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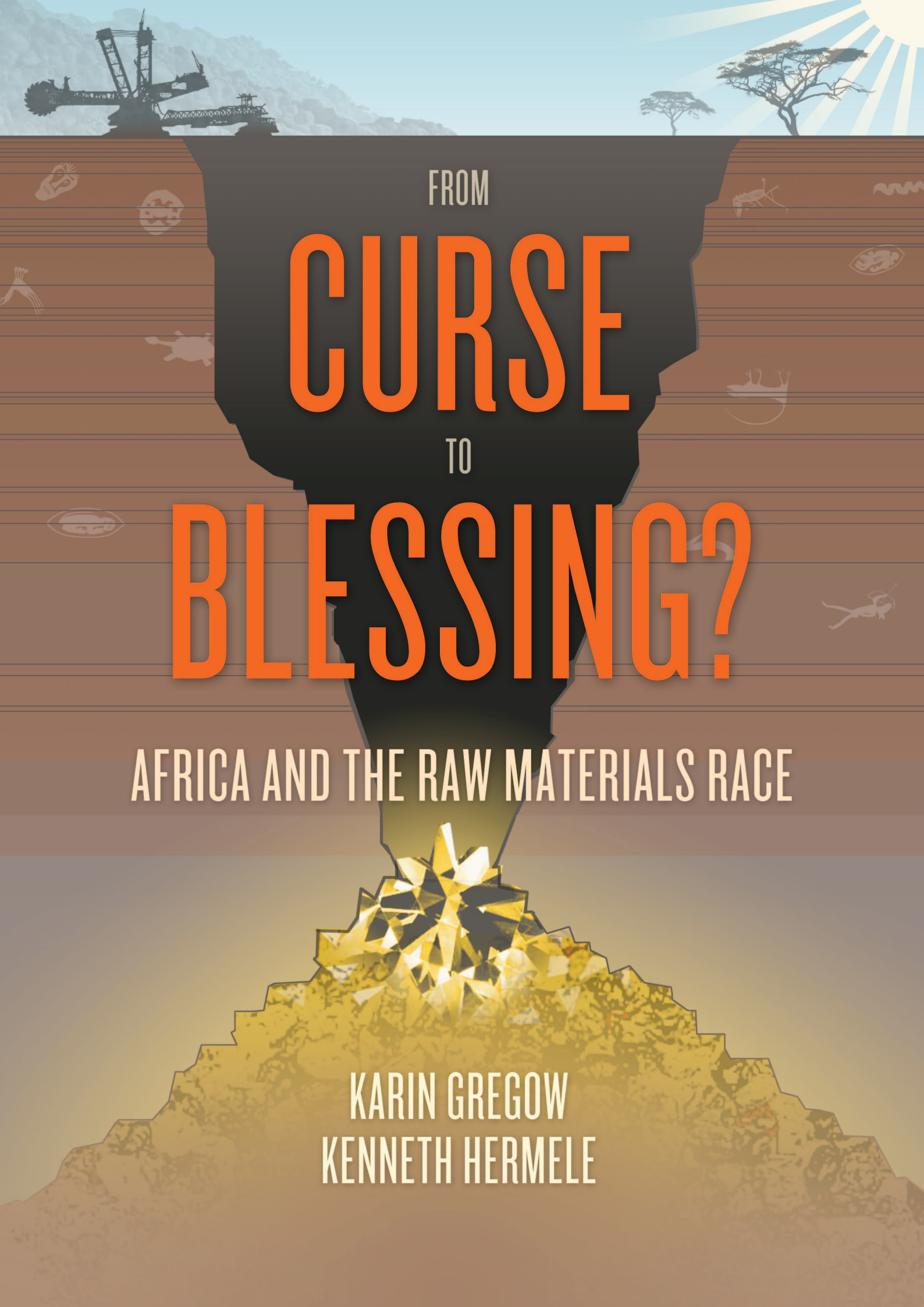
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FROM
CURSE
TO
BLESSING?

AFRICA AND THE RAW MATERIALS RACE

KARIN GREGOW
KENNETH HERMELE

**FROM CURSE TO BLESSING?
AFRICA AND THE RAW MATERIALS RACE**

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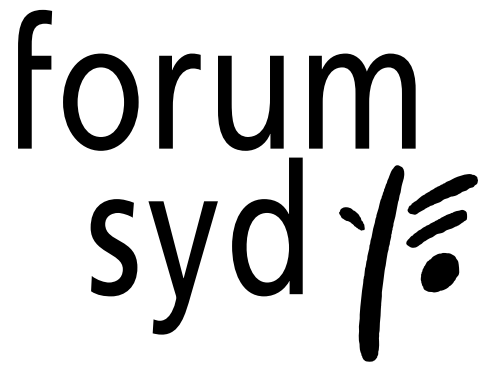
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KARIN GREGOW
KENNETH HERMELE



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INTRODUCTION

Africa is a continent richly endowed with natural resources, be they fertile land or minerals and oil. With such assets, Africa should be well set to develop and grow. Too often, however, these resources have become a burden for the countries that harbour them, a curse rather than a blessing, a blockage to development instead of a source of finance to foster sustainable development and achieve the Millennium Development Goals.

Raw materials resources frequently go hand in hand with social and military conflicts, internal and international warfare, environmental degradation, evictions and weak or non-functioning state institutions. In too many cases conflict minerals have financed and facilitated civil wars and the breaking up of whole countries into fighting and rival fiefdoms.

But also less violent drawbacks of resource abundance are common. Transnational raw materials corporations – often with the consent of host governments – have managed to sign favourable agreements which reduce tax obligations and limit the royalties to the state at the same time as local corrupt elites transfer large sums abroad to tax havens and secret accounts. Tax avoidance by transnational companies constitutes almost two thirds of capital flight from poor countries to rich countries, and a large share of this is found in the extractive industry.

The corporations do not act in isolation, they are part and parcel of wide-ranging attempts to secure the flow of raw materials from Africa to the European Union and to the US. Earlier this year, the EU underlined that it will conduct a “raw materials diplomacy” in order to guarantee its continuous access to minerals and other raw materials, especially in Africa. Are such neo-colonial ambitions possible to align with African peoples’ legitimate ambitions to achieve peace, sustainable development and human rights?

Although African governments need to take strong action to implement concrete measures to ensure that their countries and their populations benefit from natural resource extraction, the focus of this report is on the responsibilities of the corporations and the governments of the North in order to contribute in turning the resource curse into a blessing for Africa. For this to happen, the rules of the game as well as the behavior of the companies and states involved must be drastically transformed.

