

Resource Revenue Transparency Working Group - FAQs

Why is transparency in the extractive sector important?

The starting point for tackling corruption, fraud and poor governance in the natural resource sector is transparency. Exports of oil, gas and minerals are a vital source of income to many developing countries, generating hundreds of billions of dollars in taxes and revenues that could be used to combat poverty and drive economic and social development. Currently, a lack of reliable public information about the flow of revenues to governments from extractive companies makes it impossible to monitor such funds, guard against corruption and bribery, ensure efficient and timely tax and royalty collection and ensure that resource revenues contribute to sustainable development.

Who is in this working group and why was it formed?

The Resource Revenue Transparency Working Group is composed of the Mining Association of Canada, the Prospectors and Developers Association of Canada, Revenue Watch Institute and Publish What You Pay Canada. The Working Group was officially launched on September 16th of 2012 and is underpinned by a [Memorandum of Understanding](#) (MoU). In this MoU, the working group members recognized that they wished to contribute to a process whereby communities and citizens have the information they need to hold their governments to account. From the outset, the Working Group's objective was to develop recommendations for Canadian provincial and federal government to inform the creation of a mandatory payment reporting standard for Canadian mining companies.

The Working Group was formed because its members recognize the important of revenue transparency and agreed to work collaboratively to ensure that the Canadian government developed mandatory payment reporting standards for Canadian mining companies.

Can you tell us more about the groups in the Resource Revenue Transparency Working Group?

The [Mining Association of Canada](#) is the national organization for the Canadian mining industry. MAC's membership consists of many of the world's largest mining companies, including the parent companies or the Canadian subsidiaries of AngloAmerican, BHP, First Quantum Minerals, GlencoreXstrata, Hudbay, Newmont, Teck Resources, and Vale.

The [Prospectors and Developers Association of Canada](#) represents the interests of the Canadian mineral exploration and development industry. The PDAC has 1254 corporate members, including senior, junior and mid-sized mining companies and those companies that service the mining sector. The PDAC's membership consists of some of the world's largest companies, including AngloGold Ashanti, Goldcorp, Rio Tinto, Sherritt International, and Yamana Gold.



The [Revenue Watch Institute](#) is based in New York City and is a non-profit policy institute and grantmaking organization that promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good.

[Publish What You Pay Canada](#) is the national coalition of the global PWYP organization which has its international headquarters in London, England. PWYP-Canada has 13 member organizations and strives to increase the transparency and accountability of the global extractive sector.

What has the Working Group done between September 2012 and today?

Between its launch in September 2012 and the finalization of the recommendations, the Working Group has held numerous meetings, conducted in-depth research, held multi-stakeholder consultations and sought expert advice to inform the final recommendations. The members of the Working Group carefully considered and negotiated every component of the recommendations.

In June of 2013, the Working Group provided stakeholders with three months to submit comments on the draft recommendations. The Working Group then reviewed the comments and revised the framework accordingly throughout the fall of 2013. In early November, the Working Group agreed to a final version of the recommendations and began the process of finalization.

What are these recommendations?

The recommendations developed by the working group seek to inform the creation of a mandatory payment reporting framework in Canada for mining companies. The recommendations elaborate on the specific components of the framework, such as the levels of disclosure that should be included (project, country and level of government), a definition of extractive 'project,' a stipulation that disclosure be made public at a disaggregated level, and the payments categories that should be included in the framework. The recommendations have been drafted to inform policymakers.

Are the recommendations final and approved by all participating organizations?

The recommendations have been finalized and are currently being reviewed and approved by participating organizations. Upon final approval by all participating groups, the Resource Revenue Transparency Working Group intends to launch the recommendations in January, 2014. PWYP-Canada and the Revenue Watch Institute finalized the recommendations in November of 2013. The Mining Association of Canada formally approved the recommendations on November 19th, 2013. In the case of the Prospectors and Developers Association of Canada, the recommendations will be considered for approval on December 13th, 2013.

Which companies will have to disclose payments?

