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Mining's golden rule: transparency

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The labour strife in South Africa's mines and the adoption of new disclosure rules for U.S. mining companies by the U.S. Securities and Exchange Commission have cast renewed light on a global industry that affects the Canadian economy.

Every year, Canadian mining operations generate billions of dollars of revenue overseas. In fact, Canadian companies are some of the most globally active. More than 1,000 Canadian exploration companies work in more than 100 countries, from Mongolia to Peru to Tanzania. Canada's mining investments in Africa alone have grown from $2.8-billion in 2001 to $30-billion in 2012.

The taxes and royalties that Canadian companies pay to countries that play host to them have the potential to transform economies. As we've seen in resource-rich countries such as Botswana, Chile and Malaysia, natural resource revenues paid to governments can be invested in roads, health care and education as well as business development and social services, leading to massive reductions in poverty. What's more, Canadian operations can spur local economic development by creating jobs and financing community projects.

Yet, too often, these revenues are either not collected or not transformed into tangible benefits, leaving countries with more violent conflict and weaker growth than expected. In many instances, environmental destruction and loss of livelihoods, coupled with inadequate compensation, have left regions worse off than before.

And communities' expectations, sometimes driven by prospectors' and developers' false promises of prosperity, are often unmet. This problem is sometimes referred to as the "paradox of plenty" or the "resource curse." In fact, countries considered to be "rich" in non-renewable natural resources are home to 1.5 billion people living on less than $2 a day.

One key reason for this failure to turn domestic resources into well-being is the lack of transparency surrounding payments and other benefits. In many countries, monitoring of mining, oil revenues and contracts is nearly impossible because these flows and agreements are secret. Citizens don't know how much is owed to their governments, how much is collected or what the local effects of extraction should be. In many cases, this gap has resulted in the mismanagement, loss and outright theft of the resource revenues critically necessary for development.

In one 2009 audit conducted through the Extractive Industries Transparency Initiative, a voluntary global transparency standard, $560-million (U.S.) in tax and royalty payments due from oil companies was discovered missing from public coffers in Nigeria. This money would have covered tuition fees, uniforms and books for more than four million primary students. In today's era of shrinking foreign-aid budgets, it's even more imperative that these huge sources of domestic revenue are transformed into public investments.

Just last month, the U.S. Securities and Exchange Commission approved rules that require U.S. publicly listed oil, gas and mining companies to disclose payments they make to governments on a country-by-country and project-by-project basis. These rules have the potential to shine a light on the often secretive relationship between oil and mining companies and governments. Europe intends to pass similar legislation early next year.

Africa, the continent where mining activities have most intensified in the past decade and where the quality of governance is often suspect, has the most to gain from these new regulatory requirements. Mining communities especially will benefit, as they will have increased access to the details of how much was paid, to whom and by which companies.

Canada urgently needs to join in global collective action on extractive industry transparency. The Canadian government faces a key opportunity to position itself in a leadership role, by using investments in extractives to support equitable economic development, cleaner governance of the sector, greater transparency and environmental stewardship. With Canada's largest mining, oil and gas companies set to be affected in 2013 by the U.S. rules, it's time to level the playing field and introduce similar standards in Canada.

Already, the Mining Association of Canada and the Prospectors and Developers Association of Canada have come out in support of mandatory disclosure of payments to governments in Canada and abroad. The government's announcement to create the Canadian International Institute for Extractive Industries and Development also appears to signal a welcome move in that direction.

Canadian companies should become leaders in local economic development. They should take environmental and social impact assessments seriously and negotiate impact and benefit agreements that truly benefit local communities. Just because a Canadian company is operating abroad should not give it licence to hold itself to lower disclosure, human rights or environmental standards than it would in Canada.

Continuing to seek short-term competitive advantages by failing to integrate such considerations into national and corporate strategies will only diminish Canada's long-term competitive prospects in the sector. And it certainly won't contribute to responsible economic development in Africa.

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