

**9th Plenary Meeting of the Policy Dialogue on  
Natural Resource-Based Development**

**Evidence and mitigation  
measures for corruption in the  
trading of oil and minerals**

**31<sup>st</sup> January 2018  
Olivier Longchamp**

**Public Eye**

# Overview of presentation

- 1) why trading matters?**
- 2) frequent corruption schemes**
- 3) mitigation measures**

**Public Eye**

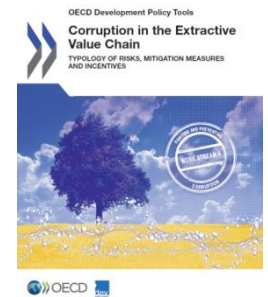
Evidence and mitigation measures for corruption in the trading of oil and minerals

# 1) why trading matters?

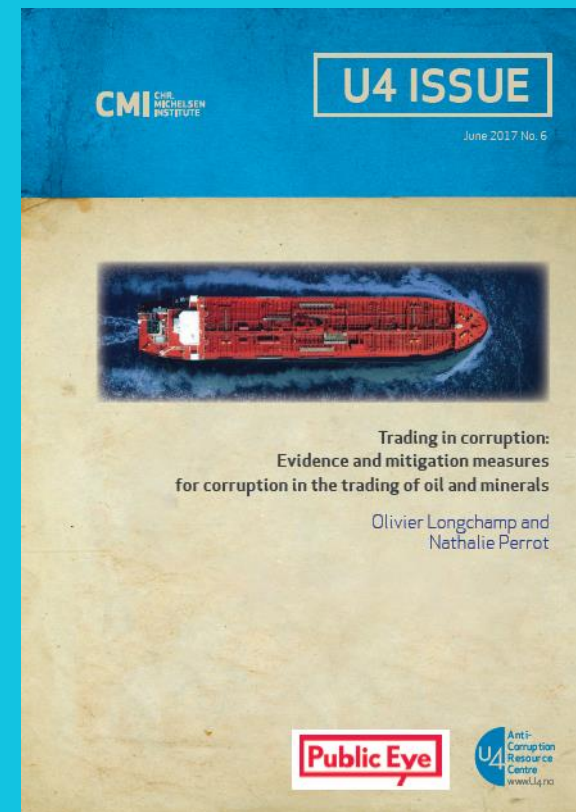
# Why trading matters?

- a) Sums at stake are high
- b) Interaction with State's agents are frequent, corruption risks are high, especially in «first sales» operations.
- c) Trading activities (and actors) are often secretive
- d) Preventive measures are almost non existent

Evidence of corrupt practices are there.



# 2) corruption schemes



(June 2017)

# Caveat:

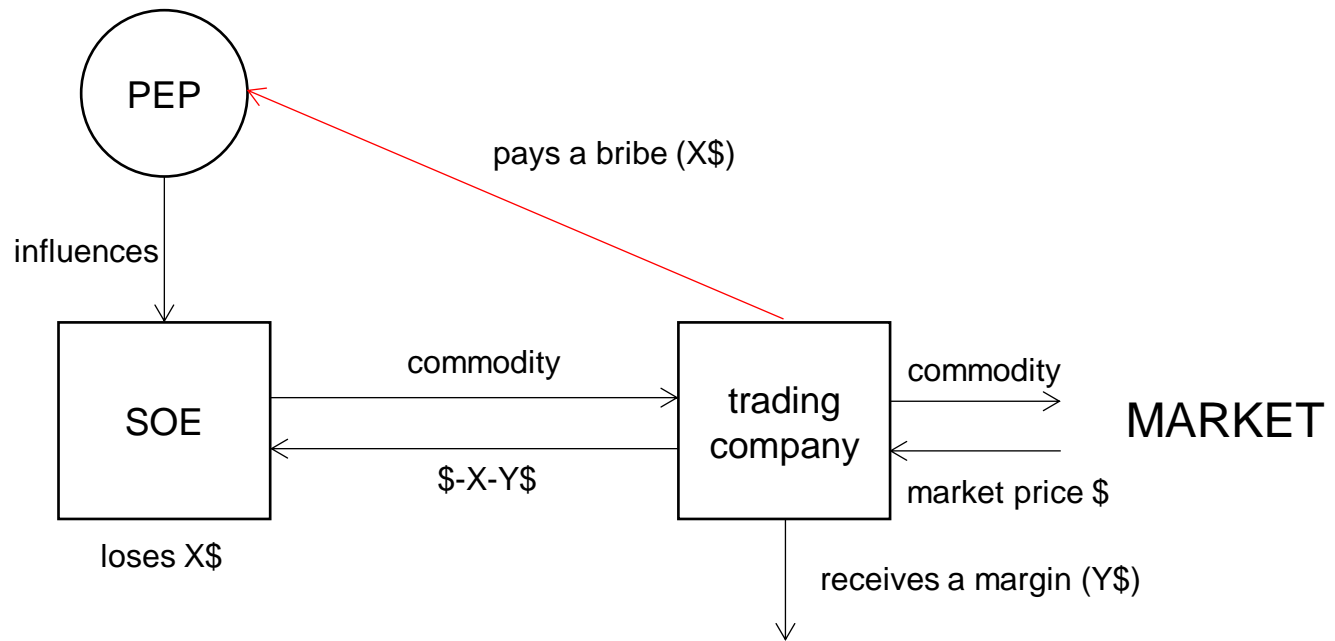
We use the word “corruption” in a broad sense, taking Transparency International’s definition as the “abuse of entrusted power for private gain.”

This definition aims to capture a wide range of illegitimate practices that mean an individual (or individuals) can grab extractive revenues for its (their) own private use.

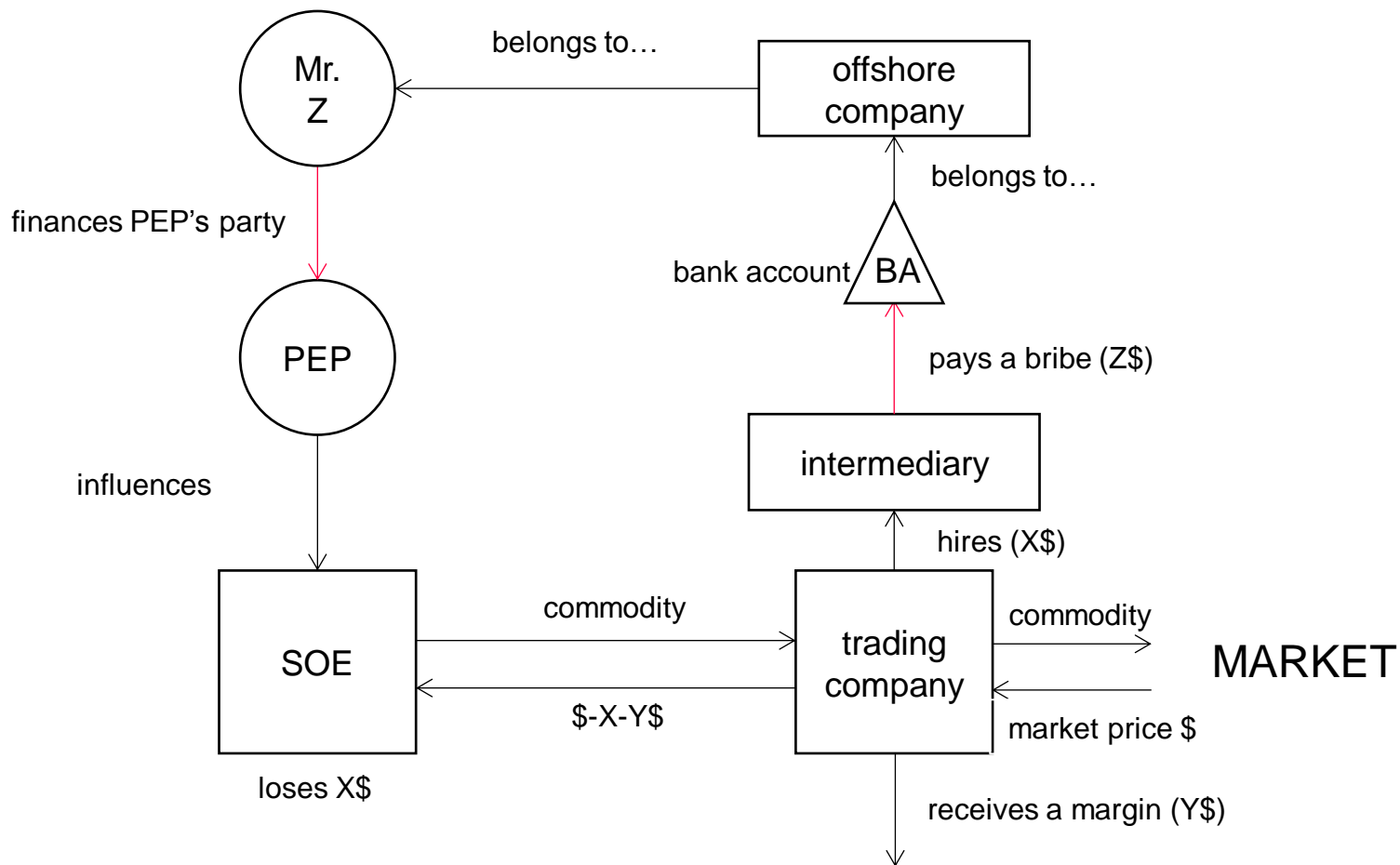
This definition goes beyond the paying of bribes. It also covers practices such as (for instance) embezzlement, influence peddling, favoritism or illegal financing of political parties.

The definition we employ deliberately goes beyond definitions used in many national anti-corruption laws. Some of the practices documented below might therefore not be illegal in specific national contexts, nor breach international conventions.