This is crucial if Africa is to succeed in attaining sustainable development and poverty eradication. A sustainable use of Africa's resource wealth may promote peace and an increased economic and political stability in the countries and in the various regions of Africa, but only if the drawbacks of resource richness are fought.

OVERVIEW OF THE REPORT

In this report, we bring together three perspectives on the raw materials curse.

- ◆ First we present two case studies – the Democratic Republic of Congo and Zambia – which show how the curse operates today. The case study from the DRC deals with the issue of conflict minerals, while the Zambia case looks into issues regarding taxation and mining. These studies have been elaborated with the support of the Centre for Trade Policy & Development in Zambia and Southern Africa Resource Watch in the DRC.
- ◆ Secondly, we point to a number of initiatives that have been taken during the last couple of years in order to increase transparency around resource extraction and stimulate a sustainable use of a country's natural resources, from voluntary codes to compulsory regulation recently instituted by the US and proposed for the EU. Combining “naming and shaming” with assessments of country and corporation performance in terms of transparency, country-by-country reporting, and respect of human rights, we believe that the curse can be turned into blessing. But for such a benevolent turn to pass, strong policy shifts are required, and we conclude this chapter by listing some of the essential steps that the EU must undertake in order to make raw materials less of a curse.
- ◆ Finally, in the third section of our report, we give a state-of-the-art reading of the academic debate on the resource curse. Our conclusion is that there is no general curse in the sense that resources as such have a detrimental impact on development. But there is ample evidence, we believe, for resource curses to operate when institutional and political preconditions exist which weaken governance, transparency and access to information, leading up to a paradox of plenty.

5th December, 2011

Karin Gregow and Kenneth Hermele

Communication and Policy Department, Forum Syd



THE DEMOCRATIC REPUBLIC OF CONGO: MINERALS FUELLING CONFLICTS

Karin Gregow

Based on a case study by Georges Mukuli, Southern Africa Resource Watch, DRC

The Democratic Republic of Congo (DRC) is a country of immense natural wealth. It is rich in forests and biodiversity. The Congo Basin has the world's second greatest tropical forest after the Amazon, with some of the world's richest biodiversity. The country also has vast mineral resources. For instance, Congo is the world's top producer of cobalt.

In spite of this resource abundance, Congo is among the poorest countries in the world. It ranks as the last country according to the UNDP Human Development Index 2011 among the 187 countries listed. Life expectancy is 48 years and per capita annual income is merely 280 USD¹. Its mineral richness certainly is an important part of the explanation for this paradox.

The efforts to exploit Congo's wealth of natural resources, including timber, ivory, diamonds, copper, cobalt and gold, dates centuries back. The vast natural wealth has not brought benefits for the local economy or the country's development, instead it has contributed to many serious violations of human rights. The struggle over control of the country's mineral resources has fuelled war and violent conflicts for over a decade. Conflict minerals from Congo have received international attention because of the brutality of the conflicts fuelled by minerals. Rebel groups and members of the Congolese army have made millions of dollars through illegal control of mines and trading routes, while the local population has been subjected to immense suffering.

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¹ UNDP, *Human Development Index 2011*, <http://hdr.undp.org/en/statistics/?gclid=CILiYHxtawCFWlXmAodj1jBGQ>.

Box 1***Conflict Minerals***

The main minerals being mined in eastern Congo are cassiterite (the ore for tin), coltan (the ore for tantalum), wolframite (tungsten ore) and gold. The first three minerals are sometimes referred to as ‘the 3T’s’. Tin, tantalum and tungsten are all highly demanded on the global market, since they are essential in the manufacture of common electronics products such as mobile phones, computers, DVD players, video game systems and digital cameras. Tin is used as a solder in circuit boards, tantalum goes into capacitors, small components used to store electricity, and tungsten is used in the vibrating function of mobile phones. Gold is also used by the electronics industry – as a coating for wires.

These minerals are known as conflict minerals since they are mined in conditions of armed conflict and human rights abuses.

THE LEGACIES OF WAR

Congo is trying to recover from the bloody second Congo war between 1998 and 2003, where more than three million people died. The profits from the sale of conflict minerals financed continued fighting and prolonged the war. Control of lucrative mines became an additional focus of the fighting.

Natural resources have been at the centre of the debate about violence and war in Congo since the start of the war in 1998. The involvement of armed groups in the extraction and trade of minerals in the eastern parts of Congo has been extensively reported and documented by various civil society organisations as well as the UN Panel of Experts. But it is not until recently that there have been policy responses to the calls for action. In order to promote transparency and traceability of mineral exploitation and trade, several initiatives have been launched, and calls for legal frameworks that prohibit the import of conflict resources have been made.

As a result of the war, more than 2.5 million people now live as refugees. Tens of thousands of women, possibly hundreds of thousands, have been raped since the start of the war². Despite a peace deal, people in the eastern parts of the country are often threatened and attacked by rebel groups and the army. It is clear that income from the extraction and trade in minerals contributes to sustaining the brutal violence.

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² Finnwatch & Swedwatch, *Voices from the Inside – Local Views on Mining Reform in Eastern DR Congo*, October 2010, p. 8.

HOW MINERALS ARE USED IN THE CONFLICT

International Peace Information Service (IPIS) has identified a total of 200 mines, and among them 13 major ones, in the eastern part of Congo. Half of these are controlled by armed groups or by the military. Most serious is the situation for the major mines, where 12 out of the 13 currently are controlled by armed groups³. Armed groups also control the whole chain of production-transport-export of these conflict minerals. The mines are controlled in different ways. In some cases, armed groups directly manage the mines and force civilians to work, mostly under appalling working conditions. In other cases, members of armed groups are enriching themselves through illegally taxing the miners. Either way involves serious abuses against the civilians. Extortion, violence and rape are common methods used to control the local population. The armed groups are both state and non-state actors, and the distinction between rebels, soldiers and militia is not clear-cut in Congo.

THE MINERALS TRADE

The minerals extracted in eastern Congo pass through the hands of a number of middlemen along the trading routes. They are transferred through neighbouring countries before they leave the continent to processing plants in other parts of the world, for example East Asia. Armed groups and illegal networks headed by either top military officers or businessmen are controlling much of the minerals trade and the trading routes. The minerals are transported from the mines via trading towns to the two main cities in this part of the country, Bukavu and Goma. From there, the minerals are transported out of the country by truck or plane to the neighbouring countries Rwanda, Burundi and Uganda. Tin, tantalum and tungsten are traded in large volumes, and since they are transported by trucks or airplane it should not be so difficult to register, document and regulate them⁴. But the majority of the transporters and trading houses operate without proper licenses and registration, thus violating Congo's mining laws.

