation's consultation on the EU Accounting Directive.

Global Witness warmly welcomes the Prime Minister's strong leadership on mandatory payment disclosure for the extractive industries, committing the UK through the Open Government Partnership to transposing the Accounting Directive in 2014, and to ensuring that UK-listed and UK-registered extractive companies will start to publish data under the EU Accounting and Transparency Directives in 2016.¹

As described in the Publish What You Pay submission, there is considerable urgency surrounding extractive payment transparency, in terms of both the economic and social problems arising when the extractives sector does not operate transparently, and the finite nature of oil, gas and mineral resources and hence their time-limited potential to generate developmental benefits. We welcome the UK Government's recognition of this urgency in its commitment to implement the Accounting Directive in 2014.

The UK is a global leader in the field of natural resource transparency, championing the Directives during the EU legislative process, and putting mandatory payment disclosure at the heart of the international policy agenda during the UK's G8 Presidency in 2013. Writing in the Wall Street Journal in the lead-in to the Lough Erne summit, the Prime Minister stated: *"we must all work harder to secure and fully implement the new standard that will see oil,*

¹ Open Government Partnership UK National Action Plan 2013 to 2015, page 49:
http://www.opengovpartnership.org/sites/default/files/20131031_ogp_uknationalactionplan.pdf

*gas and mining companies reporting project-by-project payments across the world without exception.*²

The 2013 G8 Leaders' Communique committed the UK, Germany, France and Italy to quickly implement the EU Accounting and Transparency Directives, with Sweden, Denmark and Finland following suit soon after the G8 summit by pledging to quickly transpose the Directives.³ Transposition in other EU Members States is progressing well. From discussions with Ministry officials and local civil society organisations, we understand that draft implementing laws are expected to be prepared in France and Netherlands by the summer, and a draft law is expected in Italy by the end of 2014.

There is a clear convergence of interests among citizens, companies and investors for fully public, company-by-company, project-level reporting with no exemptions. In resource-dependent countries, project-level information will allow citizens to monitor payments from individual companies and projects – which can amount to a billion or more dollars for a single payment – and hold their governments to account for how the money is used.

The depth and breadth of support for mandatory, project-level payment reporting among citizen's groups is demonstrated by a letter recently submitted to the U.S. Securities and Exchange Commission (SEC) signed by 544 civil society organisations from 40 resource-producing countries, which calls on the SEC to introduce a payment disclosure rule that aligns with the reporting requirements embodied in the Accounting and Transparency Directives.⁴

For companies, more transparency will help firms demonstrate their economic contribution to host countries and local communities, resist demands for illicit payments, enhance their social licence to operate, and help to reduce conflict. With improved transparency and governance in producer countries, extractive companies will benefit from more stable operating environments that can lead to higher returns on investment.⁵

Over 80 of the world's largest oil, gas and mining companies support the Extractive Industries Transparency Initiative,⁶ which now requires companies to report payments on a project-by-project basis in all 44 implementing countries.⁷ More than 900 companies have participated in EITI reporting processes across the globe,⁸ including Statoil which states that transparency *"allows businesses to prosper in a predictable environment [and] contributes to a level playing field,"* and that *"we welcome initiatives to strengthen and harmonise global revenue transparency legislation, including project-by-project disclosure of payments, as laid out in the EU Directive... We support*

² Wall Street Journal, 'David Cameron: a British-American tax and trade agenda', 12th May 2013: <http://online.wsj.com/news/articles/SB10001424127887324216004578478652537662348>

³ Joint Statement by Kingdom of Denmark, Republic of Finland, Republic of Iceland, Kingdom of Norway, Kingdom of Sweden, and the United States of America, 4th September 2013: <http://www.whitehouse.gov/the-press-office/2013/09/04/joint-statement-kingdom-denmark-republic-finland-republic-iceland-kingdo>

⁴ Publish What You Pay, 'Civil society around the world calls on the SEC to reissue strong oil, gas & mining transparency rule', 14 April 2014: <http://www.publishwhatyoupay.org/resources/civil-society-around-world-calls-sec-reissue-strong-oil-gas-mining-transparency-rule>

⁵ EITI, 'Business guide: how companies can support EITI implementation', May 2013.

⁶ See here for a list of EITI supporter companies: <http://eiti.org/supporters/companies>

⁷ EITI Standard, Section 5.2 (e): http://eiti.org/files/English_EITI%20STANDARD_11July_0.pdf

⁸ EITI, 'Extracting data: an overview of EITI Reports published 2005-2011', EITI 2011: <http://eiti.org/document/extracting-data>

*international law-based regulations of revenue disclosure, with public reporting at company level and with no exceptions for local or national conflict of law situations.*⁹

The fact that the UK company Tullow Oil voluntarily disclosed project-level payments for all countries of operation for the years 2012 and 2013 demonstrates that project-by-project reporting is practicable, and the company's CEO has stated that the costs are negligible.¹⁰

Investors have stated that payment transparency will improve their ability to assess the risk profiles of extractive companies and make effective capital investment decisions. As companies increasingly seek new sources of supply in countries with challenging governance environments, including pervasive corruption, increased transparency will provide investors with valuable information on risk and company performance.¹¹

The support for mandatory payment disclosure among the investment community was demonstrated by the submission of a letter in April 2014 to the SEC signed by 34 institutional investors with more than US\$6.4 trillion in assets under management, which endorses the project-by-project reporting standard embodied in the Accounting and Transparency Directives and the creation of a global reporting regime: *"As institutions based in numerous international jurisdictions, with both customers and assets spread around the globe, we welcome this virtuous development, and consider that regulations favouring not only high, but just as importantly, globally consistent standards of transparency, are essential to safeguarding the effective functioning of the financial markets."*¹²

We commend the Government for taking a lead role internationally in promoting a consistent, fit-for-purpose mandatory global reporting regime for extractive company payments. The Accounting Directive is a vital part of this international standard, and we look forward to an efficient UK transposition process that brings the law into force by October 2014.

Yours sincerely,



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⁹ Statoil, 2013 Sustainability Report, p19:

http://www.statoil.com/no/InvestorCentre/AnnualReport/AnnualReport2013/Documents/DownloadCentreFiles/01_KeyDownloads/SustainabilityReport.pdf

¹⁰ Tullow Oil, Annual Report 2013, <http://www.tulloil.com/index.asp?pageid=599> and Simon Thompson, statement at East Africa's Oil and Gas Boom – Promise and Peril, Oxfam and Brookings Institution conference, February 2014, <http://www.brookings.edu/events/2014/02/20-east-africa-oil-gas>

¹¹ Letter from Peter Lundkvist, Senior Strategist & Head of Corporate Governance, Third Swedish National Pension Fund, *et al.* to the SEC, 28th April 2014: <http://www.sec.gov/comments/df-title-xv/resource-extraction-issuers/resourceextractionissuers-36.pdf>

¹² Letter from Steve Berexa, Managing Director, Global Head of Research, Senior Portfolio Manager, Allianz Global Investors, *et al.* to the SEC, 28 April 2014: <http://www.sec.gov/comments/df-title-xv/resource-extraction-issuers/resourceextractionissuers-35.pdf>