## a) Bribery – a simplified case

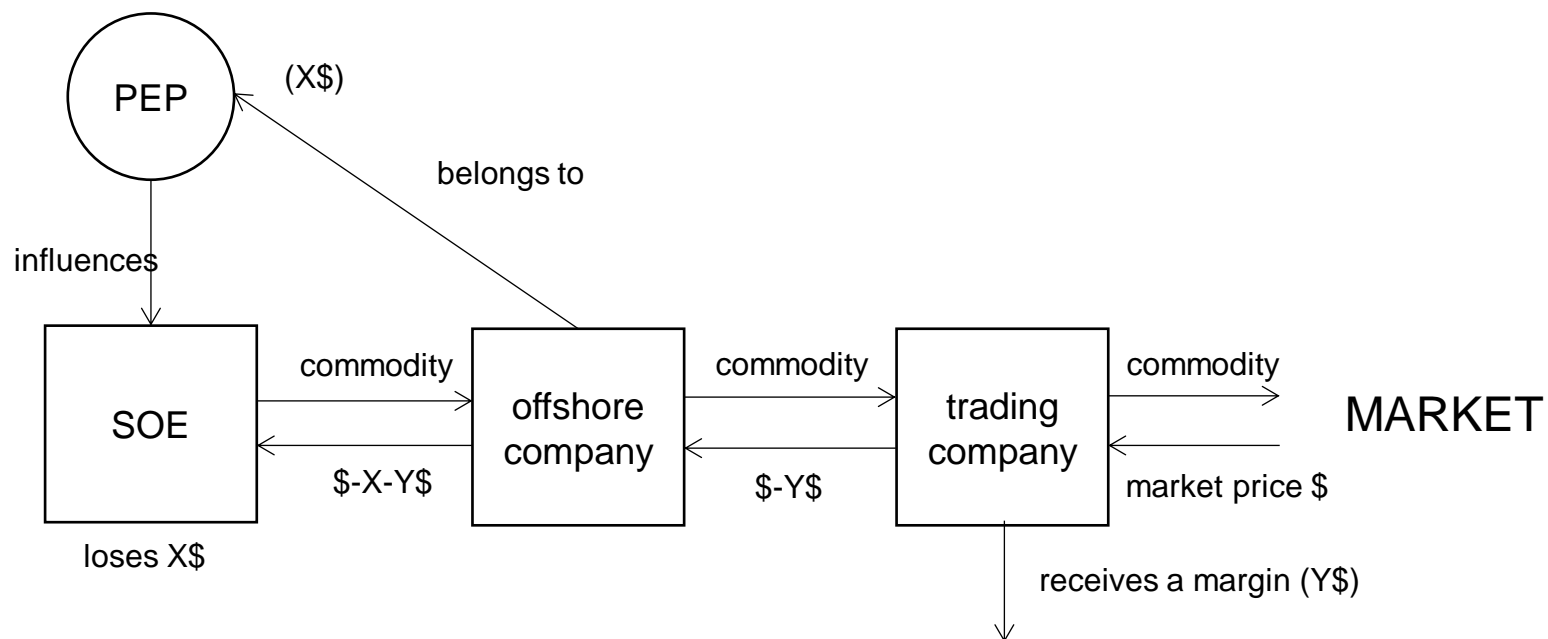


## a) Bribery – a real life example would look more like that...

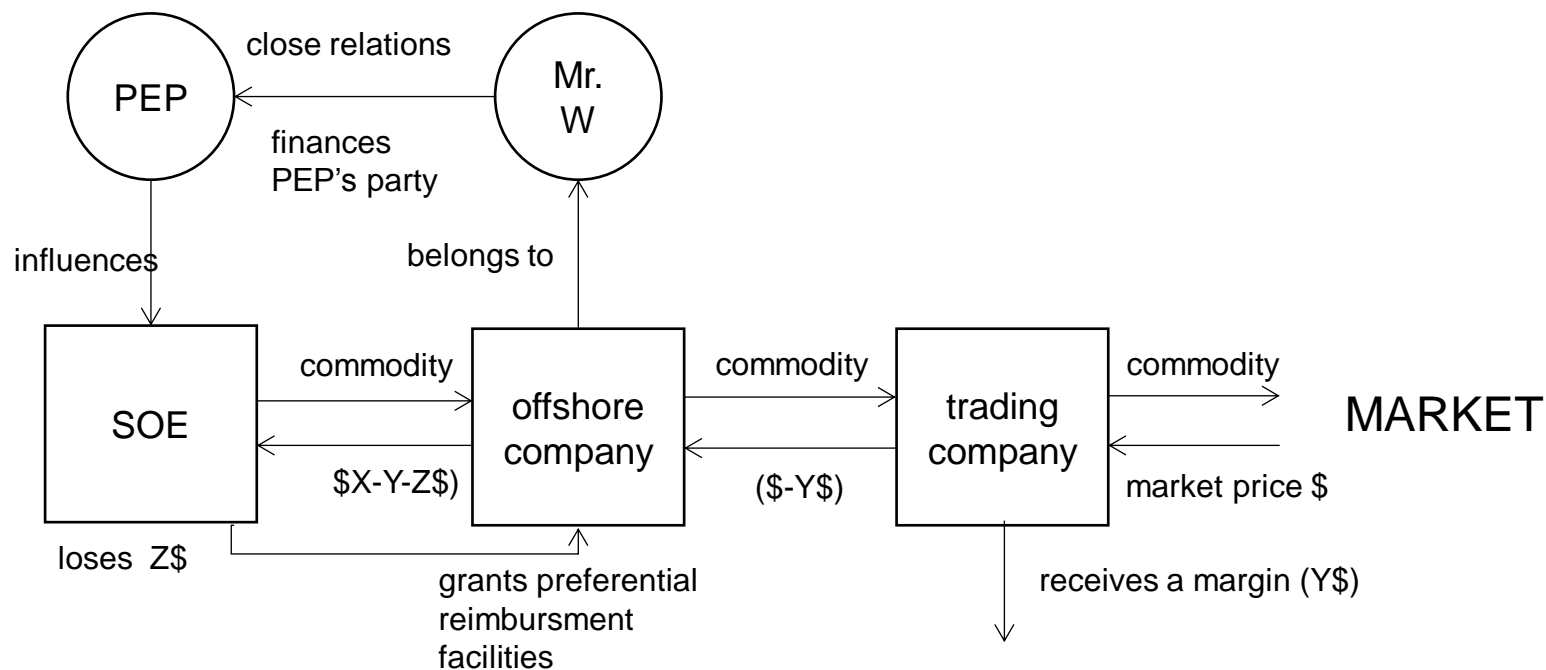




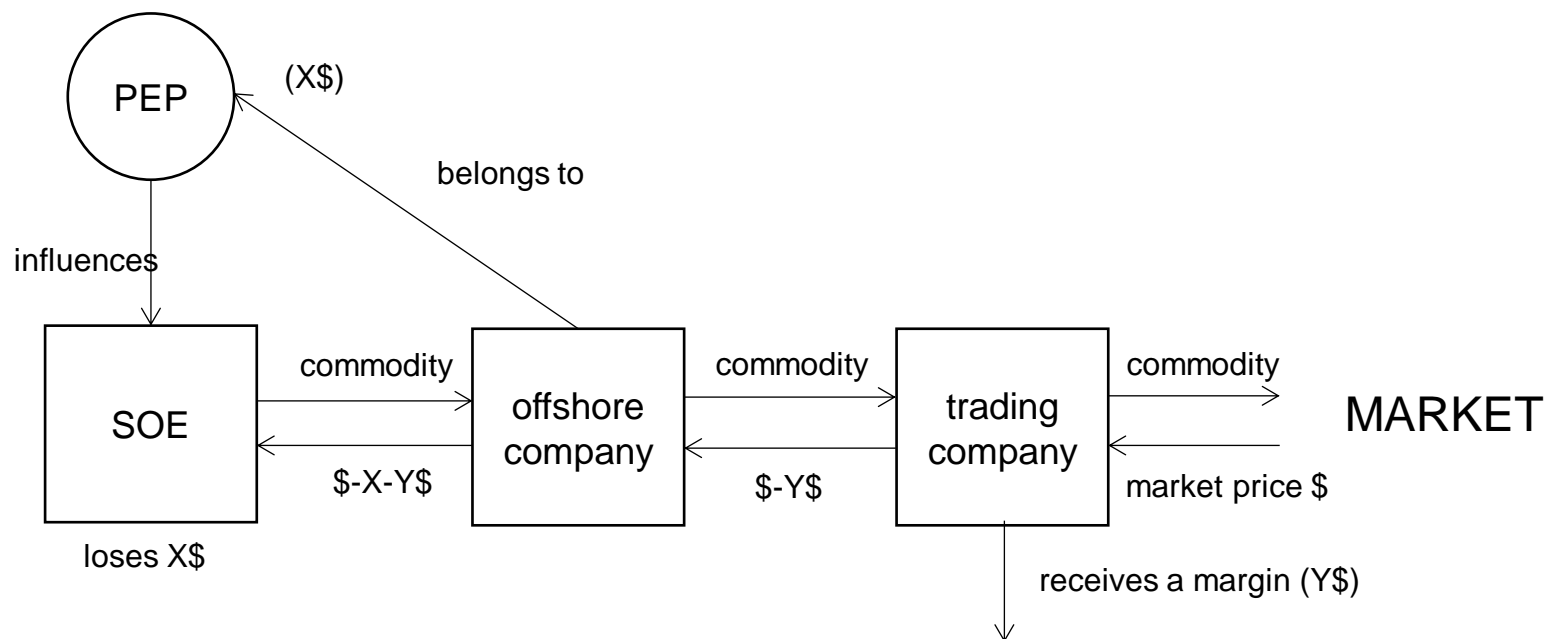
## b) Case with intermediaries as first buyers – simplified



