

# INVESTORS' STATEMENT ON **TRANSPARENCY** IN THE EXTRACTIVES SECTOR



**A**s institutional investors with exposure to companies operating around the world, we believe it is in the interest of the companies in which we invest to operate in a business environment that is characterised by stability, transparency and respect for the rule of law. These factors are essential to securing economic prosperity and social cohesion, which, in turn, enable the companies in which we invest to prosper. However, they are frequently undermined by poor standards of governance and transparency, which can give rise to corrupt operating environments.

We are concerned that extractive companies are particularly exposed to the risks posed by operating in these environments. Companies that make legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behaviour, impairing their local and global “licence to operate”, rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.

We believe that improved transparency about both payment and revenue flows is an important contributor to good governance by host governments, although its effectiveness will depend on the success of wider initiatives to combat corruption and the misuse of revenues.

We recognise that the root of the governance problem often lies in underdeveloped local capacity in many host countries. However, in the light of the G8 discussions on corruption and increased international attempts to create transparency about revenue flows, we believe that the corporate sector has an important opportunity to support government and multilateral institutions by taking action to protect its own long-term interests.

We acknowledge that the corporate sector cannot single-handedly reform long-standing business practices such as lack of transparency over payments to government, nor can individual companies act alone without compromising their immediate commercial interests. However, we believe that reform will give the extractive companies in which we invest an opportunity to be seen as contributors to, and not just beneficiaries of, economic development and reconstruction.

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We therefore encourage the development of mechanisms to promote payments transparency that respect the following principles:

Confidentiality: to ensure that existing contractual agreements and commercially sensitive information are respected;

- Universality: to ensure that improved disclosure standards apply to all parties. This includes joint ventures, state-owned extractive companies and their host governments;
- Comprehensiveness: ensuring that all relevant payments and revenues paid to governments are captured, and
- Comparability: to enable data for different countries to be compared easily.

We commend the Extractive Industries Transparency Initiative (EITI) process for seeking to develop an effective system of disclosure regarding payments in the mining, oil and gas sectors, which is supported by home and host governments, commercial and national companies, and other stakeholders.

Within the framework of the G8 discussions on payments transparency and the EITI, **we are calling on the companies in which we invest to:**

- **Support the principles of payments disclosure developed by the EITI process;**
- Work proactively with host country governments and other stakeholders, including other companies, to develop and implement payments transparency agreements within those countries that sign the principles;
- Become, or continue to be, active participants in the process to promote take-up of payments transparency agreements by host country governments that are not yet signatories to the principles.

We believe that the EITI principles may be relevant to other sectors, and welcome appropriate initiatives with similar objectives.

As institutional investors representing US \$19.0<sup>1</sup> trillion we actively support the development of international mechanisms to address payments transparency, and encourage other investors to join us in this statement.<sup>2</sup>

For further information on this Statement or the EITI Supporting Investors, please contact David Diamond, Director, Global Co-Head of ESG, Allianz Global Investors [david.diamond@allianzgi.com](mailto:david.diamond@allianzgi.com) or +33 1 73 05 74 53

1. This figure is approximate as the assets of certain signatories may be partially included in the Assets Under Management figure of the Association of British Insurers.

2. This Statement was originally drafted in May 2003, when it was signed by 10 original supporting investors. This version is updated continuously to include the organisations and contacts that have subsequently signed.

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The EITI (Extractive Industries Transparency Initiative) Standard is an international standard that ensures transparency around countries' oil, gas and mineral resources. It is developed and overseen by a coalition of governments, companies, civil society, investors and international organisations. All of these groups are represented on the EITI Board which is supported by the EITI International Secretariat. The EITI Standard has robust yet flexible methodology, which countries adapt to address the specific issues they are facing. When implemented, the EITI ensures more transparency in how the country's natural resources are governed, and full disclosure of government revenues from its extractive sector.