Rwanda has long played a key role in the trade in Congolese minerals, and buying companies mix minerals from Congo with minerals from Rwandan mines. According to the organization Global Witness, based on statistics from the Central Bank of Rwanda, around 24 percent of Rwanda's cassiterite (the ore for tin) exports were actually of Congolese origin in 2009. This share had increased to 40 percent in 2010. In reality, however, this figure may be much higher as mineral traders claim that up to 80 percent of the "Rwandan" mineral exports originated from Congo⁵.

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³ Enough. *From Mine to Mobile Phone – The Conflict Minerals Supply Chain*, November 2009, p. 2, <http://www.enoughproject.org/files/publications/minetomobile.pdf>.

⁴ Ibid, p.3.

⁵ Global Witness, *Congo's Minerals Trade in the Balance*, May 2011, p. 21.

Hence, Rwanda is critical when it comes to finding solutions to the trade in conflict minerals from Congo. The government in Rwanda, which has denied all accusations of complicity in illicit minerals trading, has shown support for traceability programmes. The government introduced new regulations in March 2011 that require traceability in all its mineral production and trade.

COMPLEX GEOPOLITICAL POWER PLAYS

The struggle over control of the mineral resources has contributed to regional instability and is at centre stage in the geopolitical power plays in the region. During the Congolese war between 1998 and 2003, armies from eight African countries as well as 21 irregular armed groups were taking part in the conflict⁶. The Congolese government forces were backed by Angola, Namibia and Zimbabwe, while the rebels were supported by Uganda and Rwanda.

An expert panel appointed by the UN Security Council in 2001 maintained that Congolese minerals and natural resources worth hundreds of millions of USD had been plundered by armed groups, corporations as well as by the governments of Burundi, Rwanda and Uganda, which were all engaged in “massive and illegal exploitation” of Congo’s resource wealth. The expert panel stressed that mass-scale looting and systematic exploitation was taking place, and it urged that tough measures be taken to break the cycle of exploitation of natural resources in the Democratic Republic of Congo.⁷

The neighbouring countries that have geopolitical, security and financial interests in Congo include Rwanda, Burundi, Uganda, Angola and Sudan.

- ◆ Following the genocide in Rwanda in 1994, Hutu rebels fled to eastern Congo. This Hutu militia formed the Democratic Forces for the Liberation of Rwanda (FDLR). Since then, a main interest for Rwanda has been to try to combat these rebels.
- ◆ Angola and Congo have argued over the ownership of some of the offshore oil reserves close to both countries. During the Second Congo War, Angola feared that Angolan rebels would use Congo as a base to launch attacks on Angola.
- ◆ Members of the Ugandan paramilitary group the Lord’s Resistance Army (LRA) have been hiding in the northeastern parts of Congo, where they have carried out violent attacks on civilians.

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⁶ UN Human Rights Office of the High Commissioner, *Info Note 6*, November 2010, http://www.ohchr.org/Documents/Countries/ZR/FS-6_Neighbouring_States_FINAL.pdf.

⁷ UN Security Council, *Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and other Forms of Wealth of the Democratic Republic of Congo*, 12 April 2001.

The International Conference of the Great Lakes Region (ICGLR) is the highest-level peace process in the region and involves 11 governments⁸. It was established in 2004 and has called several summits with the regional heads of state. ICGLR has tried to address the problems of organized and illegal exploitation of natural resources that has undermined sustainable development and fuelled conflicts in the region. It has adopted a ‘Protocol on the Fight against the Illegal Exploitation of Natural Resources’, which provides the legal basis for a regional certification mechanism for the exploitation, monitoring and verification of natural resources within the region. ICGLR has also adopted the Regional Initiative on Natural Resources, which was signed at a summit in Lusaka in December 2010.

INITIATIVES BY THE GOVERNMENT

The Congolese government has taken various initiatives and is trying to play a more active role in order to improve governance in the mining sector and to coordinate various initiatives. With the aim to end the illegal exploitation of minerals by ‘mafia-like networks’, the government, through President Kabila, decided in September 2010 to suspend mining in eastern Congo. The aim of the government was to regain control of the situation, restore security and organize artisanal mining. The mining ban was lifted in March 2011.

The government’s ambition to clean up and regulate the minerals trade was not fulfilled, however. No action was taken against the armed groups and some of them could even strengthen their grip over trade in minerals. There are indications that members of the Congolese military took advantage of the uncertainty and confusion created by the ban, and set up and increased control over illegal mining operations.⁹ The military did not try to stop non-state armed groups, which continued to control mines in the interior areas.

Local populations, who depend on the livelihood from the mining sector, were hit hard. Artisanal miners and local mineral buyers had difficult times to sustain their livelihoods. The three provinces affected by the ban – North Kivu, South Kivu and Maniema – were deprived of a considerable parts of their tax revenue. Before lifting of the mining ban, President Kabila held consultations with stakeholders from the mining sector and the relevant ministries in order to ensure their commitment to implement new reforms of the minerals trade, such as mandatory procedures for mineral traceability.

The Ministry of Mines, in collaboration with the UN peacekeeping mission in the country (MONUSCO), has established five mineral trading centres (Centres de négoce) in a pilot project. The purpose of these UN-backed trading centres is to help clean up the minerals trade and keep armed groups away from the newly demilitarised mining and trading areas.

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⁸ IPIS, *Guide to Current Mining Reform Initiatives in Eastern DRC*, April 2011, p.16.

⁹ Ibid.

Box 2***Review of mining contracts***

Congo's mining code from 2002 stipulates taxes and royalties to be levied on mining. But still, most of the mining contracts between the Congolese state and foreign companies have been secret deals exempting the companies from taxes, royalties and duties.

However, Congo began a process to review mining contracts in June 2007, almost a year after the country's first democratic elections. 57 mining contracts were reviewed and it was recommended that all of them be renegotiated. Congolese civil society played an active role in getting this review under way. Despite the review of contracts, the government is continuing to negotiate special rates with mining companies that do not reflect the rates and terms stipulated in the mining code¹⁰. The Congolese state is missing out on large amounts of tax revenue due to the generous tax concessions and exemptions given to foreign mining companies.

In May 2011, Congo passed a decree in which it promised to disclose all contracts in the natural resource sector within 60 days after they have come into effect¹¹. Since then, the Congolese government has in a rare move published dozens of its oil and mining contracts online. But there are still many more to be published and among them several key contracts.

“It is firmly in the public interest that government extractive contracts are published. Greater transparency is vital to transforming the mineral and oil wealth of the Congo into real development”, Global Witness said in a press statement in August 2011¹². This is exactly what the Congolese government has started to do.