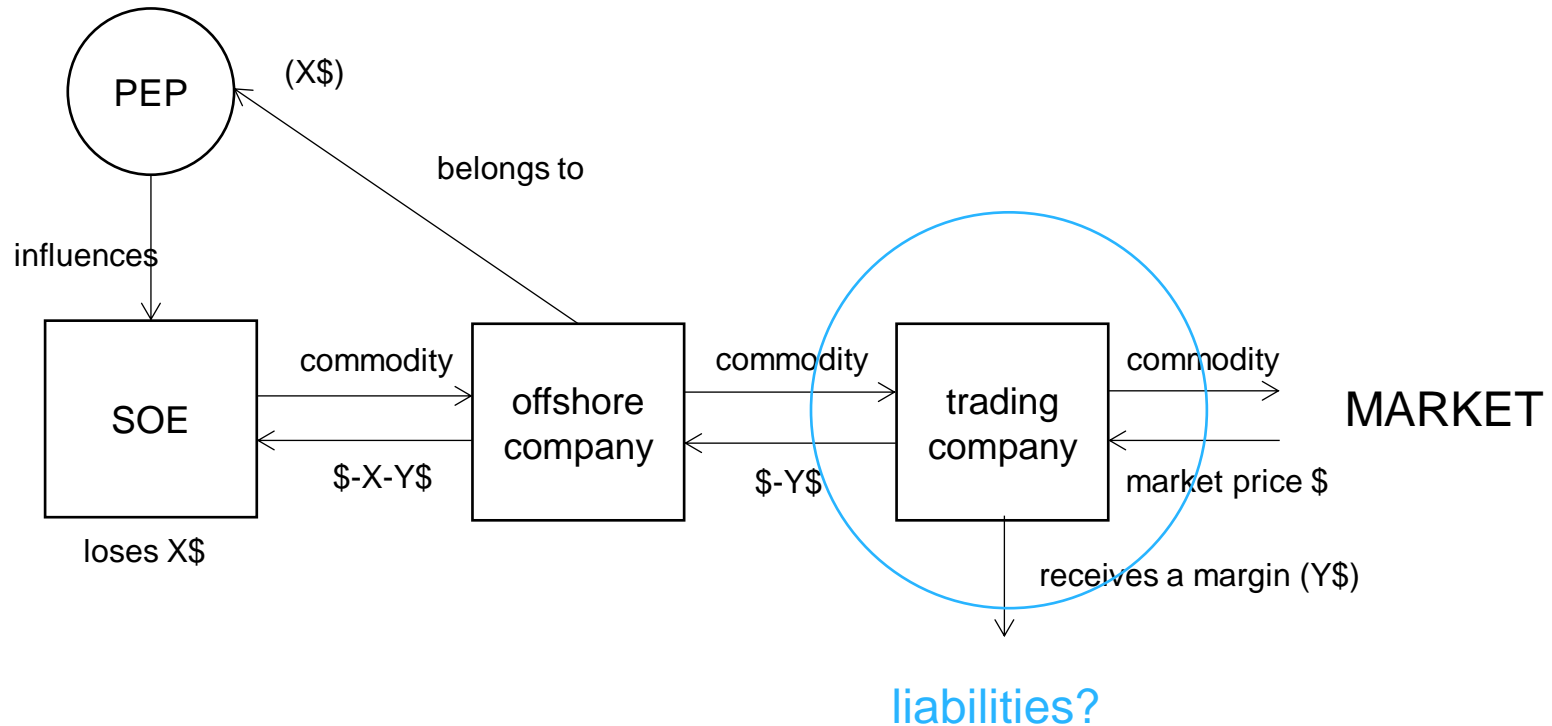
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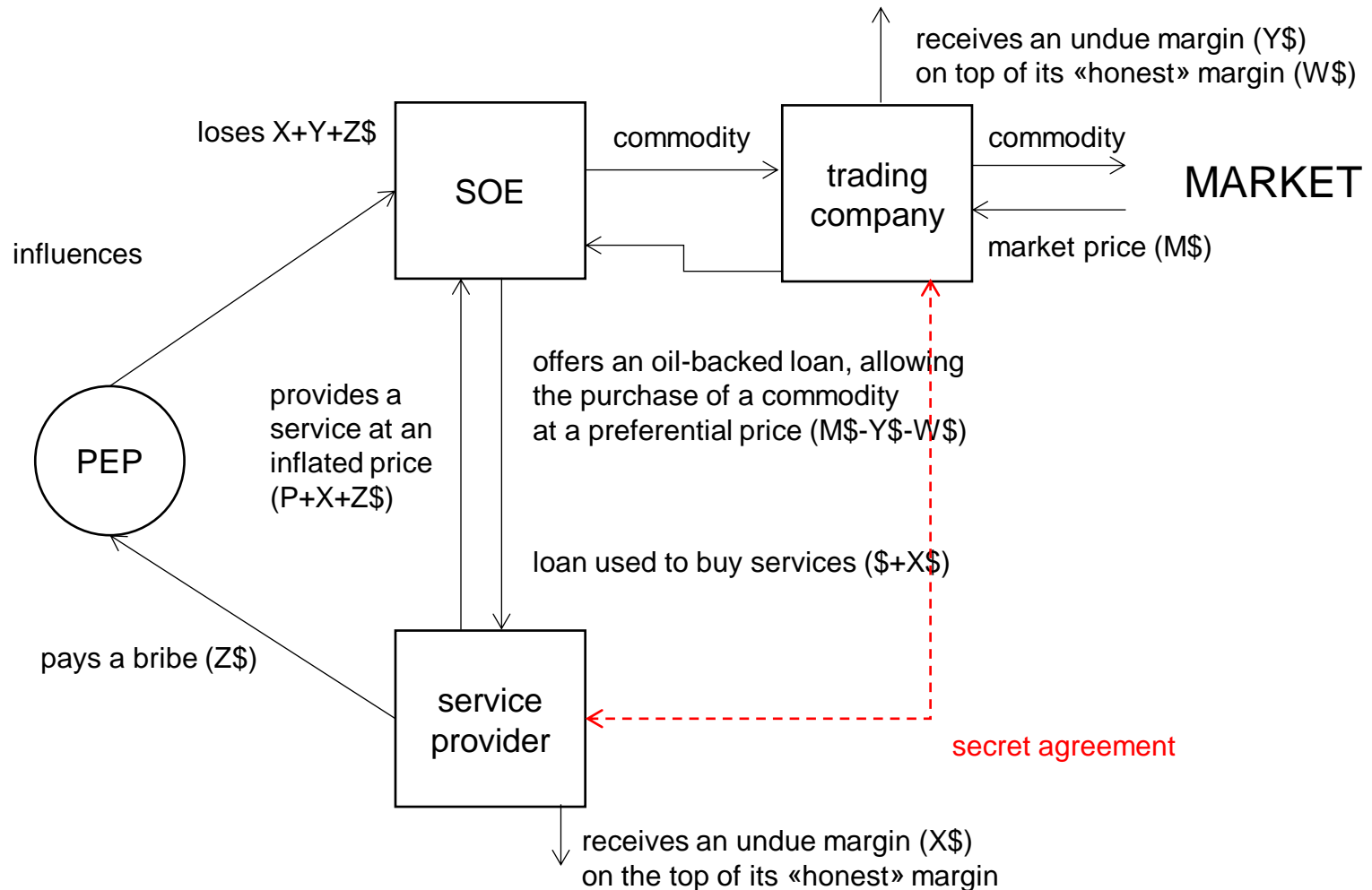
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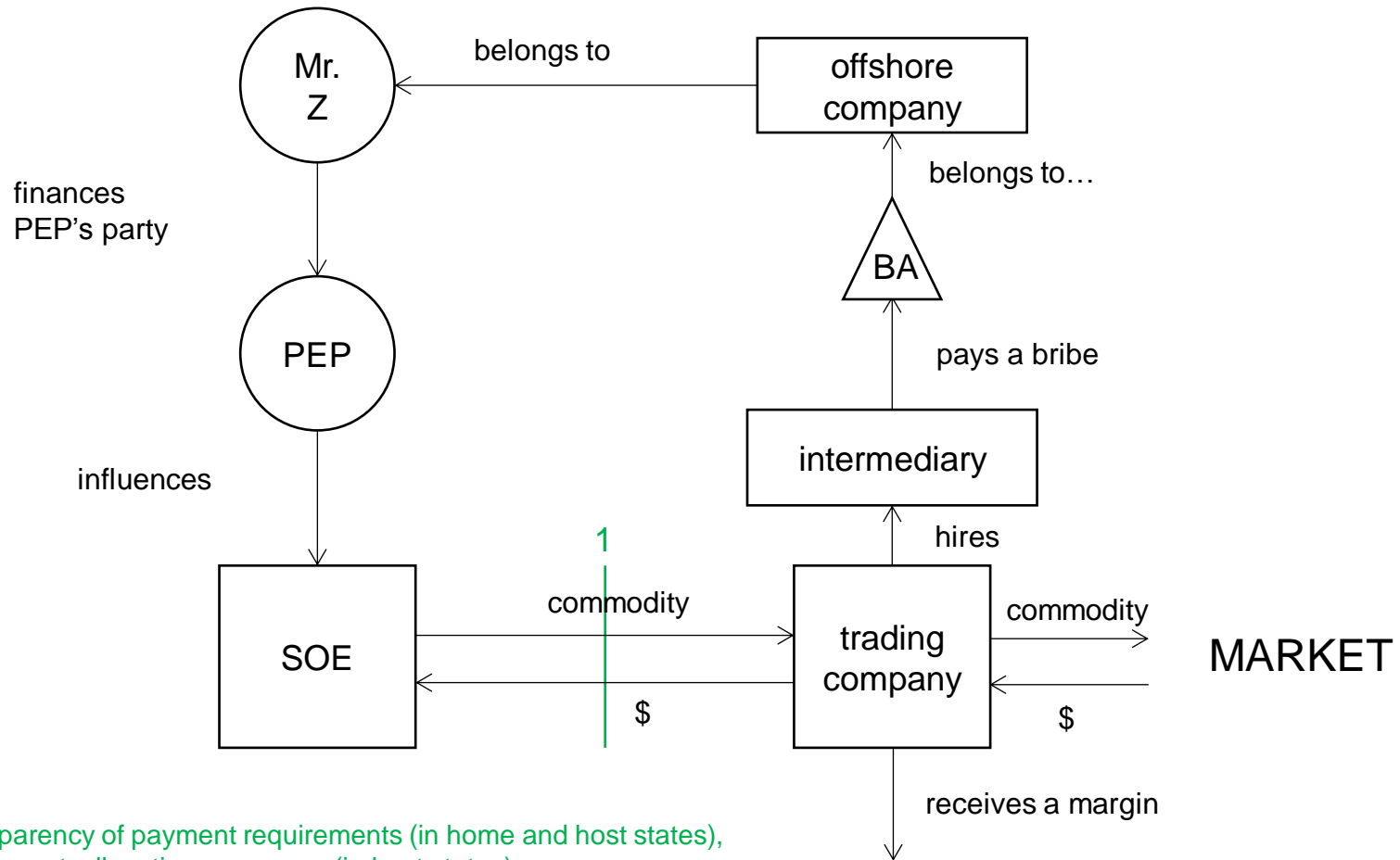


### c) Case with third parties – simplified



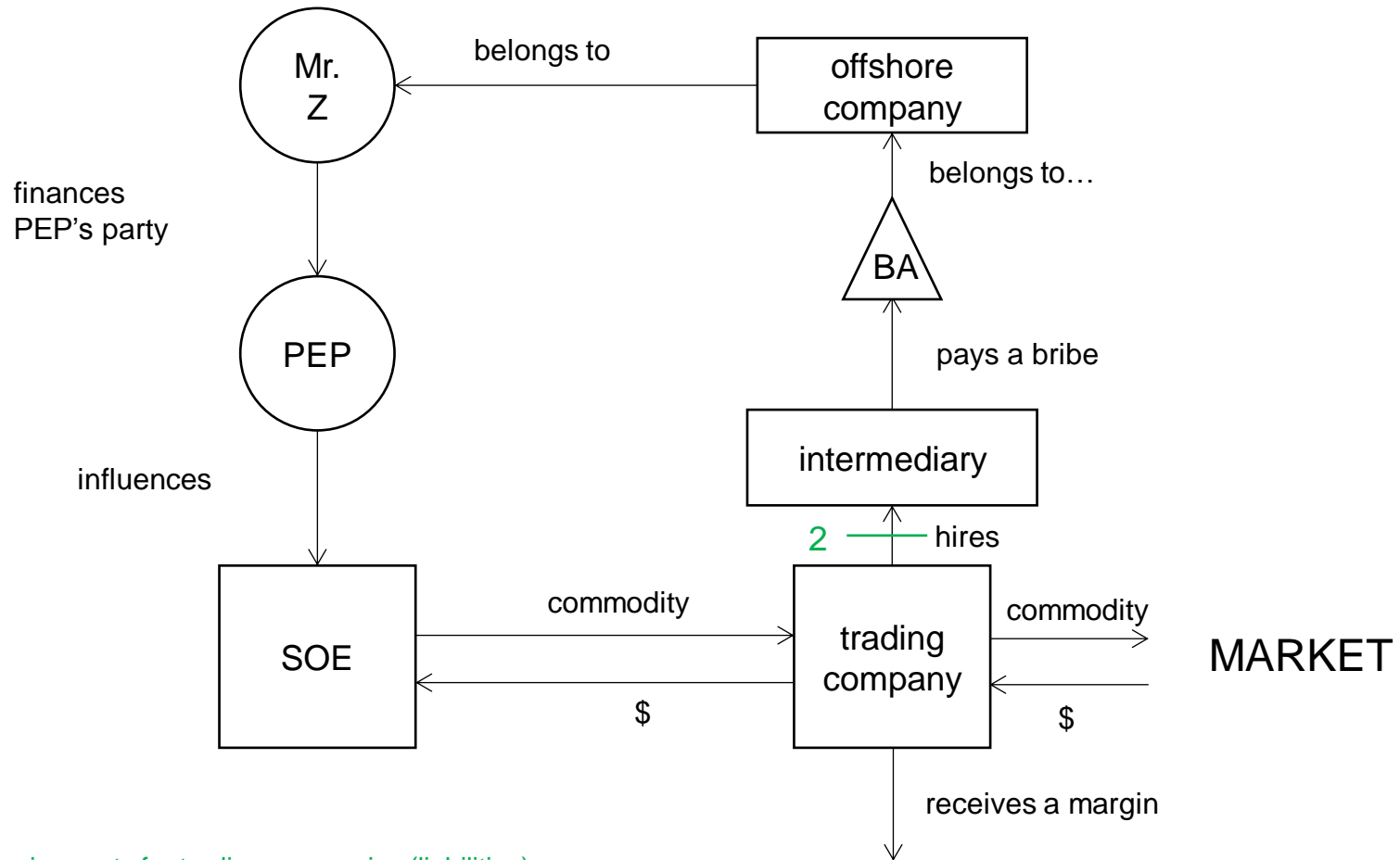
# 3) mitigation measures

## a) Bribery – potential mitigation measures



- 1) Transparency of payment requirements (in home and host states), transparent allocation processes (in host states)

