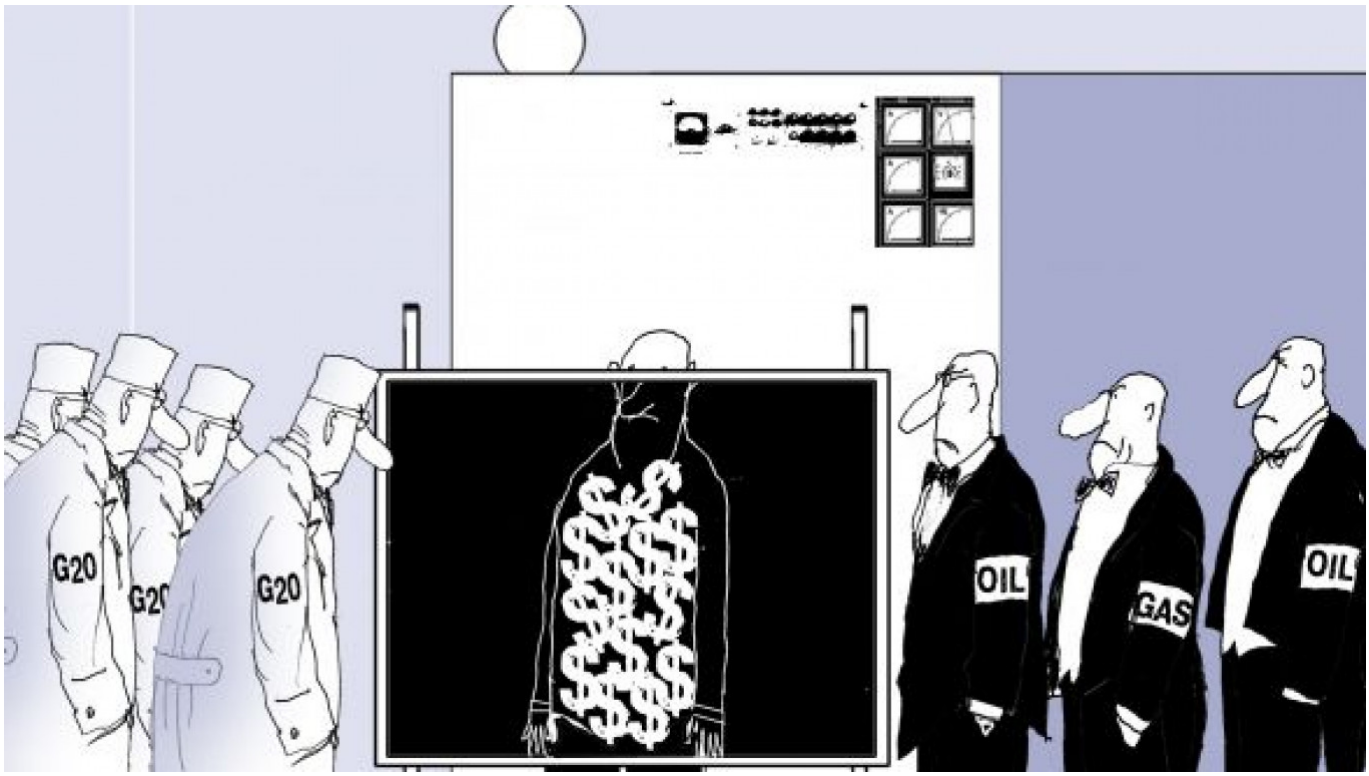
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A Cure for the Resource Curse

By George Soros

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The campaign to ensure that companies engaged in extractive activities disclose all of their payments in their host countries is gaining momentum, and France is leading the effort. President Nicolas Sarkozy should be applauded for supporting a new initiative promoting strict transparency standards for petroleum, gas and mining companies listed on European stock exchanges.

France, at the heart of the European Union and president of both the Group of Eight and G20 this year, is in an exceptional position to encourage such a regulatory move. With French leadership, 2011 offers a golden opportunity for the most important capital markets to adopt clear, precise rules requiring full financial disclosure by extractive-industry companies to governmental authorities.

Oil, gas and mining generate billions of dollars per year for governments and companies. Moreover, these industries often play a central role in the economic development of resource-rich countries. Yet despite great natural wealth, a majority of people in these countries live in poverty.

The actual taxes and payments made by mining, oil and other extractive-industry companies to governments are usually a well-kept secret, even though most of these governments claim to use the revenue for the public good. In reality, in far too many countries, ordinary citizens do not benefit from any of this money. In fact, they must bear the brunt of the environmental and social costs imposed by mining and drilling operations.

Indeed, these well-kept industry and government secrets can have serious and widespread repercussions. Witness the upheaval in North Africa and the Middle East. In these countries, many of which are rich in oil and gas, citizens are staging protests against corruption and political repression. They are protesting against the mismanagement of their countries' wealth and resources with implications that affect the security and affordability of the entire world's energy supplies.

Transparency is an essential part of the solution. Citizens everywhere must be assured that oil and gas firms, as well as mining companies, publish all of their relevant financial information, broken down by country and by project, including all payments made to host-country public budgets.

If European regulators can agree on this requirement for all extractive-industry companies listed on their stock exchanges, this transparency norm will be applied to companies regardless of where their headquarters are located. Regulators must also stipulate that company reports be made available on a regular, timely basis and that they are easily accessible and comparable across countries and other extractive companies.

The United States has already passed legislation requiring public disclosure of payments to governments, through the 2010 Dodd-Frank law. That law's requirement that companies fully disclose their revenue streams by country and by project applies to 90 percent of international oil and gas companies and to eight of the 10 largest mining companies.

This will help citizens track how that money is used, but it will not help them assess whether their governments are collecting a fair share. If the European Union were to require companies to publish detailed information regarding production and operational numbers, financial and accounting balances and payments to authorities, companies would become truly accountable to citizens, and government revenues would be augmented.

Such regulatory reform is now under consideration by the European Commission. French support is imperative if the EU is to announce this month the necessary legislative moves to promote transparency. French Finance Minister Christine Lagarde recently highlighted the necessity of promoting "initiatives within industrial sectors that aim to enhance governance, integrity and transparency in economic transactions."

At its just-completed summit in Deauville, France, the G8 called for the first time for mandatory reporting by oil, gas and mining companies. This is an important advance, but, unfortunately, it is qualified by language that allows voluntary approaches as an alternative.

Now the world must look to the G20 summit in Cannes in November to make an unequivocal commitment to the reporting requirements needed, given that important emerging economies such as Brazil, India and China, as well as South Africa and other resource-rich African countries, will be at the table.

The importance of financial transparency in the extractive industries is not limited to one country or era, and it is too important to be left to voluntary efforts alone. Greater accountability and stronger governance for such companies could potentially change lives, economies and political systems around the world.

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