If the Congolese government will be able to achieve a demilitarisation of mining areas, the authority of the Congolese State needs to be restored and its capacity needs to be strengthened. The government must be able to control its territory and provide basic services to its people. Armed groups must not be able to prosper from illicit trade in natural resources and complex regional alliances.

¹⁰ Actionaid, Christian Aid et al, *Breaking the Curse – How Transparent Taxation and Fair Taxes Can Turn Africa's Mineral Wealth into Development*, March 2009, p. 48.

¹¹ Global Witness, *DR Congo Acts on Transparency Pledges but more Disclosure Needed*, August 2011, <http://www.globalwitness.org/library/dr-congo-acts-transparency-pledges-more-disclosure-needed>.

¹² Ibid.



ZAMBIA: MINING TAXES – KEY TO DEVELOPMENT

Karin Gregow

Based on material from Centre for Trade Policy & Development (CTPD)

Zambia is rich in mineral reserves, and it is the world's 8th largest producer of copper. Copper mining is the main source of the country's foreign exchange earnings, accounting for over 75 percent of total exports¹³. Despite its mineral wealth, Zambia is among the poorest countries in the world. In the UNDP Human Development Index, Zambia ranks 164th out of 187 countries¹⁴. The per capita annual income amounts to 1 200 USD, life expectancy is 49 years and the country struggles with high rates of HIV/Aids prevalence.

Zambia, as several other countries in Africa, has not been able to transform its mineral wealth into development. Instead the profits from copper mining have been reaped by multinational mining companies through tax dodging and transfer of profits.

TAX REVENUES MAIN DEVELOPMENT BENEFIT FROM MINING

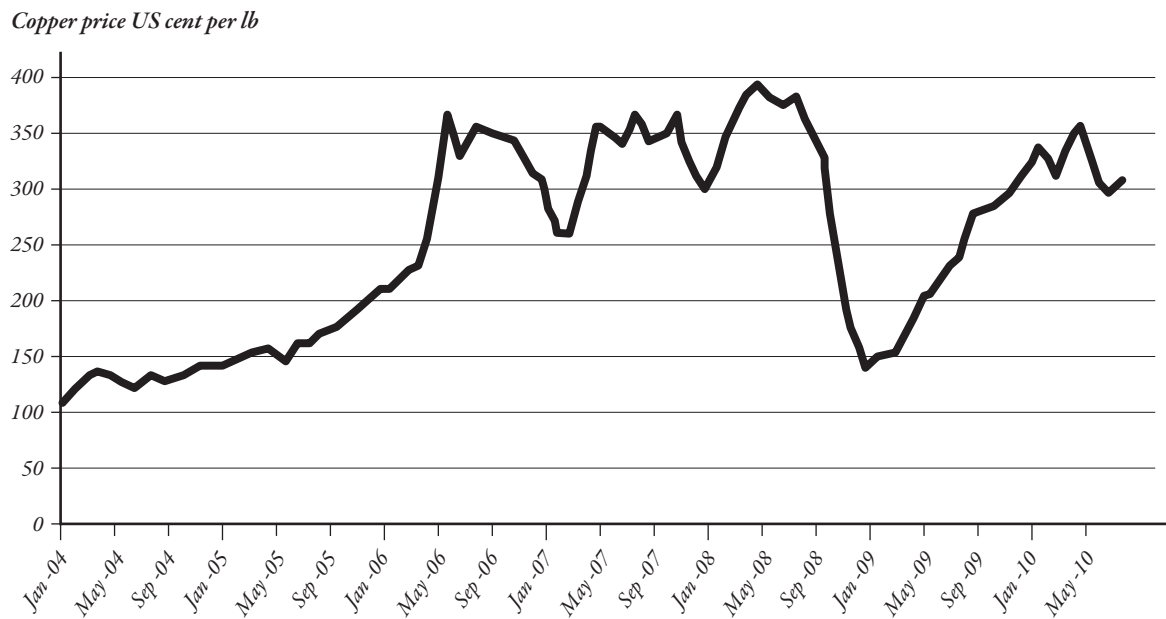
For most resource-rich African countries, tax revenue is potentially the largest source of development benefits of mining. Since industrial mining is capital intensive, it is dominated by large-scale foreign companies. These companies create hardly any forward or backward linkages to the local economy that could promote development of the private sector and generate jobs:

- ◆ The companies import most of their mining equipment as well as the technical, financial and managerial services needed to operate the mines.
- ◆ The minerals are mostly refined or processed outside of Zambia, it is the raw ore that is exported.
- ◆ Employment generation is also quite small.

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¹³ WTO, *Trade Policy Review 2009 – Zambia*, July 2009, http://www.wto.org/english/tratop_e/tptr_e/tp319_e.htm.

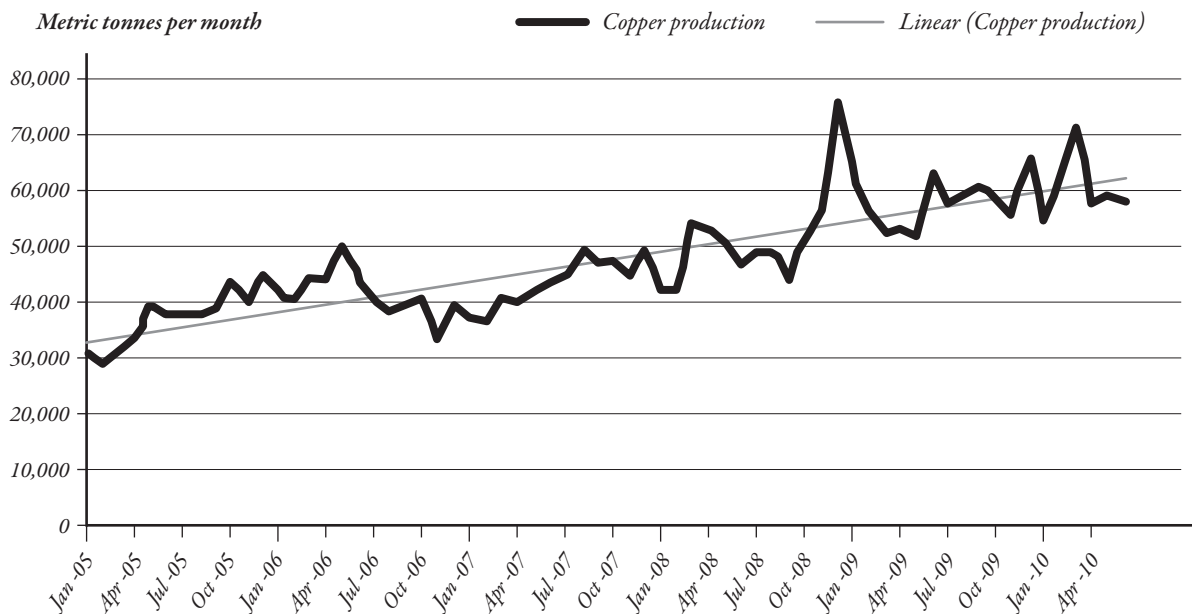
¹⁴ UNDP, *Human Development Index 2011*, <http://hdr.undp.org/en/statistics/?gclid=CILiYHxtawCFWlXmAodj1jBGQ>.