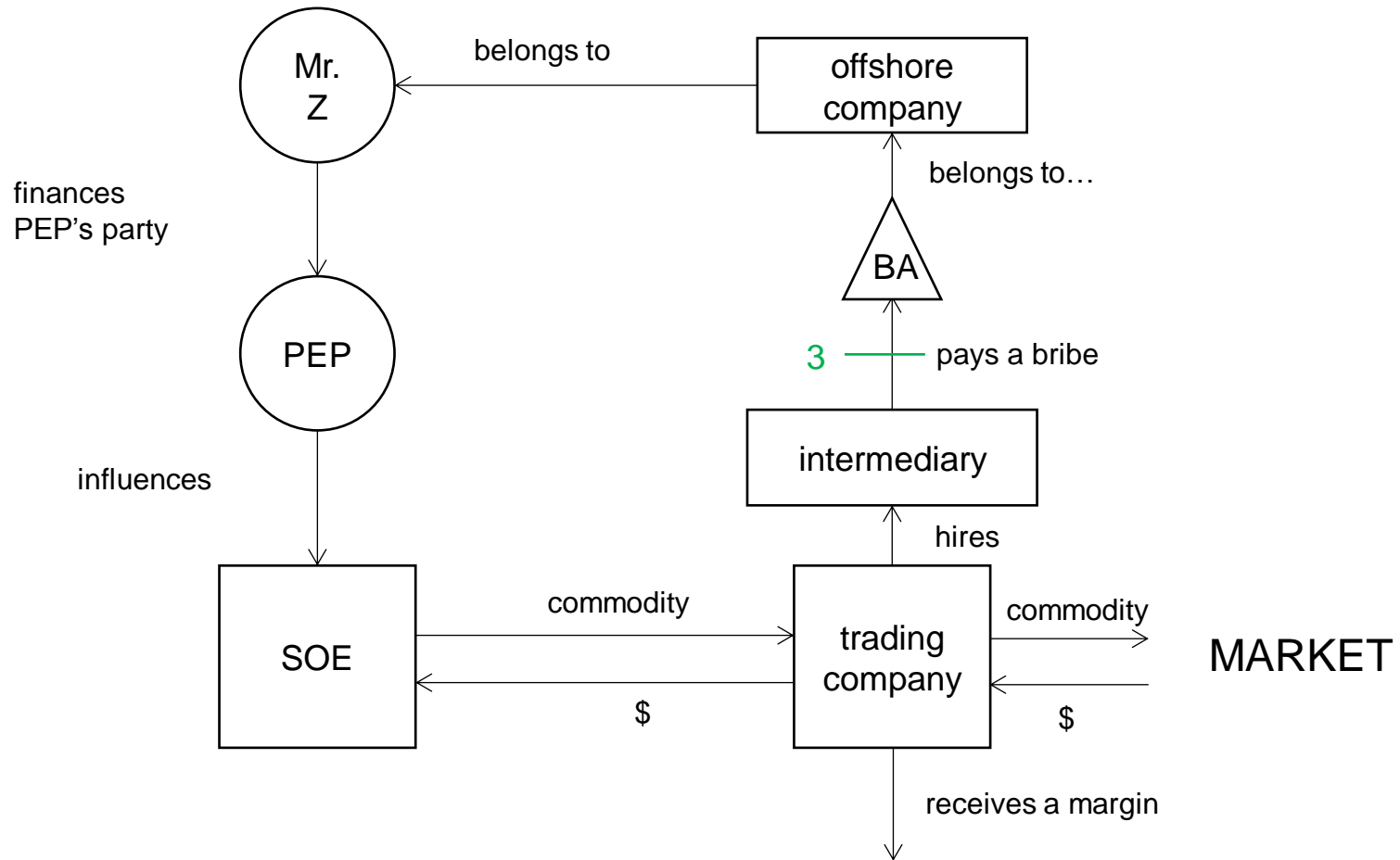
## a) Bribery – potential mitigation measures



### 2) DD requirements for trading companies (liabilities)

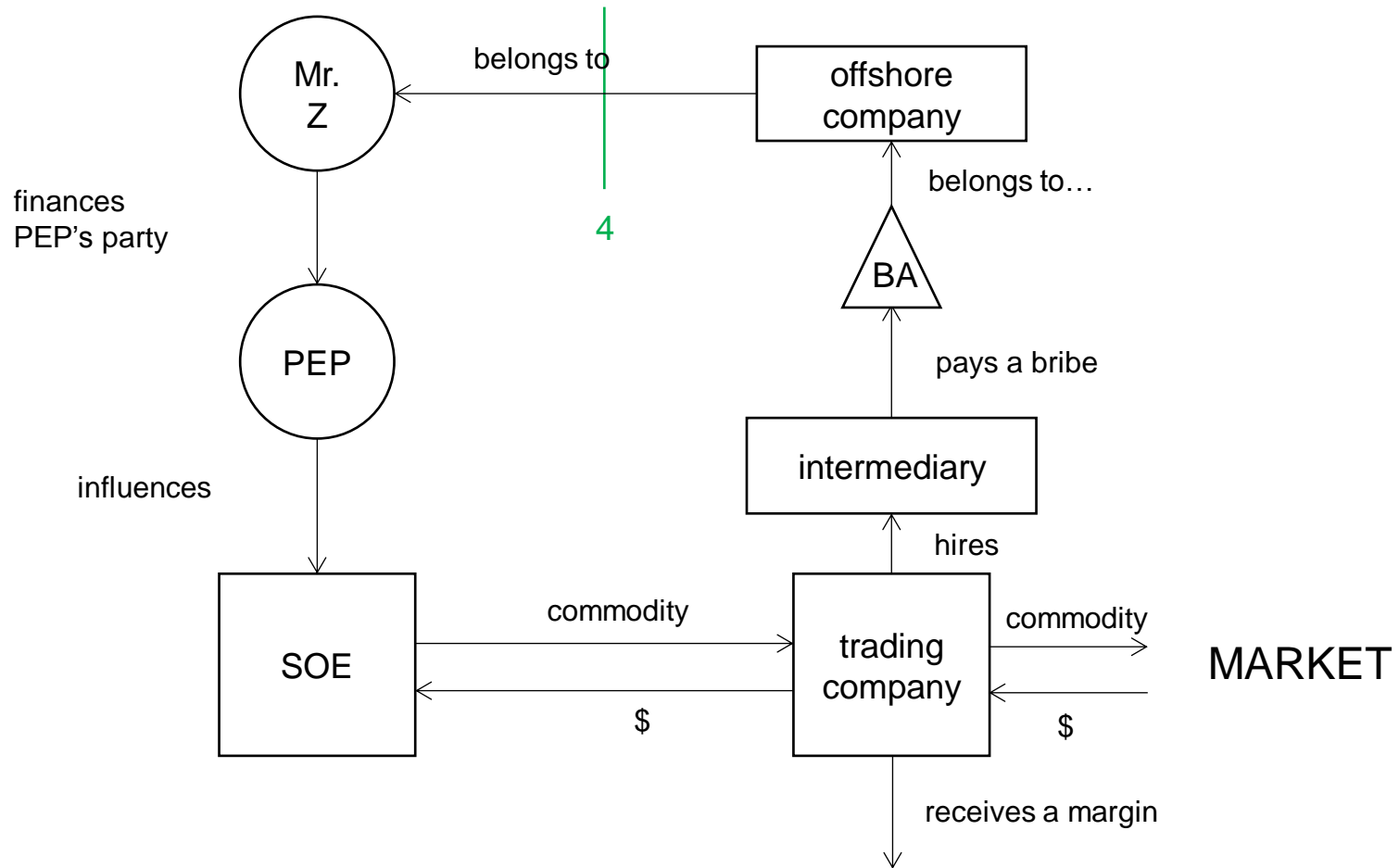


## a) Bribery – potential mitigation measures



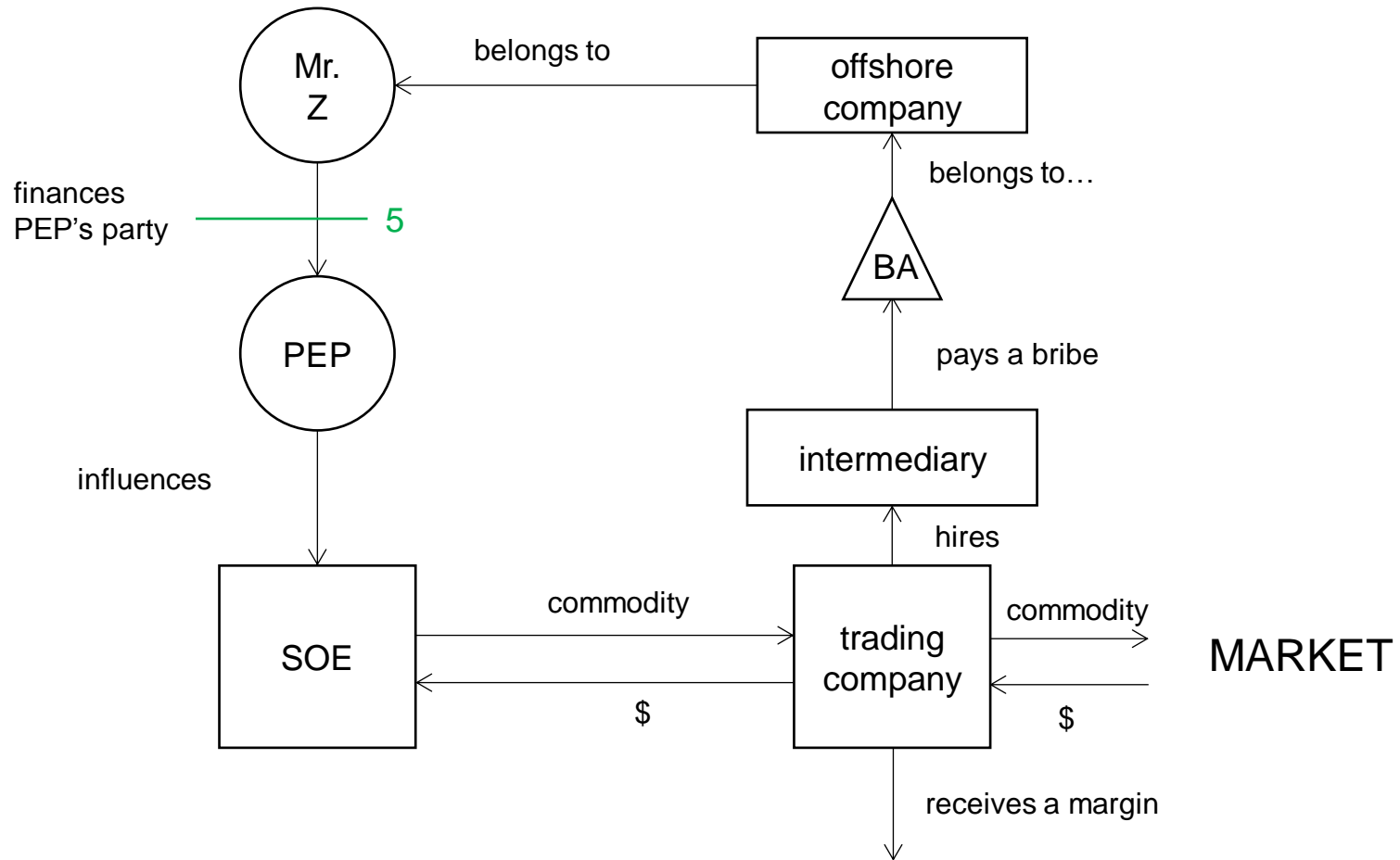
- 3) Anti-corruption and anti-money laundering laws (in host states of bank) – effective prosecution of bribery

