

“Resource Curse or Blessing? Africa’s Management of its Extractive Industries” Senate Foreign Relations Committee Hearing Report

On September 24, 2008, the Senate Foreign Relations Committee held a hearing, convened by African Affairs Subcommittee Chairman Russ Feingold, on Africa’s management of its extractive industries. Four distinguished

Witnesses and Their Perspectives

U.S. Government	<ul style="list-style-type: none"> • Todd Moss • Deputy Assistant Secretary for African Affairs, U.S. Department of State
Energy Expert	<ul style="list-style-type: none"> • David Goldwyn • President, Goldwyn International Strategies and Senior Associate in CSIS' energy program
Academic	<ul style="list-style-type: none"> • Paul Collier • Director, Center for Study of African Economies, University of Oxford
NGO	<ul style="list-style-type: none"> • Simon Taylor • Director, Global Witness, and co-founder of Publish What You Pay

witnesses were invited to testify on the impact of the “resource curse” in Africa, along with the importance of efforts to reverse the resource curse, such as the Extractive Industries Transparency Initiative (EITI) and the bill addressing this issue currently before Congress, called the the Extractive Transparency Disclosure Act (EITD). Witnesses also discussed the need for increased U.S. presence to help promote transparency to ensure natural resources provide a benefit to the people while promoting good governance and political stability. Emphasizing the importance of this issue, Senator Richard Durbin, held a second hearing the same day on, “Extracting Natural Resources: Corporate Responsibility and the Rule of Law.”

The witnesses discussed the importance of the Extractive Industries Transparency Initiative (EITI) as part of the effort to create accountability. The witnesses acknowledged that the “resource curse,” is not unique to Africa, but that Africa is heavily impacted because it has several economies that rely on two or less extractive exports. Witnesses discussed approaches to encouraging governments that the benefits associated with transparency outweigh the pitfalls of not embracing it. Some of the approaches mentioned included: increasing public awareness and public demand for transparency, stronger efforts to combat corruption and follow through on commitments by other countries and partner governments. The witnesses described how the lack of transparency allows corruption to remain rampant, and how that corruption can also impact American consumers. Additionally, the witnesses recognized that the EITI is a starting point, but not the ending point in part due to its voluntariness. The witnesses acknowledged that one method to overcome this shortcoming is the EITD Act, which makes disclosure mandatory, therefore achieving the same goals and accountability as EITI with increased effectiveness.

Senator Richard Lugar stated at the hearing that over the summer of 2008, he commissioned the minority staff of the Foreign Relations Committee to assess the U.S. and international efforts to combat the “resource curse,” which is the phenomenon where countries rich in resources have high poverty rates. The commission analyzed over twenty (20) developing countries, rich in resources. The staff’s examination resulted in a report, “The Petroleum and Poverty Paradox,” which is available from the Foreign Relations Committee.

(see reverse for excerpts from hearing and written testimony)

The Extractive Industries Transparency Disclosure Act

- Companies filing annual reports with the Securities and Exchange Commission will be required to disclose payments made the foreign governments for the extraction of oil, gas and minerals.
- For each country of operation, eight payment categories will be required in keeping with the reporting framework of the Extractive Industries Transparency Initiative.
- A majority of the largest publicly-traded oil, gas and mining companies in the world, both foreign and American, would be covered.

Highlights from the “Resource Curse or Blessing” Hearing

Transparency and U.S. government support for these efforts is essential

- **Simon Taylor** stated that “[t]ransparency is not the silver bullet solving the resource curse, but it creates a critical underlying business environment that makes it more difficult to engage in corruption.”
- **Todd Moss** pointed out that “EITI establishes accounting and reporting norms for revenues from natural resources. EITI now has 23 candidate countries, 16 of which are in sub-Saharan Africa. The U.S. supports EITI as part of larger efforts to enhance transparency and accountability and has committed \$3 million for FY 08 to a multi-donor EITI trust fund.”

More vigorous support for transparency in extractive industries is needed to fight the curse

- **Todd Moss** said “More and more African countries genuinely want to attract private investments outside of the extractive sectors.” “As governments shift strategy from squeezing mining and oil to trying to attract new companies to new sectors, they recognize that they need to make the business environment more attractive.” “This means better and more open economic policies and compliance with international business norms.”
- **David Goldwyn** testified that “[w]hile U.S. influence has diminished, there is now acceptance in principal by companies and host governments that good governance, respect for human rights and transparency are the cornerstones of political stability, a level playing field for commercial competition and long term security of investment and energy.”
- **Simon Taylor** stated that “U.S. led initiatives on natural resource transparency and accountability would have a very tangible impact in transforming incentives for corruption in Africa’s natural resources.”

The EITD Act addresses lack of transparency of natural resources, which impacts American consumers

- **Todd Moss** explained that having valuable resources should provide countries with opportunities to “make lives and societies better, but the opposite often occurs.” He testified that “In too many countries, oil, gas, and mineral wealth have instead become associated with high poverty rates, weak state institutions, corruption and war.”
- **Simon Taylor** said “The secrecy that results from this opacity is bad for American consumers and bad for Africans, and it makes it much easier for corruption to take place.” For example, Equatorial Guinea, “one of the top 20 oil exporting countries...deposited \$700 million of this money in Riggs Bank here in Washington, D.C. The Senate Permanent Subcommittee on Investigations found dozens of irregular payments, multiple individual signatories to the accounts and little due diligence paid to the accounts. Riggs shut down as a result in 2004, but the corruption in Equatorial Guinea continued.”

The EITD Act complements other initiatives that promote accountability & combat corruption

- **Simon Taylor** said an important step to accountability was “the passage of the Foreign Corrupt Practices Act (FCPA), this law makes it illegal for U.S. companies to pay bribes to foreign government officials,” and “last year, ... Congress passed an Anti-Kleptocracy provision in the Consolidated Appropriations Act. He continued, “I absolutely commend the EITD bill [o]ne of the beauties of the [EITD] Act is that in one full swoop in a country like Angola, you would force disclosure on 30 of the 33 participants in country.”
- **Paul Collier** – “EITI was exactly the right place to start, get the basic information to the society on what money is coming in ... the success of EITI demonstrates that that approach works ... but it would be the wrong place to stop.”

Senator Russ Feingold

- “The EITI is a promising start, but it alone has been insufficient to ensure transparency and accountability in extractive industries.”

Senator Johnny Isakson

- “This program is a tremendous program to let the light shine in to kind of be a deterrent to corruption and a positive reward to the people of Africa to ultimately get some of those revenues to get some of those rewards going in to their economic and educational infrastructure.”

Senator Richard Lugar

- “Because the resource curse affects our economic, security and humanitarian interests, it should assume a more prominent place in our foreign development policy.”