



Save the Children

PUBLISH WHAT YOU PAY

SUBMISSION TO THE FINANCIAL SERVICES AUTHORITY'S REVIEW OF THE LISTING REGIME

Save the Children UK

Save the Children is the UK's leading international children's charity, working to create a better future for children. In a world where children are denied basic human rights, we champion the right of all children to a happy, healthy and secure childhood. We put the reality of children's lives at the heart of everything we do. Together with children, we are helping to build a better world for present and future generations. For more information, see www.savethechildren.org.uk.

'Publish What You Pay'

'Publish What You Pay' ("PWYP") is a worldwide coalition of 65 NGOs worldwide, led in the UK by CAFOD, Global Witness, Oxfam and Save the Children. PWYP has one objective: **oil, gas and mining companies should publish all tax, fee, royalty and revenue sharing payments they make to all national governments.** Save the Children believes that transparency of revenue payments is important because it can play a central role in reducing child poverty. There is a clear link between dependency upon natural resources, corruption, conflict and extreme child poverty: 12 of the world's 25 most mineral dependent states and 6 of the world's most oil dependent states are classified by the World Bank as Heavily Indebted Poor Countries with amongst the world's worst Human Development Indicators. In Angola, for example, it is estimated that more than \$1 billion out of a total of \$4 billion annual oil revenues goes unaccounted for every year, yet a quarter of Angola's population is dependent upon food aid at an annual cost to the UN of \$200 million and 1 in 3 Angolan children die before they reach the age of 5. And Angola, Sudan and the Democratic Republic of Congo are examples of very poor countries which have been torn apart by wars funded by natural resource revenues. Nor is the problem confined to a few countries: poor governance of natural resources is also evident in Algeria, Azerbaijan, Chad, Congo Brazzaville, Equatorial Guinea, Gabon, Kazakhstan, Nigeria and Venezuela.

The case of Botswana suggests that revenue transparency will make a difference. Revenue payments relating to diamond trading in Botswana are transparent, and it is the only African country to have graduated from being a Least Developed Country to

a Middle Income Country, according to World Bank classifications. Its infant mortality and primary school education percentages are significantly higher than those of its neighbours, and free elections have been held every 5 years since independence. If minerals companies publish what they pay to all governments, then the citizens of countries such as Angola have the opportunity to break this vicious cycle by beginning, like their Botswanan counterparts, to hold their governments to account for how natural resources revenues are spent.

For more information on ‘Publish What You Pay’ including a list of coalition members and FAQs, see www.publishwhatyoupay.org.

PWYP: political progress

PWYP has successfully generated political will at company, national and international level to achieve transparency of revenue payments by natural resources companies.

PWYP was launched in London by George Soros, who actively supports the coalition, in June 2002. Since then, the coalition has been successful in garnering the support of the most significant UK minerals companies including Shell, BP, Anglo American, Rio Tinto and BHP Billiton.

The G8 Africa Action Plan of August 2001 included a commitment to work to ensure better accountability and greater transparency with respect to those involved in the import and export of Africa’s natural resources from areas of conflict.

On 2nd September at the World Summit for Sustainable Development in Johannesburg, the Prime Minister announced that the UK government would lead a multi-stakeholder process to find a solution to problems around revenue transparency: <http://www.number-10.gov.uk/output/Page5996.asp>. The PWYP coalition warmly welcomed and is participating in the Prime Minister’s initiative. We are very pleased to have the opportunity to work with natural resource companies, other national governments and international institutions to achieve transparency.

Implementation of revenue transparency

The PWYP coalition argues that regulation is necessary to achieve revenue transparency. Firstly, experience in other sectors shows that a voluntary approach is unlikely to lead to more than a few ‘good’ companies publishing what they pay. Secondly, voluntary disclosure may well prove unfeasible even for those companies, because it would lead to them losing competitive advantage. Thus, when BP announced that it intended to publish the payments it makes to the Angola government, the company was immediately threatened with damage to its interests by Sonangol, the Angolan national oil company. Hence, a level playing field is required: mandatory disclosure for transnational oil, gas and mining companies.

PWYP and the UK Listing Rules

Rules governing companies trading on regulated markets

The PWYP coalition seeks to incorporate a requirement for oil, gas and mining companies to publish all payments they make to all national governments into the rules which govern companies which trade on regulated markets. Regulated market rules are an appropriate location for payment disclosure regulation for the following reasons:

- The creation of any new legislative regime, process and institutional framework is avoided. A requirement for payment disclosure can be easily added to existing rules and disclosure would be made through existing mechanisms.
- Payments made by the vast majority of relevant oil, gas and mining companies are captured.
- The requirement can be easily replicated in regulated markets worldwide. A parallel PWYP coalition in the US is lobbying for the incorporation of a payment transparency requirement into SEC rules.

The Prospectus Directive

Payment disclosure by oil, gas and mining companies should be required in the detailed measures to be implemented under article 7 of the Prospectus Directive. The Prospectus Directive is the appropriate location for payment disclosure for the following reasons:

- The Prospectus Directive is comprehensive: it applies to all securities which are admitted to trading or offered to the public. It will therefore capture a large majority of relevant securities in oil, gas and mining companies.
- Payment disclosure information would be updated annually under the Directive. Regular updating is imperative if citizens of poor countries are to be able to hold their governments to account effectively.
- The content of the disclosure to be required by the Prospectus Directive is somewhat flexible, giving scope for the implementation of a requirement for payment disclosure. There is unlikely to be any such flexibility in the content of the disclosure to be required by the Regular Reporting Directive: this will depend entirely upon financial statements, which do not currently include a requirement for payment disclosure.

Specifically, the PWYP coalition understands that Chapter 19 of the UK Listing Rules, which applies specifically to minerals companies, is being considered by CESR for incorporation into the detailed measures to be implemented under the Prospectus Directive. The definition of 'minerals companies' in Chapter 19 includes the oil, gas and mining companies whom the PWYP call affects. A requirement for payment disclosure can therefore easily be incorporated into the Prospectus Directive alongside those provisions of Chapter 19 which are implemented.

Recommendation

Save the Children UK, as a member of the Publish What You Pay coalition, calls on the FSA to recommend to the Committee of European Securities Regulators that the detailed implementing measures to be determined under the Prospectus Directive include a requirement for minerals companies, as defined in Chapter 19 of the UK Listing Rules, to disclose all payments made to all national governments, including taxes, fees, royalties, revenue sharing payments and other payments.

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