## a) Bribery – potential mitigation measures



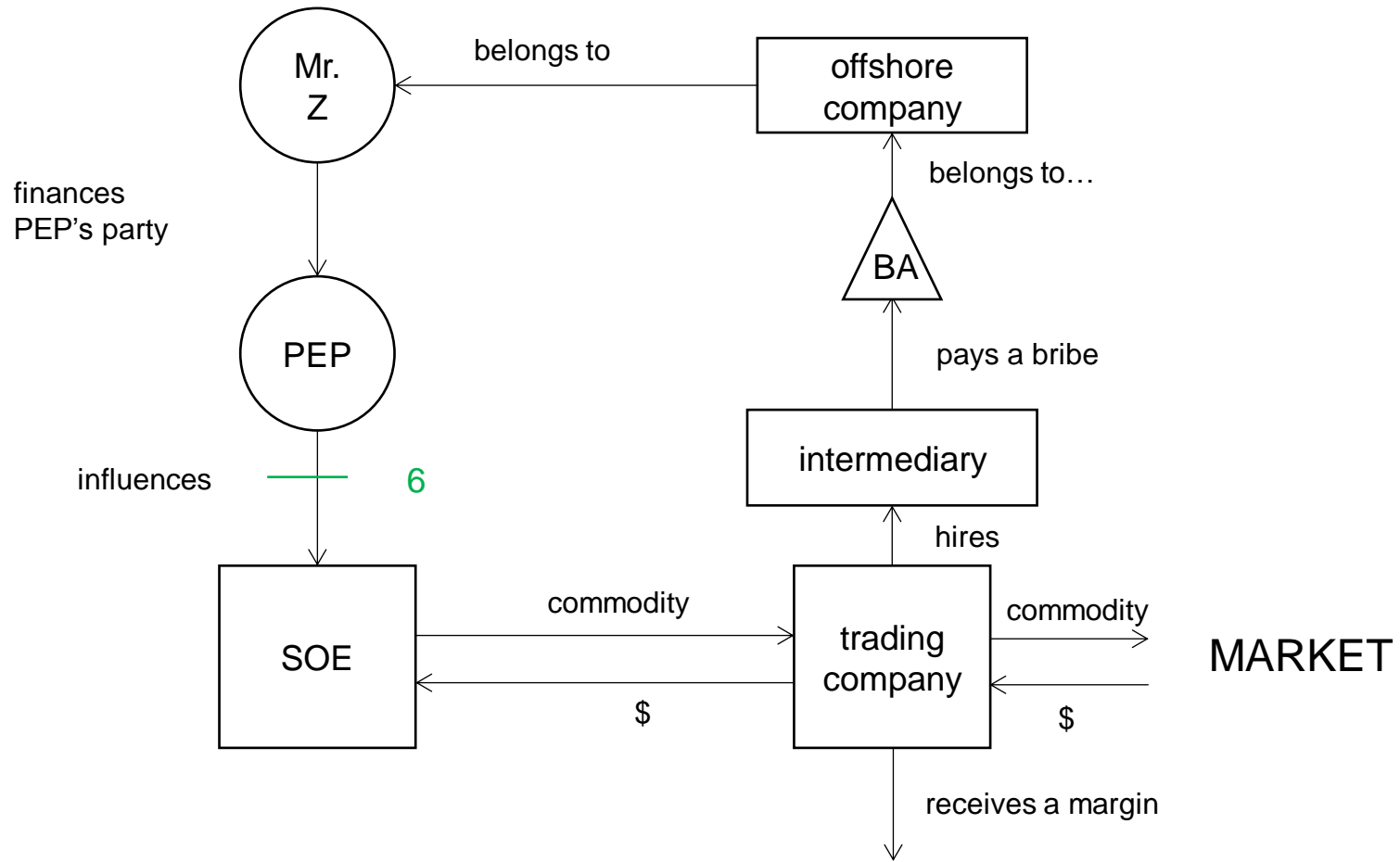
### 4) Beneficial ownership access (in host states of offshore companies)

## a) Bribery – potential mitigation measures



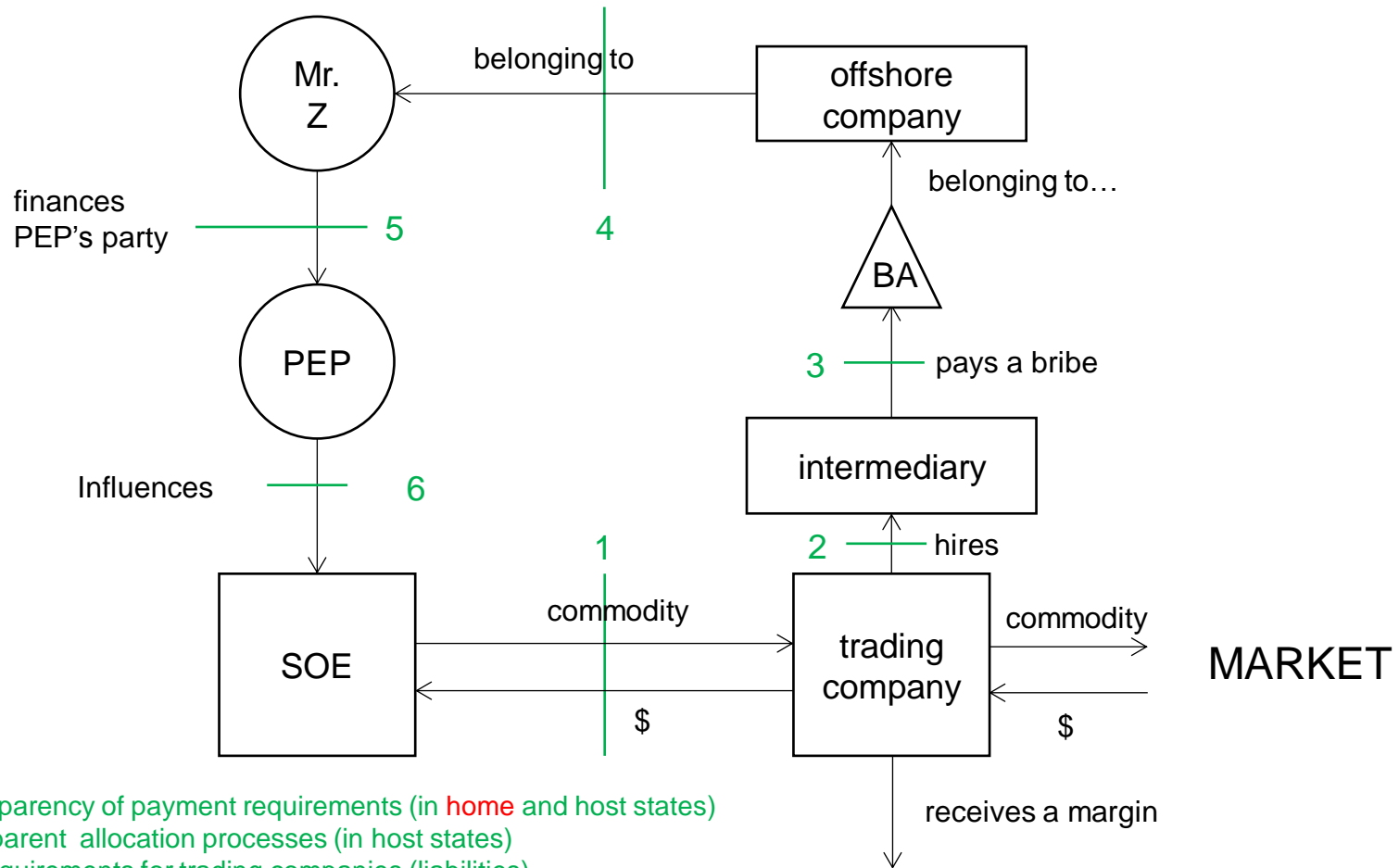
### 5) Adequate laws on financing of political parties in the country of origin

## a) Bribery – potential mitigation measures



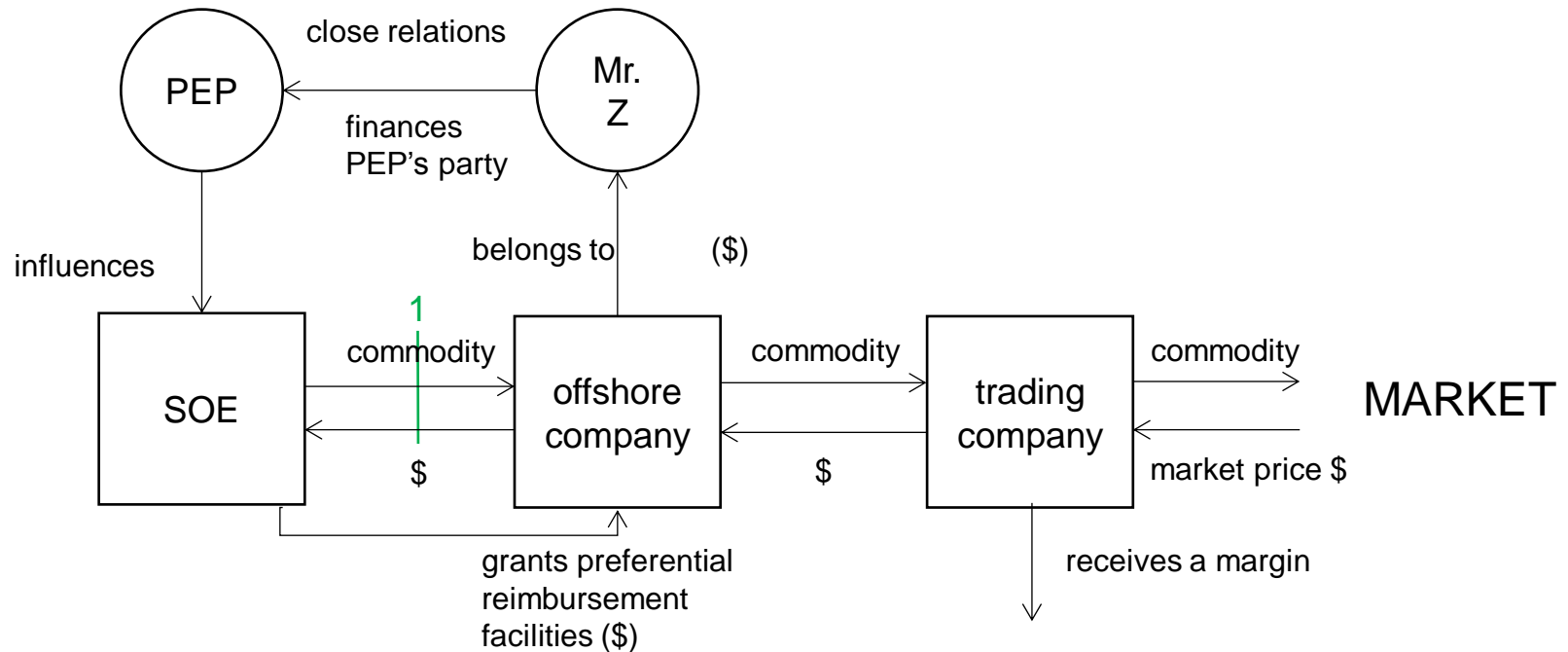
### 6) SOE's governance requirements and oversight