The Working Group recommends that the Canadian government ensure the recommended reporting standards apply to the 1,628 mining companies that are publicly traded in Canada. PWYP-Canada

encourages the government to extend the framework to cover private extractive companies and publicly traded oil and gas companies.

Why do the recommendations not include oil and gas companies?

PWYP-Canada and the Revenue Watch Institute believe that these recommendations should apply equally to oil and gas companies. However, the Canadian Association of Petroleum Producers did not wish to be a part of the Working Group, and without representation from the oil industry the group felt that it was unable to put forward recommendations that applied to a sector that was not 'at the table.'

Will this put Canadian companies at a disadvantage?

No. Canadian mining companies already disclose some information regarding payments to governments, alongside a description of the payment liabilities on a project-by-project basis. In addition, the Working Group's recommendations, if implemented, would not require that companies disclose commercially sensitive information. In addition, payment disclosure rules help to create a more stable business climate for extractive companies, thereby improving their operating environment.

Moreover, the disclosure of payments to governments will align transparency rules in Canada with those in other jurisdictions, helping to create a global standard. Recently the US and the EU have passed laws that will require that extractive companies disclose payments to governments, in addition the Hong Kong stock exchange has established listing rules that require payment disclosure.

What payments will companies have to disclose/what can they tell us?

According to the recommendations, companies should be required to disclose: Profit Taxes (including profit, income and production taxes), royalties (including royalties-in-kind), fees (including license fees, rental fees and concession fees), production entitlements (by value and volume), bonuses (including signature, discovery and production bonuses), dividends (i.e. withholding tax), infrastructure payments as required by law or contract (e.g., building a road or railway), and transportation and terminal operations fees. Each of these payment streams gives us important information about the distinct revenue flows to governments.

Why does disclosure have to be mandatory?

Voluntary disclosure is important and many companies have committed to support increased reporting through the Global Reporting Initiative, the Extractive Industries Transparency Initiative, and other company-based CSR initiatives. The challenge with voluntary reporting is that it is often ad hoc. Companies might disclose data one year but not the next, they might disclose payments to countries or governments without specifying to which extractive projects those payments are attached (Such as Rio Tinto or BHP), or perhaps disclose only payments to some governments but not to others. The result is a hodgepodge of information that fails to fulfil the needs of citizens and governments. Mandatory reporting standards are the only way to get the information we need.

In contrast, creating a law that requires extractive companies to disclose payments to governments creates a level playing field for companies, while providing citizens with the information they need to hold their governments to account. Most important, it prevents the world's most corrupt governments, in places where the 'resource curse' is most likely to be endemic (such as Equatorial Guinea), from resisting transparency. This type of law can also provide investors with new data to help their analyses.

Why is it important to have mandatory disclosure in Canada?

Canada is home to over 60% of the world's publicly traded mining companies and a third of the world's oil and gas companies. In the mining sector, over 70% of Canadian assets are located abroad with 150 billion dollars invested in over 100 countries. Canada is home to some of the world's most important mining companies such as Barrick Gold, Teck Resources, IAMGOLD, Goldcorp, Kinross, and First Quantum Minerals. Canada also has significant natural resources right here at home. As a key player in the global extractive industry, Canada has an opportunity and a responsibility to lead the movement towards greater transparency and accountability.

Who benefits from these rules and how?

These rules will benefit civil society and communities in resource endowed countries around the world, in addition to providing benefits to investors, companies, and host (country where extraction takes place) and home (country where the company is headquartered) governments.

How would these rules benefit investors?

This disclosure provides investors with useful information to effectively assess and address portfolio risks related to extractive projects, which have enormous capital investments and profitability margins directly dependent on relations with local governments and communities. In recent years, investors (including many large Canadian pension funds) have lost significant shareholder value when Canadian companies have been forced to abandon or liquidate interests in large extractive projects over local community opposition. Conversely, companies that have voluntarily disclosed payments – such as Rio Tinto who now annually reports on the taxes it pays as part of its commitment to the Extractive Industries Transparency Initiative (EITI) – have given investors confidence in their legal compliance, local support and stable operating environment. Or, as Rio Tinto itself boasts to its investors, “transparency makes good business sense.”

How do companies benefit from the rules?