Figure 1 *Copper prices 2000 - 2010*



Source: Bank of Zambia

Figure 2 *Monthly copper production levels 2005 - 2010*



Source: Bank of Zambia, Fortnightly economic statistics - various editions

Against this background it should not come as a surprise that the potential benefit to Zambia of the exploitation of its mineral richness, according to UNCTAD, the UN Economic Commission for Africa (UNECA) and the IMF, is from generating public revenue through a transparent tax and budget system, a situation which holds true for all of Africa¹⁵.

Since tax revenue collected through the budget remains the key instrument for governments to ensure that mining contributes to development, it is crucial that African countries reform their mining tax regimes, so that the generous tax concessions are curtailed and tax avoidance by multinational companies stopped. As it is now, African governments are deprived of millions of dollars in revenue through mining tax subsidies and tax avoidance by the companies through complicated corporate structures and 'creative' accounting mechanisms.

SECRET CONTRACTS

Zambia's mines were privatized in a rapid process between 1997 and 2000. The process took place during Chiluba's presidency and behind closed doors, in secrecy, and was fraught with corruption. "Development agreements" were signed between the Zambian government and the private companies buying the mines. The companies were exempted from many taxes and granted vast privileges. The agreements were secret and not made available to the public, but it emerged that most of them set a royalty rate of merely 0.6 percent instead of the 2 percent stipulated in the Mining Act from 1995¹⁶. Companies could avoid paying a big part of the corporate tax by carrying forward losses to be subtracted from profits in following years (over 15-20 years). The tax system also included different tax exemptions, such as exemptions from customs duties and penalties for environmental pollution.

This tax system, with such enormous benefits for the companies, was justified by the need to attract foreign investors to the country. But the outcome has been that mining companies contributed virtually nothing to Zambia's budget. A World Bank report stated that the tax incentives and the low tax rates meant that the mining sector benefited from a marginal effective tax rate of around 0 percent¹⁷.

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¹⁵ Actionaid, Christian Aid et al, *Breaking the Curse – How Transparent Taxation and Fair Taxes Can Turn Africa's Mineral Wealth into Development*, March 2009, p. 15.

¹⁶ CTPD, *A Fool's Paradise? Zambia's Mining Tax Regime*, Briefing Paper, December 2010, p. 5.

¹⁷ Counter Balance, *The Mopani Copper Mine, Zambia – How European Development Money has Fed a Mining Scandal*, December 2010, p. 8.

NEW MINING ACT

In 2008, having failed to renegotiate the ‘Development agreements’, the Zambian government passed a new Mining Act, which nullified the previous agreements and increased the tax burden on mining. Royalties were increased to 3 percent and a revenue-based windfall tax was introduced, triggering a tariff on revenues when copper reached given prices. The new tax regime was strongly opposed by the mining companies.

In 2009, the global economic crisis led to a sharp decline in copper prices for some months. The Zambian government again introduced concessions to the mining companies. These concessions were highly debated, particularly since copper prices quite rapidly picked up again. In February 2010, the government announced plans to reform the Mines and Minerals Act. The International Monetary Fund (IMF) in its 2010 country report recommended Zambia to increase tax collection in order to create fiscal space, specifically calling for more tax revenue from the mining industry¹⁸.

In recent years, tax revenue from the mining sector has started to increase. Company tax started to make a contribution from around 2005, as profits began to be made. From 2008/2009, mineral royalties were rising. The contributions of these taxes to Zambia’s overall budget, however, are still very small, indeed minute: mineral royalties were expected to contribute 2.15 percent of tax revenue in 2010, or 1.46 percent of total revenue and financing¹⁹.

TAX EVASION EXCEEDS AID

If Zambia will be able to meet its development goals, the country needs to raise more revenue. The mining sector is a key area in this, since a narrow base of individual and household incomes already bear much of the direct tax burden. This is being opposed by representatives from the mining companies, who argue that mining generates more personal taxes from its employees than any other sector.

Civil society organisations in Zambia have demanded that the government does a financial audit of all mining companies, so that the Zambian Revenue Authority can do a correct assessment of the tax owed to the country. This needs to be supported by donor countries. Zambia, as well as other African countries, currently loses more to tax dodging by transnational companies than they receive in development aid.

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¹⁸ CTPD, *A Fool’s Paradise? Zambia’s Mining Tax Regime*, Briefing Paper, December 2010, p. 7.

¹⁹ Ibid, p. 8.

Box 3

The Mopani Case: Cheating Zambia via illegal pricing procedures

In early 2011, it was revealed, through a leaked audit report, that the mining company Mopani Copper Mines Plc had been avoiding paying tax in Zambia. Mopani is mining copper and cobalt in the country. The Swiss company Glencore International AG has a 73 percent interest in Mopani through one of its subsidiaries.

The Zambian organisation Centre for Trade Policy and Development (CTPD) and four other organisations have filed a complaint with the OECD. The civil society organisations allege that the operations of Mopani are violating the OECD guidelines for multinational companies, which require trade between parent companies and their subsidiaries to follow the “arm’s-length principle”, i.e. they must buy and sell with each other at open market prices.

According to the leaked audit report, Mopani could not prove to the auditors that its sales of copper, which mostly went to sister companies, were in line with the “arm’s-length principle”. The auditors stated:

“We believe that the Mopani cost structure cannot be trusted to represent the true nature of the costs of the Mopani mining operation and that there is reason to follow up the uncovered inconsistencies in a more determined manner.”²⁰

Glencore has strongly disputed the auditor’s findings, arguing that the report contains factual errors and is based on flawed analysis and assumptions. But Savior Mwambwa, director of the Centre for Trade Policy and Development, says that “the auditors’ report appears to confirm the claims of Zambian civil society that mining companies are depriving the people of Zambia of social and economic benefits that are rightly theirs, through tax evasion and avoidance practices”.

The contract between Mopani and the Zambian government was extremely favourable to Mopani. It included various advantages for the company, such as tax exemptions on imported

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²⁰ Christian Aid, *Zambia Must Launch Copper Mining Tax probe, says Christian Aid Partner*, February 2011, <http://www.christianaid.org.uk/pressoffice/pressreleases/February-2011/zambia-launch-copper-mining-tax-proce-christian-aid-partner-1802.aspx>.