## a) Bribery – potential mitigation measures



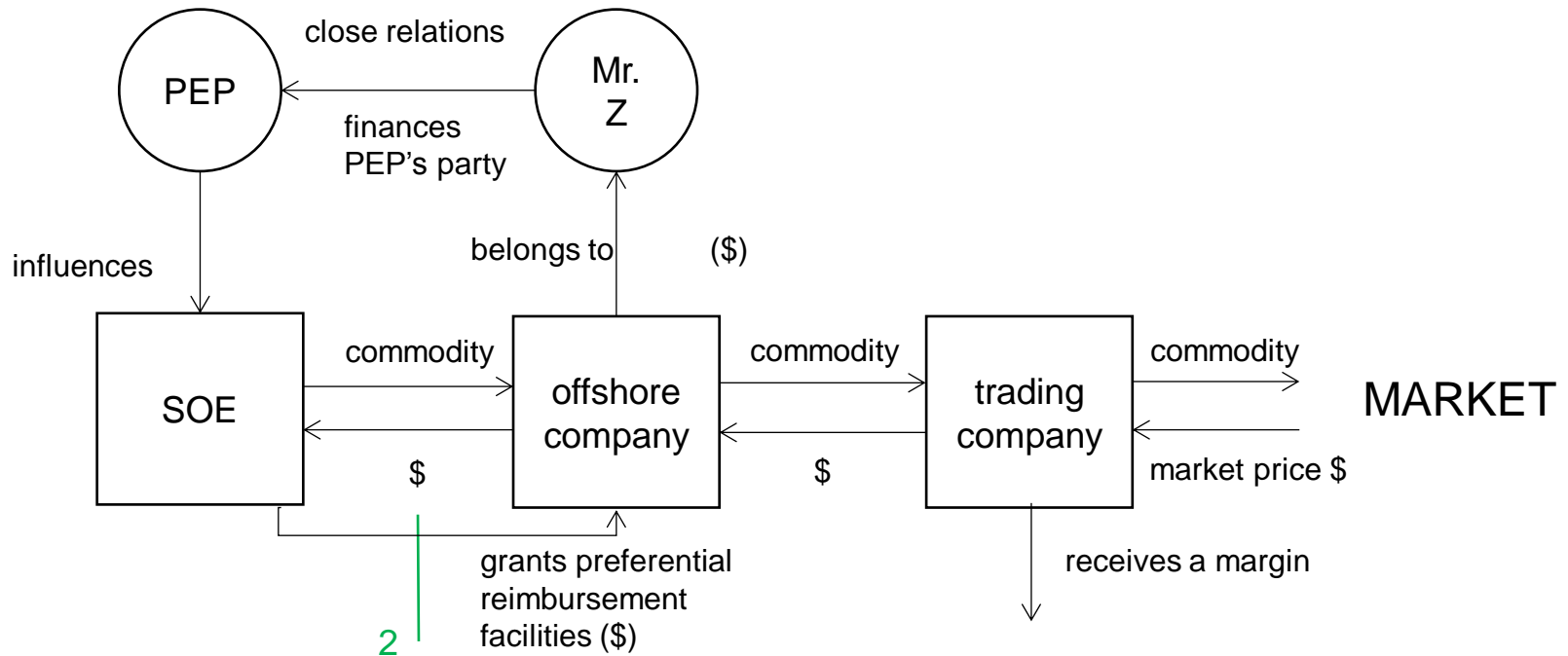
- 1) Transparency of payment requirements (in home and host states)  
transparent allocation processes (in host states)
- 2) DD requirements for trading companies (liabilities)
- 3) Anti-corruption and anti-money laundering laws (in host states of bank) – effective prosecution of bribery
- 4) Beneficial ownership access (in host states of offshore companies)
- 5) Adequate laws on financing of political parties in the country of origin
- 6) SOE's governance requirements and oversight

## b) Case with intermediaries as first buyers – potential remedies



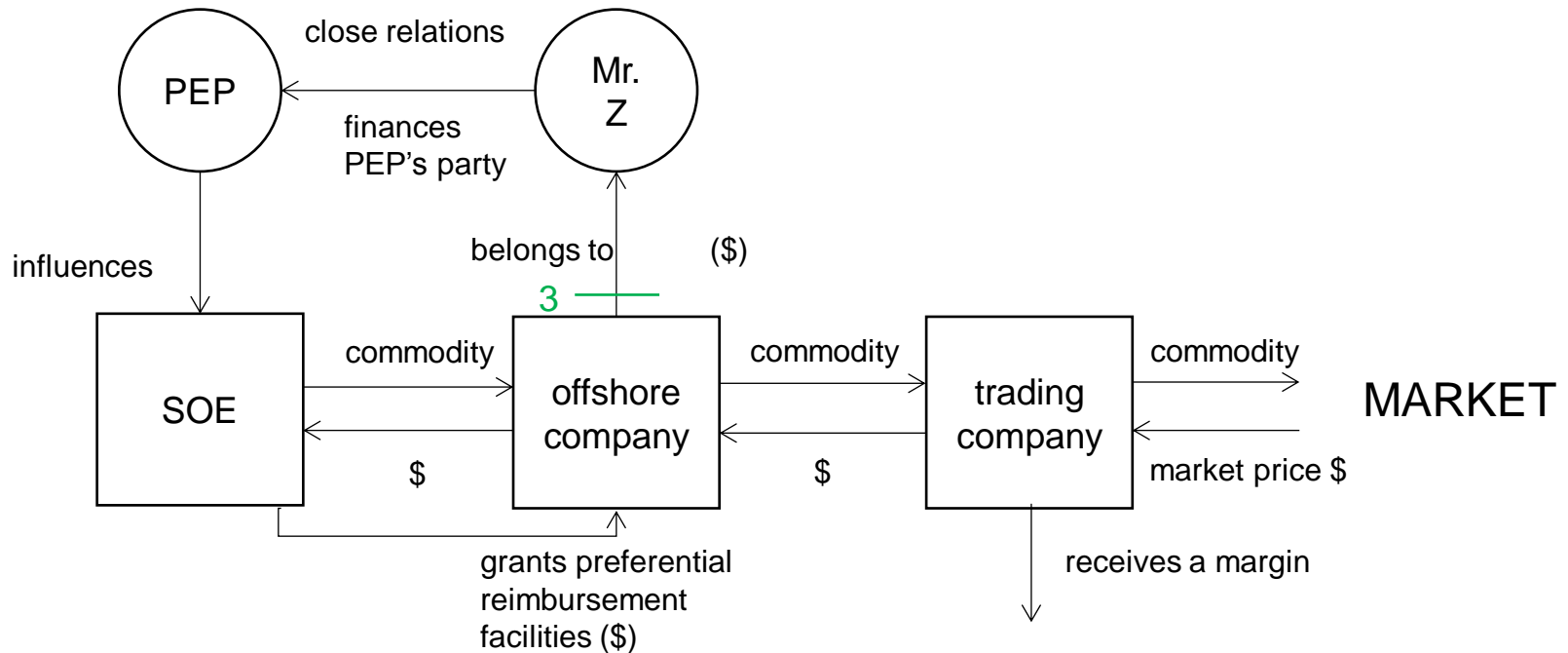
- 1) Transparency of payment requirements (in home and host states) – transparent allocation processes (in host states)

## b) Case with intermediaries as first buyers – potential remedies



### 2) Transparency of contract requirements (in home and host states)

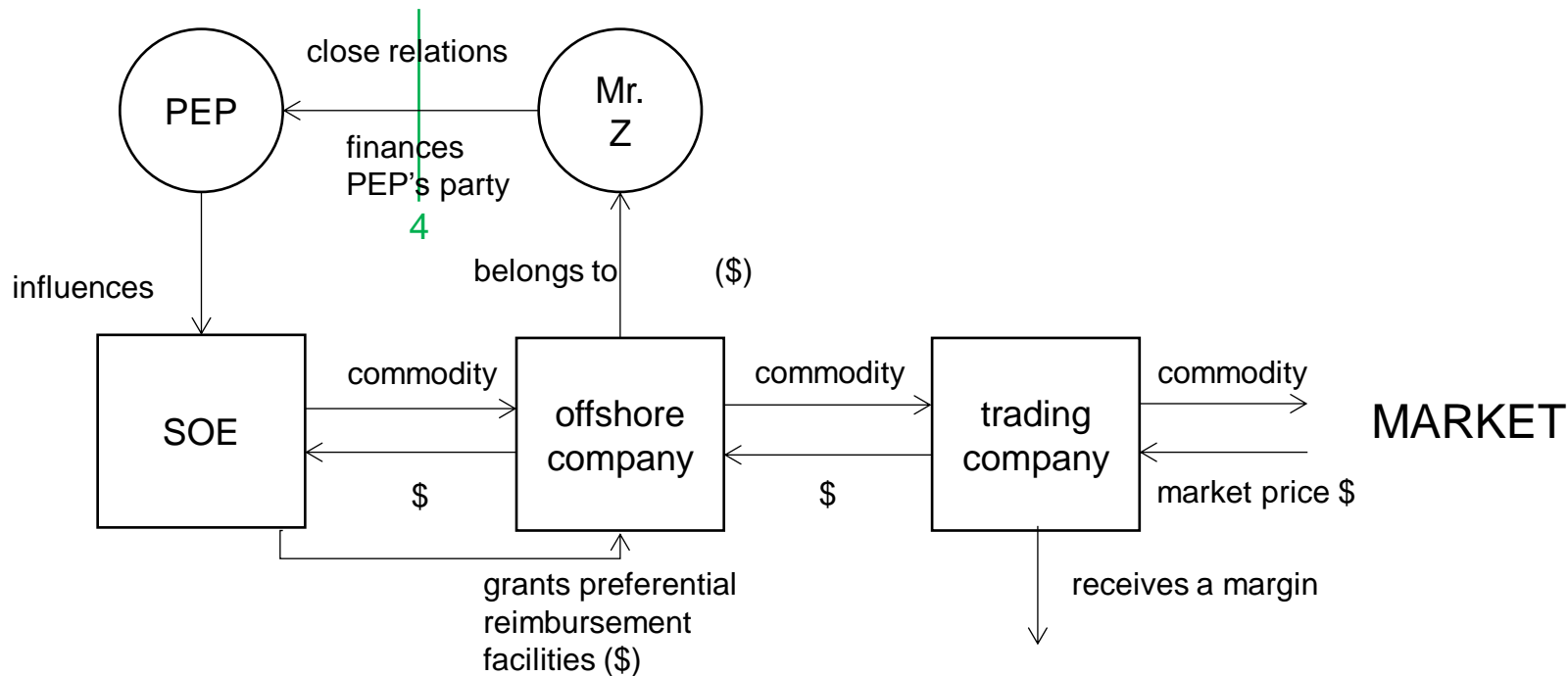
## b) Case with intermediaries as first buyers – potential remedies



- 3) Beneficial ownership access (in home states of offshore companies) and BO disclosure requirements in host states

