Publish What You Pay
NORWAY

BRIEFING

- The natural resources of poor countries have not helped them combat poverty.
- The money often ends up elsewhere, in the accounts of multinational extraction companies in tax havens.
- A policy proposal requiring financial transparency of companies will make it possible to follow the money.

An extended country-by-country reporting standard

2/3

of the world's poor people live in countries rich on natural resources

In the report "An extended country-by-country reporting standard. A policy proposal to the EU. Volume 2", **Publish What You Pay Norway** provides a policy proposal requiring multinational extractive companies to be transparent about their operations in every country.

THE PROBLEM

2/3 of the world's poor live in countries rich on natural resources. Extraction of these resources is a great opportunity to mobilize capital that can be invested in poverty reduction. Still, the money often ends up elsewhere. Multinational oil and mining companies have been given access to profit on the extraction of natural resources from many of the world's poorest countries. The extractive industry has been under increasing criticism for corruption, tax evasion, human rights violations and for shifting profits from source countries to other parts of their corporate structure, often in tax havens. All this is done under a shield of opacity: contracts are secret, parts of the corporate structures are undisclosed and the financial statement information is so aggregated and condensed that even the most interested reader is left uneducated. These companies are extracting resources that are owned by the countries they operate in, and the companies sell their products in transparent markets provided by other countries. The demand is rising on these companies to be transparent about their operations in return.

THE CONSEQUENCES

Until today, multinational companies have not been required to provide key information about their actions in the countries they operate. Instead, the companies are able to build large fortunes from the extraction of natural resources and hide them in tax havens, where information about ownership, accounts and transactions are kept secret. The lack of international regulation has made financial secrecy possible and lucrative. For over 50 years, this financial secrecy has contributed to rob generations of citizens in resource-rich developing countries of the financial basis that could have aided sustainable development. When governments, investors, journalists or citizens ask the companies for information about where the money has gone, they meet a wall of silence and secrecy.

Q&A

What does the "extended" in country-by-country reporting stand for?

The European Union and the United States have both introduced country-by-country reporting for the extractive industries, requiring companies to report tax payments in each country in which they operate. This is a great step in the right direction, but PWYP Norway has demanded that Norway takes the legislation further by introducing "extended" country-by-country reporting. This involves developing the reporting standard after two important criteria . The first concerns the content: Tax payments need to be presented in context. No figure presented in isolation gives much meaning. Unless the reporting includes key accounting figures, it will not be meaningful. The second concerns the form: The reporting must be linked to the consolidated financial accounts of companies and take the form of notes to the consolidated financial accounts, at least with respect to the key accounting numbers. The financial accounts are already audited and therefore trustworthy and would not need additional and costly auditing and verification. If companies are not required to present the reporting from their audited financial accounts, they will have a considerable scope for circumvention. Any country-by-country reporting that fails to meet these two core requirements will automatically entail less confidence in the reporting and/or have higher costs. The reporting requirements in the US and the EU do not include these two criteria yet, but this could be about to change. France has already demanded country-by-country reporting for banks based on financial accounts. The proposal from PWYP Norway is supported by investors, tax authorities, the ministry of Foreign Affairs, the central unit for prosecution for investigation of economic and environmental crime, the Association of Norwegian editors and organizations at large in Norwegian civil society. The proposal has also been presented before the EU commission in 2012.

"Done correctly, extended country-by-country reporting can be an important tool in the fight against capital flight, tax evasion and corruption"

- from the report.

A SOLUTION

An extended country-by-country reporting standard is one of the best, most targeted and inexpensive tools to hinder corruption and capital flight in the extractive industries. In addition, it will create a more level playing field for the companies worldwide. The policy proposal will require the companies to report eight key accounting figures for every country that they operate in. These few figures will provide governments, investors and citizens with the information they need to assess how the companies manage the resources, where the money flows and whether the countries get their fair share of the revenues. Only with such reporting are citizens able to hold their governments and the companies accountable, and investors able to know the true value of their holdings.

What has happened in Norway?

In December 2013, the Norwegian Parliament passed a new legislation on country-by-country reporting. It goes a bit further than the reporting in the EU and the US, in that it requires Norwegian companies in the extractive and forestry industries to report some essential accounting figures in addition to their tax payments. However, PWYP Norway believes there are some serious weaknesses in the bill. Firstly, the legislation does not require the companies to report the accounting figures in connection to the annual financial statement, thus we have no guarantee that the companies will report the actual figures. Second, the legislation will not require companies to report on countries where they have placed subsidiaries with so-called "support functions". In reality, these are often tax havens, to which Norwegian companies send their profits to reduce taxable income in poor, but resource rich countries.

Still, the Norwegian government has been tasked by the Parliament to shape the legislation to illuminate the extent of "undesirable tax adjustment". The law will be implemented on the 1st of January 2014. A joint civil society, including PWYP Norway, will follow the work of the government with great interest. We demand a strong legislation that illuminates Norwegian companies' use of tax havens, and that requires audited accounting figures.

Download the full report for free at **www.pwyp.no**

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Do you think our work is important?
Do you want to see financial transparency and accountability in the extractive industries?

...

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PWYP Norway is the Norwegian chapter of a global network of more than 750 organizations from over 70 resource rich countries. We work to establish financial transparency and accountability in the extractive sector, so that countries can mobilise their own capital to promote a sustainable future, democracy, and human rights

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