... continued

equipment. The royalty rate was set at 0.6 percent of the market value of the mineral and the company tax at 25 percent of the profits. According to the Zambia Revenue Authority, Mopani is one of the companies that have claimed to make no profits and hence pays no profits tax.

Mopani has received a loan amounting to 48 million euro from the European Investment Bank, which is owned by the EU member states. Christian Aid stated in a press release that “given that tax abuse runs counter to European development policy, the European Investment Bank must investigate this issue urgently and, if necessary, review its lending practices”²¹.

According to the WTO, over half of Zambia’s copper exports in 2008 went to Switzerland²². This figure seems far too high, and it is likely that this has more to do with accounting practices rather than the actual transfer of minerals²³. There is also a considerable difference between the price that Zambia receives for its copper export compared to the much higher price received by Switzerland when it exports identical copper products. If Zambia had received the same price as Switzerland, it would have meant almost doubling the country’s GDP²⁴.

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²¹ Christian Aid, *Zambia Must Launch Copper Mining Tax probe, says Christian Aid Partner*, February 2011, <http://www.christianaid.org.uk/pressoffice/pressreleases/February-2011/zambia-launch-copper-mining-tax-proce-christian-aid-partner-1802.aspx>.

²² WTO, *Trade Policy Review 2009 – Zambia*, July 2009, http://www.wto.org/english/tratop_e/tpr_e/tp319_e.htm.

²³ Counter Balance, *The Mopani Copper Mine, Zambia – How European Development Money has Fed a Mining Scandal*, December 2010, p. 13.

²⁴ Christian Aid, *Zambia Must Launch Copper Mining Tax probe, says Christian Aid Partner*, February 2011, <http://www.christianaid.org.uk/pressoffice/pressreleases/February-2011/zambia-launch-copper-mining-tax-proce-christian-aid-partner-1802.aspx>.

TURNING CURSE INTO BLESSING – CAN IT BE DONE?

Karin Gregow and Kenneth Hermele

When the Oxford economist Paul Collier enumerates the four traps that block development for the poorest one billion people, resource abundance figures prominently: if we are to cut poverty in half, something has to be done about the resource curse.²⁵ His solution amounts to softening the curse by establishing certification schemes and increasing transparency in the raw materials sectors, for instance along the lines of the Extractive Industries Transparency Initiative (EITI). A similar initiative, which Collier himself originated, is called the Natural Resource Charter and contains a similar set of principles, called precepts (see Box 4).

CONTROVERSY AROUND WORLD BANK ACTIVITIES

In response to concerns expressed by environmental organisations, human rights groups and other stakeholders, the World Bank conducted a review of its activities in the extractive industries sector, the Extractive Industries Review (EIR) in 2001-2004. The review, which counted on environmental NGOs' and indigenous peoples' participation, suggested among other things that human rights regulations concerning indigenous people's right to Free and Informed Prior Consent, FPIC, following the ILO Convention 169, should be integrated into the safeguards of the World Bank, and that the World Bank should phase out its support to fossil fuel. The World Bank did neither.²⁶ But other stakeholders understood that extractive industries, in order not to lose all their goodwill as potential drivers of development, were in need of assistance to improve their record in the South. The EITI is an example of such a scheme established to regulate extractive industries and improve their performance.

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²⁵ Collier, Paul (2007): *The Bottom Billion. Why the Poorest Countries Are Falling and What Can Be Done About It*, Oxford UP. The other three traps are: conflicts, landlocked with bad neighbours, and bad governance in a small country.

²⁶ See the World Bank website where the EIR report is available, including the NGO inputs and comments:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112~menuPK:592071~pagePK:148956~piPK:216618~theSitePK:336930,00.html>.

EITI – A FIRST STEP TOWARDS INCREASED TRANSPARENCY

The EITI is a coalition of governments, companies, civil society groups, investors and international organisations, and it has among its members many important international financial institutions, including the World Bank. EITI aims at strengthening governance by improving transparency and accountability in the extractives sector. The initiative has established a set of principles, agreed upon in 2003, to regulate extractive industries. The EITI is an important first step towards improved governance and control in resource-rich countries, through the verification and full publication of company payments and government revenues from extractive industries.

However, the principles are weak and their defence of the rights of peoples concerned by the activities of the extractive industries is absent. The principles and precepts also avoid human rights terminology, which weaken the codes as “soft law”, and they do not stipulate any financial costs or fines for breaking the principles. No wonder, then, that the so called compliant countries to the EITI include Nigeria and Liberia, and that we among the “supporting” companies find important breakers and non-conformers of international environmental and human rights law, from Rio Tinto via Shell to BP and de Beers.²⁷

The EITI and the Natural Resource Charter are to be welcomed as important initiatives to increase transparency, improve tax collection and in general increase public and civil society oversight over activities of the extractive industries, with the aim of turning natural resources into a blessing for development. But more needs to be done. Hence, two recent moves may considerably improve the opportunity to know more about extractive industries’ activities - a new US act and an EU Commission proposal.

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²⁷ The following countries are today, according to the EITI, compliant countries: Azerbaijan, Central African Republic, Ghana, Kyrgyz Republic, Liberia, Mali, Mongolia, Niger, Nigeria, Norway and Timor-Leste, <http://eiti.org/countries>.

Extractive Industries Transparency Initiative (EITI). 12 Principles

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.
2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their national development.
3. We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
4. We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.
6. We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.
7. We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.

*Natural Resource Charter**12 Precepts*

1. The development of a country's natural resources should be designed to secure the greatest social and economic benefit for its people. This requires a comprehensive approach in which every stage of the decision chain is understood and addressed.
2. Successful natural resource management requires government accountability to an informed public.
3. Fiscal policy and contractual terms should ensure that the country gets full benefit from the resource, subject to attracting the investment necessary to realize that benefit. The long-term nature of resource extraction requires policies and contracts that are robust to changing and uncertain circumstances.
4. Competition in the award of contracts and development rights can be an effective mechanism to secure value and integrity.
5. Resource projects can have significant positive or negative local economic, environmental and social effects which should be identified, explored, accounted, mitigated or compensated for at all stages of the project cycle. The decision to extract should be considered carefully.
6. Nationally owned resource companies should operate transparently with the objective of being commercially viable in a competitive environment.