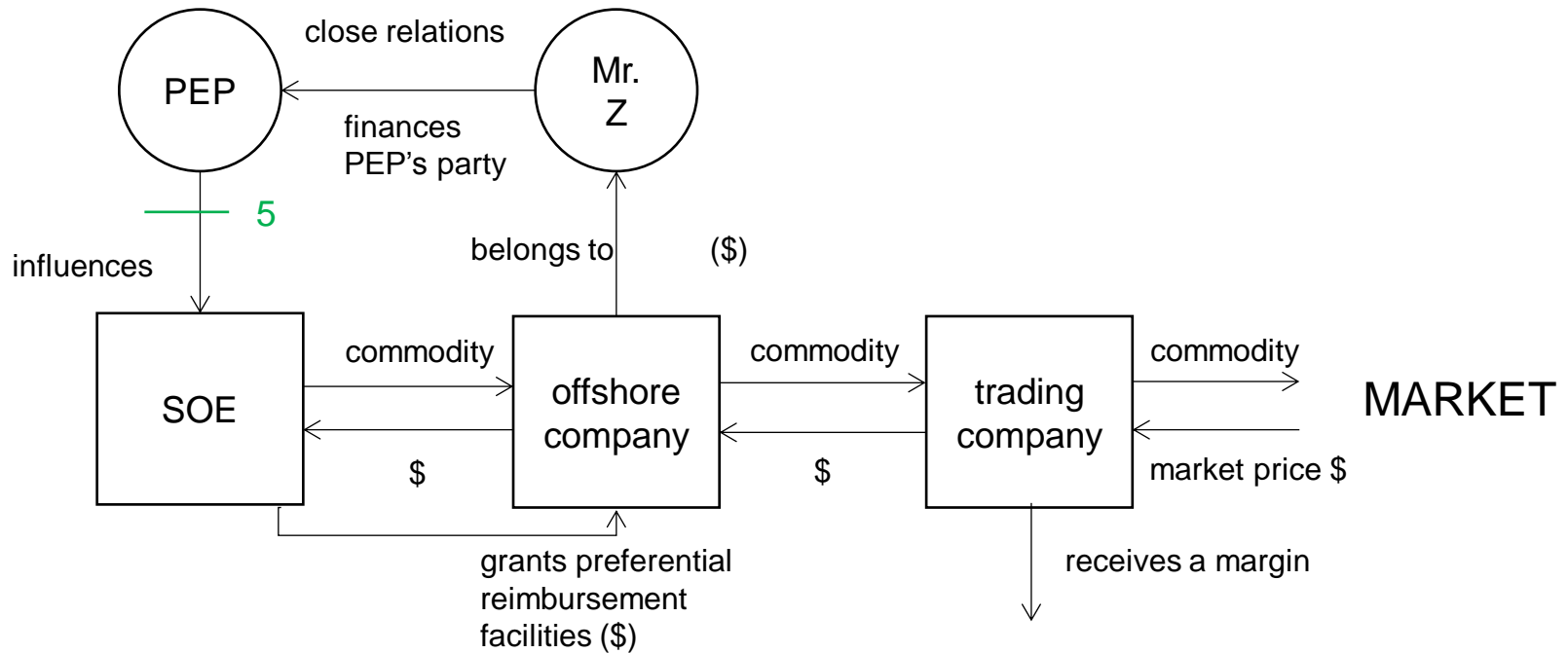


## b) Case with intermediaries as first buyers – potential remedies



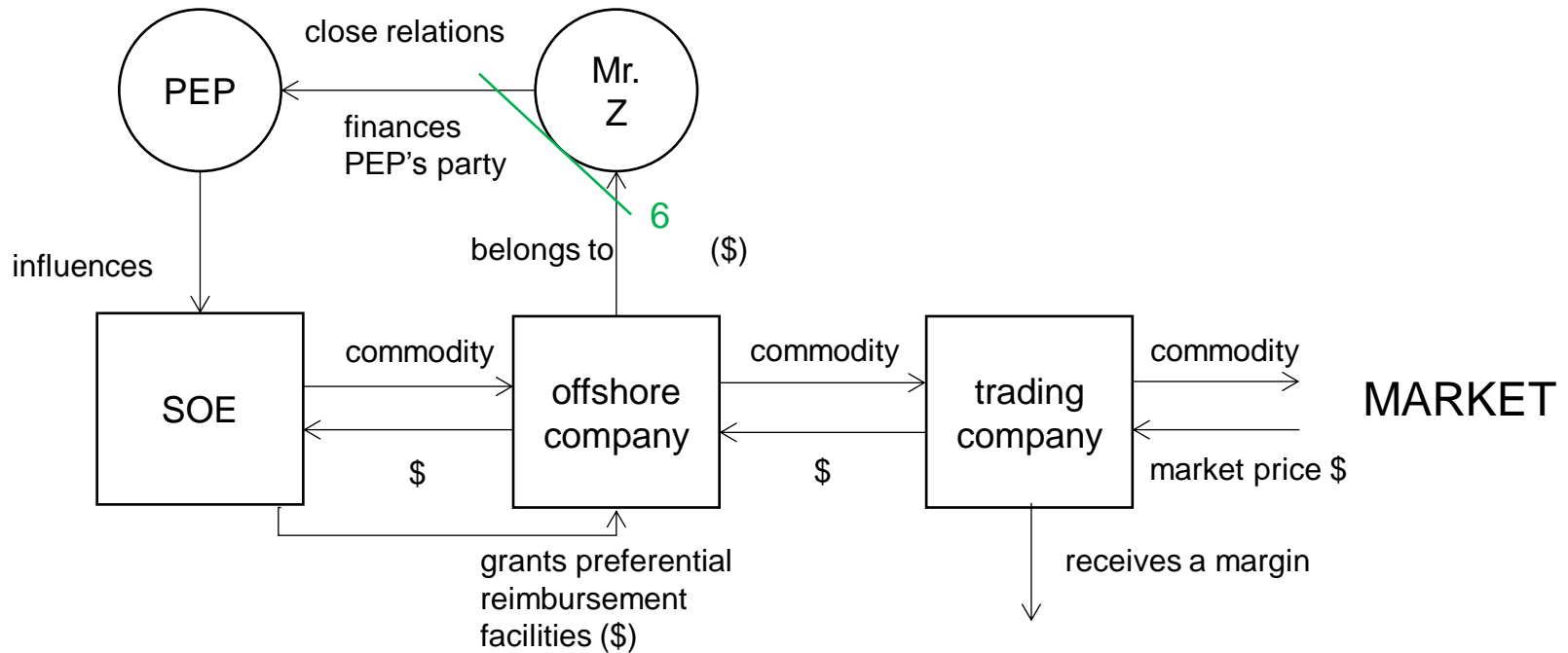
### 4) Adequate laws on financing of political parties

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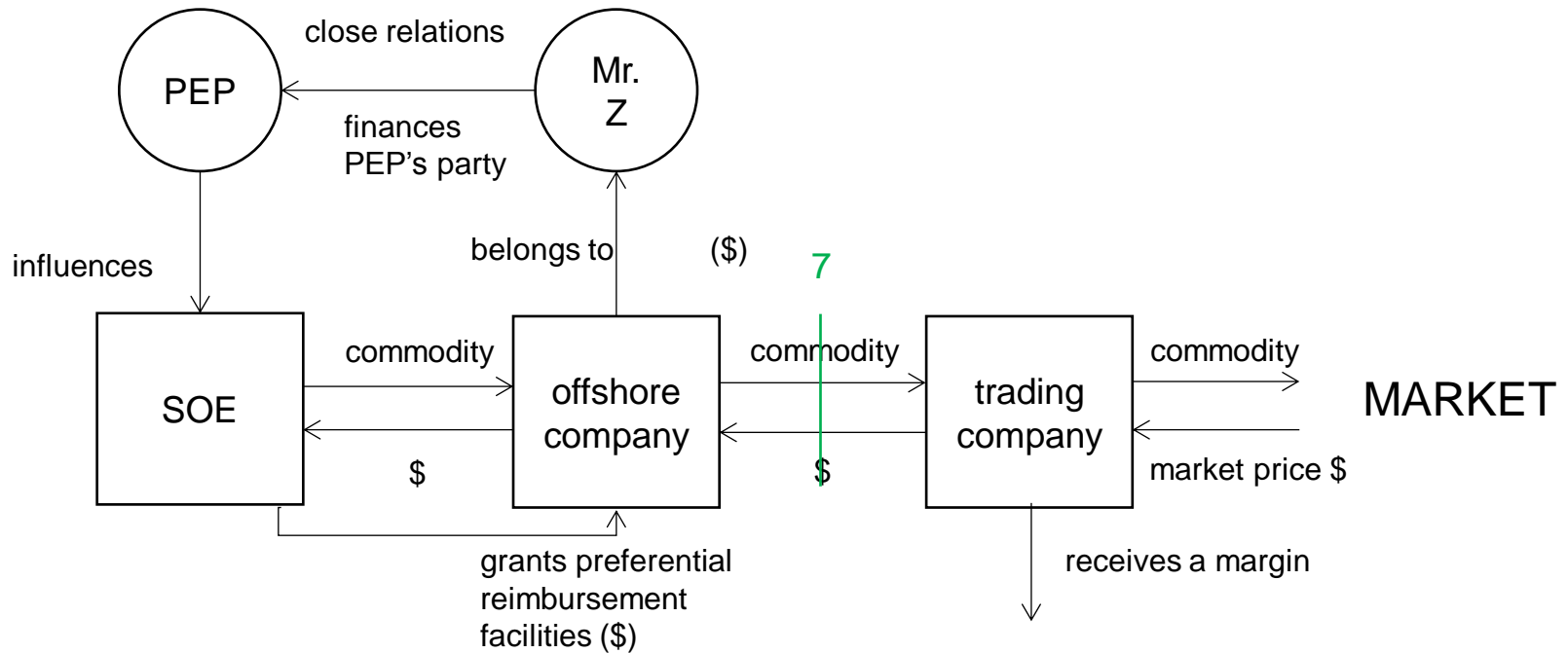
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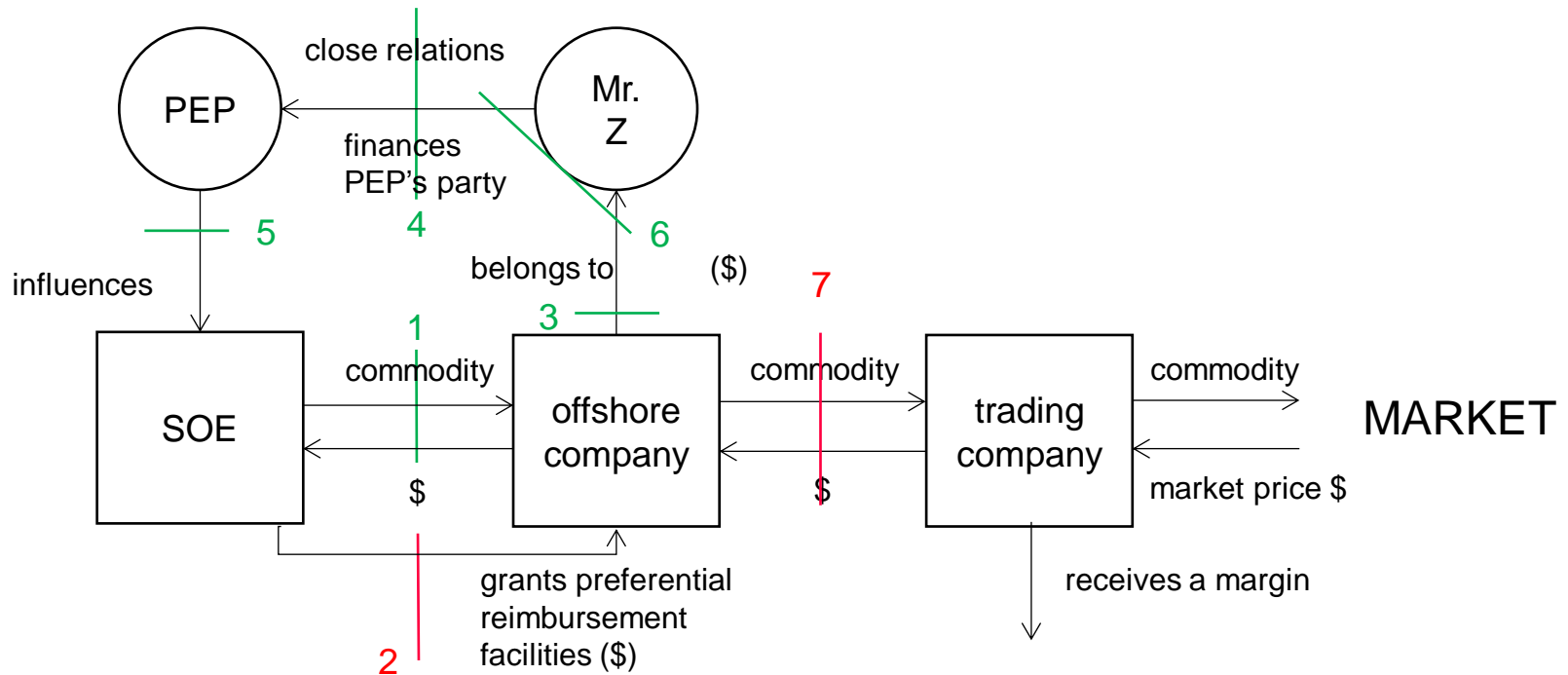
6) Anti-corruption and anti-money laundering laws (in home states)