For companies, mandatory payment reporting can help to build trust with local communities and subnational governments providing those stakeholders with access to credible information about the economic contributions of resource extraction. This reduced the risk of social conflict and improves a company's ability to obtain a social license to operate. In addition, reporting can improve the stability of the investment climate and help to reassure investors.

How do host countries (those where the company operates) benefit?

For host governments, mandatory disclosure can lead to improved revenue management and collection, reduced opportunities for corruption and bribery, in addition to helping to mobilize revenues to expand public investments and create the type of transparent and good governance framework that can attract foreign direct investment and reduce the cost of capital.

Many developing countries have failed to turn natural resource wealth into lasting benefits. Countries like Nigeria and the Democratic Republic of Congo remain poor, unstable, dependent on foreign assistance, and risky environments for foreign investment, despite incredible natural resource wealth. The amounts of money at stake are potentially transformational. In 2008, exports of oil, gas and minerals from Africa were valued at \$393.9 billion, nearly 9 times the value of international aid to the continent and more than 10 times the value of agricultural exports. Harnessing these revenues from development is critical to improving development outcomes.

How do home countries benefit?

For home countries, improving the disclosure of companies traded on domestic markets, headquartered, and/or registered in Canada can help to improve the reputation of the industry at home and abroad. In addition, because mandatory payment disclosure can help to improve investment stability and mitigate investor risk it is a key action home governments can take to support the creation of stable, attractive markets for foreign investment.

Where can we find the information once it's disclosed?

If the recommendations are implemented by the Canadian government, payment information for publicly traded companies will be disclosed on www.sedar.com, Canada's regulatory filing system. In addition, PWYP-Canada plans to work in cooperation with others to make the data more accessible.

Are any other jurisdictions introducing similar rules?

European Union - In October 2011, the European Commission issued draft directives requiring companies listed on EU stock exchanges and large private companies based in member states to disclose all payments to governments for oil, gas, minerals and timber. In June 2013, these mandatory disclosure requirements were approved by the European Parliament and will come into force this year.

United States - In July 2010, the U.S. Congress passed Section 1504 of the Dodd-Frank Act, which requires companies registered with the Securities and Exchange Commission (SEC) to publicly report how much they pay governments for access to oil, gas and minerals. The rule, developed by the Securities and Exchange Commission in the U.S., to implement the Act is currently being revised following a court action by the oil industry.

Canada – Prime Minister Harper committed in June, 2013, to develop mandatory payment reporting standards for Canadian extractive companies. The Canadian government has conducted consultations

with industry and civil society on this commitment and intends to develop and pass legislation to require payment disclosure by June 2015 (at the latest).

How do the Working Group recommendations compare to those in other markets?

Key Sections	Working Group	EU Directives	Dodd Frank's 2012 Rules
Payments by government	Yes	Yes	Yes
Payments by project	Yes	Yes	Yes
Project Definition	Same as 2012 Dodd Frank rules, but EU definition is referenced	Defined based on contractual arrangements (lease, license etc.) or multiple substantially interconnected contractual arrangements.	not definition - but cannot be defined as a reporting unit, as a country, as geologic basin, and as material to the company – and is linked to a company's contractual arrangements (ie. license, contract)
Payment Types Disclosed	Same as EU and US + transportation and terminal operation fees	Production entitlements, taxes, royalties, dividends, fees, bonuses, payments for infrastructure improvements	Production entitlements, taxes, royalties, dividends, fees, bonuses, payments for infrastructure improvements
Company coverage	Public	Private and Public	Public
Payment threshold	100,000CAD for large issuers and 10,000CAD for small issuers	100,000E	100,000USD

What happens next?

The Working Group plans to increase efforts to ensure the provincial and federal Canadian governments implement the recommendations, with particular focus on engaging more with the provinces who can take a leading role on this issue. PWYP-Canada's member, Engineer's Without Borders Canada has taken a lead on this in its provincial outreach campaign, TRACE (Transparent Accountable Extractives).

PWYP-Canada and its global network will also work to promote the framework to other governments currently developing or considering creating mandatory payment reporting standards.