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| <ol style="list-style-type: none">8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.9. We are committed to encouraging high standards of transparency and accountability in public life, government operations and in business,10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.11. We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations. | <ol style="list-style-type: none">7. Resource revenues should be used primarily to promote sustained, inclusive economic development through enabling and maintaining high levels of investment in the country.8. Effective utilization of resource revenues requires that domestic expenditure and investment be built up gradually and be smoothed to take account of revenue volatility.9. Government should use resource wealth as an opportunity to increase the efficiency and equity of public spending and enable the private sector to respond to structural changes in the economy.10. Government should facilitate private sector investments at the national and local levels for the purposes of diversification, as well as for exploiting the opportunities for domestic value added.11. The home governments of extractive companies and international capital centers should require and enforce best practice.12. All extraction companies should follow best practice in contracting, operations and payments. |
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Source: www.eiti.org

Source: www.naturalresourcecharter.org

US DODD-FRANK ACT

The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by the US Congress in July 2010, laid down new rules which will increase transparency in the oil, natural gas and mining sectors. Companies which are registered with the US Securities and Exchange Commission (SEC) must report publicly how much they spend for the whole commodity chain, from exploration via extraction and processing. Also they must disclose taxes paid as well as royalties, fees and bonuses for each project, and to each government. Such regulations, if adhered to and followed-up by the relevant authorities, will be much more efficient than the general principles and precepts launched by overly “balanced” initiatives, which seem equally concerned to cater to the interests of the corporations as to the needs of the resource rich countries suffering from the curse. In a situation where the power balance is far from being struck between equal partners, efficient rules and regulations must tilt the balance in favour of the resource-rich countries and their social movements, including the right to access information. The Dodd-Frank Act may be an important step in this direction.

EU LEGISLATIVE PROPOSAL

In October 2011, the EU Commission presented a proposal with amendments to the existing EU Transparency and Accounting Directive.²⁸ This is a first step towards fighting corruption and holding governments to account in resource-rich countries, but it is not enough to deal with tax evasion by transnational corporations. The proposal includes so called country-by-country reporting, which forces the companies to declare the payments they make to governments in every country where they operate. This reporting requirement, however, applies only to extractive and forestry sectors. In order to be an effective tool to combat corporate tax avoidance, the directive should apply to all sectors. It ought also to include provisions for data on, for example, sales, purchases, names of subsidiaries in all countries, labour costs and profits, in order to enable authorities to assess whether companies are paying taxes in accordance with their actual activities and economic performance in each country.

The European Debt Network Eurodad welcomed the proposal as a useful first step, but noted that it nevertheless constitutes a missed opportunity, since it will not effectively address tax dodging by companies, which represents the biggest share of illicit capital flight²⁹. The Commission’s proposal will be discussed in the Member States as well as in the European Parliament until March 2012.

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²⁸ European Commission (2011): *Proposal for a Directive of the European Parliament and of the Council*, COM(2011)683 final, 2011/0307 (COD), Brussels, 25.10.2011, http://ec.europa.eu/internal_market/securities/docs/transparency/modifying-proposal/20111025-provisional-proposal_en.pdf.

²⁹ See Eurodad 25 October 2011: *EU proposal helps curb corruption but fails to tackle tax dodging*, <http://www.eurodad.org/whatsnew/articles.aspx?id=4683>.

Box 5

Comparing the Dodd-Frank Act with the EU Commission Proposal

<i>Issue</i>	<i>US Dodd-Frank Act</i>	<i>EU Commission proposal</i>	<i>Difference</i>
<i>Scope: What is covered?</i>	Any company engaged in commercial development of oil, natural gas and minerals which reports to the SEC.	Large oil, gas, mining and logging companies. <i>Large = two of the following criteria: turnover 40 million euro, total assets 20 m euro, employees 250.</i>	EU covers more activities than US. The limitation to large companies not important.
	All payments related to exploration, extraction, processing, exports and other significant actions.	All payments for exploration, discovery, development and extraction, but not for exports and transports.	EU should adapt to US rule.
	Taxes, royalties, fees, production entitlements, etc.	Production entitlements, taxes on profits, royalties, dividends, signature, discovery and production bonuses, license fees, etc.	EU standard covers more kinds of payments but US SEC may establish similar coverage.
<i>Disaggregation: Disclosure of payment at what level, and to whom?</i>	Payment for each project and to each government. Project defined in relation to lease, license and other concession-level arrangement.	Payment in each country and for each project. Project defined by company.	EU allows companies to define “project”, US definition better.
	Reporting payment on national level.	Reporting on payment to national, regional and local authority.	EU rule improves access to information by adding more layers than the US.

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<i>Issue</i>	<i>US Dodd-Frank Act</i>	<i>EU Commission proposal</i>	<i>Difference</i>
<i>Materiality: What values must be reported?</i>	All payments that are not insignificant and irrelevant to an analysis.	All payment where the amount is material to the recipient government.	Both standards acceptable.
<i>Exemptions?</i>	None.	Yes, companies exempt when operating in countries that prohibit disclosure.	The EU exemption clause is unnecessary and may in fact encourage countries to instigate such prohibitions.

Source: Based on Revenue Watch comparison 2011:

http://www.revenuwatch.org/training/resource_center/disclosure-rules-us-and-eu-standards.

COMPARING US ACT AND EU PROPOSAL

Box 5 presents a comparison of the US regulation and the EU proposal. The Dodd-Frank Act only requires reporting and disclosure, it does not ban or even fine companies that exploit or sell conflict minerals. Still, it has had a favourable impact on the Democratic Republic of Congo, according to a recent statement by the UN Security Council Committee on the DRC. The sale of some conflict minerals, especially tin, tungsten and tantalum have passed from conflict areas to more peaceful zones of the DRC; however, this has not yet happened to the trafficking in gold.³⁰

The EU proposal contains rules, which are weaker as well as stronger than the Dodd-Frank Act. An escape clause in the EU proposal allows companies to exempt themselves from reporting if the laws of the countries where they operate prohibit disclosure; the US act recognizes no such exemptions. This may not be a substantial objection to EU's standards, however, as today few if any countries have such laws. An investigation by the SEC of over 100 countries found no country prohibiting disclosure of data required by Dodd-Frank. Furthermore, Norwegian oil companies are already disclosing payments in countries considered to be secretive, such as Angola and China, in conformity with Norwegian law.

³⁰ The letter from the UN Committee to the US SEC in support of the Dodd-Frank Act, October 21, 2011: <http://www.sec.gov/comments/s7-40-10/s74010-346.pdf>.

On the positive side, the EU regulation proposes including logging and not only oil and gas corporations, an important extension of the coverage but still only a first step: all companies and sectors ought to be covered in order to strengthen the capacity of host states and civil societies to know what money is going where, and in this way improve the possibilities to reduce corruption and mitigate capital flight.