## b) Case with intermediaries as first buyers – potential remedies



### 7) Due diligence requirements for trading companies

## b) Case with intermediaries as first buyers – potential remedies



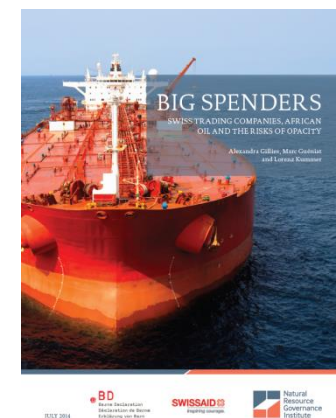
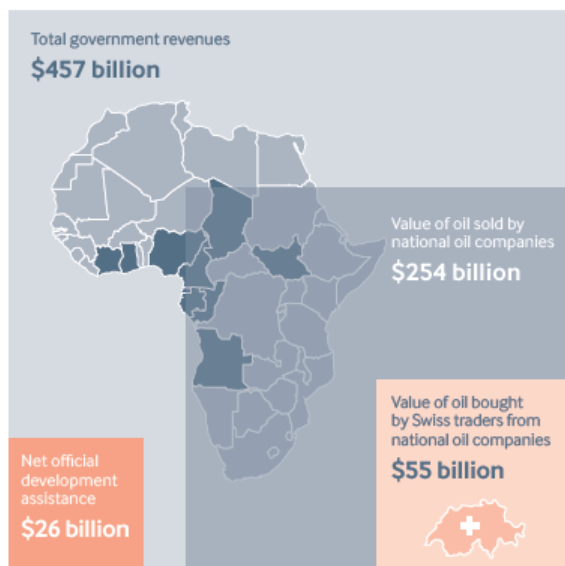
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- 7) Due diligence requirements for trading companies

**Thank you for your  
attention**

# Sums at stake are high

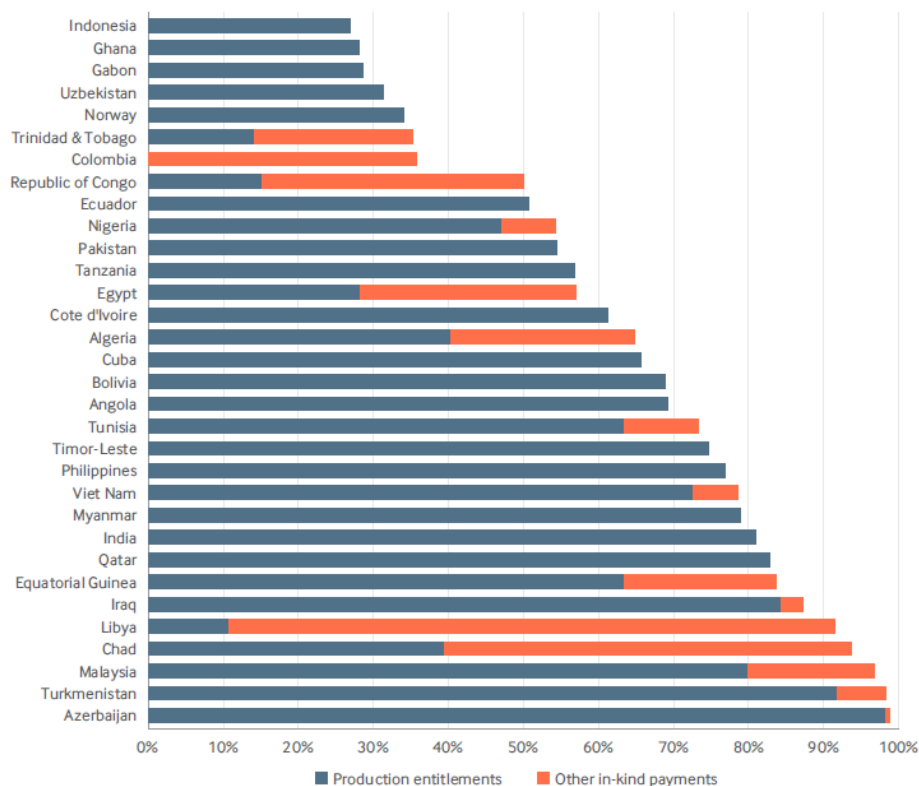
From 2011 to 2013, oil sales by the governments of Africa's top ten producers totalled \$254 billion, an amount equivalent to 56 percent of those countries' total public revenues. Swiss traders accounted for \$55 billion of payments.

Figure 1: Oil payments by Swiss traders to sub-Saharan Africa's top-ten oil exporting countries, 2011–2013



# Sums at stake are high (3)

Percentage of payments reported by companies in 2016 covered by PtG laws received in the form of physical oil and gas for countries with significant in-kind payments:



(NRGI 2018)





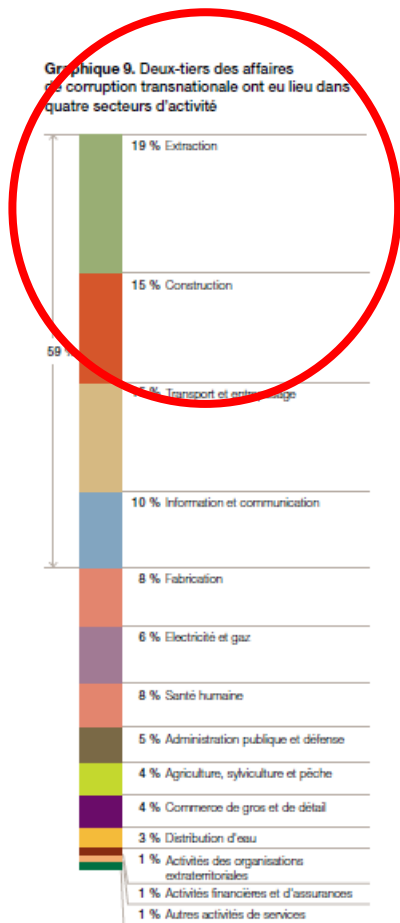
# Corruption risks are high

- High interaction with States / NOCs in countries were governance problems and high corruption risks
- Highly complex transaction schemes
- Involving high volumes of commodities / money
- Traders and trading are below the radar – just one trader reporting on its sales, and poorly. Eventuellement ajouter % trafi hors EITI

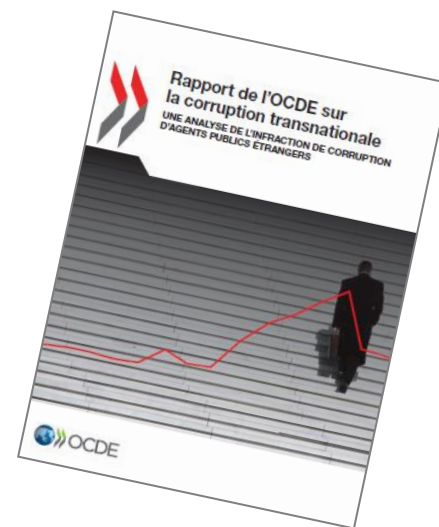
# Preventive measures are almost nonexistent

- No reg of traders
- Trading outside the scope of EITI

# The fact that corruption risks are high in the natural resources sector has been acknowledged by the OECD

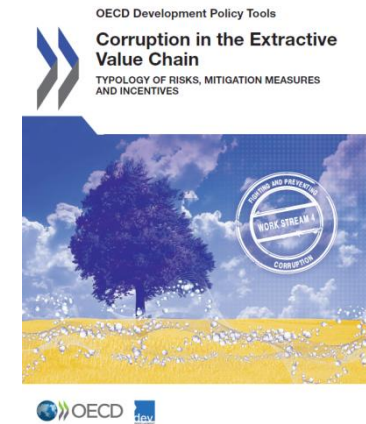
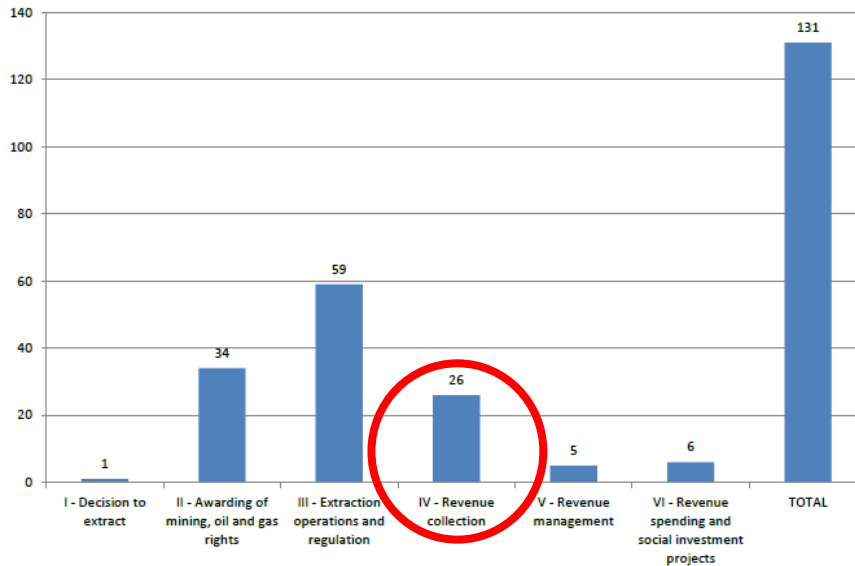


**19% of 420 transnational grand corruption cases are related to extractives**



Dec. 2014

# The fact that corruption risks are high in trading activities, too.



Apr. 2016