The Dodd-Frank Act and the EU Commission proposal are important steps as country-by-country reporting will help coming to grips with corruption, tax evasion and profit shifting between countries. A similar assessment of the importance of country-by-country reporting is made by Revenue Watch and Transparency International when they use such reporting as one of the key concerns in order to assess the performance of major raw materials corporations around the world.³¹

The situation is not encouraging: the degree of transparency in company reporting in the oil and gas sector showed discouraging results. The average score for the 27 oil and gas companies ranked (of which 5 were nationally owned companies, such as Norwegian Statoil and Brazilian Petrobras), was only 2 out of the possible 13 performance points.³²

This dismal result of the assessment does not depend on country rules and regulations which might prohibit such disclosure as corporations scored very differently on this count even when they operated in the same country. Hence, the result is due to companies' opaque policies and procedures. Furthermore, the fact that there was no difference among international corporations that had joined the EITI and companies which had chosen to remain outside the framework is alarming, the two groups performed equally bad. If the EITI does not act on results such as these, it risks constituting a whitewashing instead of leading to greater transparency and increased tax collection.

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³¹ Revenue Watch & Transparency International 2011: *Promoting Revenue Transparency. 2011 Report on Oil and Gas Companies*, <http://www.revenuewatch.org/publications/promoting-revenue-transparency-2011-report-oil-and-gas-companies>. The other two concerns in this assessment are Reporting on anti-corruption programmes and Organisational disclosure by the corporations.

³² Performance of corporations was assessed according to ten variables, from Does the company disclose payments to governments, which carried 4 out of 13 maximum points, to Does the company publicly disclose its profits before taxes for its operations in country X", which only carried 1 point. The result: on average corporations scored 16 per cent of 13 points, i.e. 2 points.

INTERNATIONAL INITIATIVES TO STOP TRADE IN CONFLICT MINERALS

OECD due diligence standards

In December 2010, the OECD and the UN Security Council adopted due diligence standards in the mineral supply chain, which consist of a five point framework that companies should integrate into their management systems, including a strategy to respond to risk and an independent audit. The standards are supposed to help companies respect human rights and avoid contributing to conflicts through their sourcing decisions, including the choice of their suppliers³³. The OECD guide was produced in collaboration between governments, international organisations, industry and civil society.

The Guidance does not entail legal obligations for actors in the supply-chain. If companies are found violating the rules, they can be brought to the OECD national contact points of their country of domicile, but the ensuing procedure has no judicial value³⁴. Nevertheless, it could have some weight by giving companies bad-will.

Dodd-Frank Section 1502

During the last year, initiatives have been taken at the international level to stop the trade in conflict minerals. In July 2010, the US Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes a provision (section 1502) that requires companies buying minerals from the DRC and its neighbouring countries to declare which measures they are taking to ensure that they are not buying conflict minerals. This provision is only a disclosure requirement and does not place a ban or penalty on the use of conflict minerals. If companies realize that they have been sourcing conflict minerals from the Great Lakes region, they must report this to the Securities and Exchange Commission.

Companies have argued that it is a costly and difficult process to find out about processors and smelters in order to know the origin of the minerals they use. However, Global Witness points out that the supply chain is not as complex as companies allege, and they have been able to track supply chains into Congo and neighbouring countries³⁵. Global Witness recommends that the due diligence requirements for Section 1502 of the Dodd-Frank Act are the same as those already adopted by the OECD and the UN Security Council.

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³³ OECD: *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-affected and High-risk Areas*, 2011, <http://www.oecd.org/dataoecd/62/30/46740847.pdf>.

³⁴ IPIS, *Guidance to Current Mining Reform Initiatives in Eastern DRC*, April 2011.

³⁵ Global Witness, *The Dodd-Frank Act's Section 1502 on Conflict Minerals*, 16 September 2011.

Southern Africa Resource Watch warns that unless the Dodd-Frank Act supports existing internal efforts and national mechanisms to deal with the problem, it will not yield positive results. A strong and capable state is the only long term solution to conflict minerals.³⁶

The EU and conflict minerals

The EU has not yet taken steps towards a legislation or regulation addressing the issue of conflict minerals, despite pressure to do so following the passing of the Dodd-Frank Act in the US. The EU proposal with amendments to its Transparency and Accounting Directive does not include a section on conflict minerals, similar to Section 1502 in the Dodd-Frank Act. The EU has, however, acknowledged that revenues from extraction of raw materials can fuel conflicts. In its Communication in February 2011 on how to implement its raw materials strategy the EU Commission proposes to “examine ways to improve transparency throughout the supply chain and tackle in coordination with key trade partners situations where revenue from extractive industries are used to fund wars or internal conflicts”³⁷. The EU Trade Commissioner Karel de Gucht raised the issue in his speech at the Joint Parliamentary Assembly in Kinshasa in December 2010:

*“Whereas the fight for diamonds and minerals has often fuelled armed conflicts and undermined stable governance, more and more governments are working successfully on ways to turn the logic around. ... The European Commission has been considering the issue of transparency in the extractive industries within the wider context of EU-financial regulatory reform.”*³⁸

But so far, the EU Commission has not proposed any solutions or measures of how to tackle trade in conflict minerals. The European Parliament, on the other hand, has taken a stronger stand and has called on the Commission to come forward with a proposal of its own concerning conflict minerals, following the example of the US Dodd-Frank bill³⁹.

The EU is one of the world’s largest importers of raw materials and should therefore take its responsibility and come up with measures on how to stop minerals from funding conflicts and war. Addressing

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³⁶ Southern Africa Resource Watch, Assessing the Dodd-Frank Act and its Chances of Success in the Democratic Republic of Congo, 14 October 2011.

³⁷ European Commission, Tackling the Challenges in Commodity Markets and on Raw Materials, Communication, 2 February 2011.

³⁸ European Commission, Karel de Gucht European Commissioner for Trade, A Partnership of Equals, 20th Session of the ACP-EU Joint Parliamentary Assembly, Kinshasa, 4 December 2010, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/10/725&type=HTML>.

³⁹ European Parliament, Report on an Effective Raw Materials Strategy for Europe, 25 July 2011.

it in EU's raw material initiative is not enough, since this is a strategy of the EU and not a piece of legislation. The aim with the raw materials strategy is to secure access to strategic raw materials for the European industry, while measures to stop the trade in conflict minerals might well be seen as posing barriers to the trade in raw materials⁴⁰.

THE EU'S NEW BID: RAW MATERIALS DIPLOMACY

In a Communication presented in February 2011, the EU Commission puts forward how it intends to implement its strategy on raw materials. The aggressive tone and language from the raw materials initiative in 2008 was replaced, and instead the Commission stressed that it will pursue a 'raw materials diplomacy'. But the intention is the same, i.e. to secure access of strategic raw materials for the European industries through a reinforced trade strategy. This strategy includes tackling barriers that distort the trade in raw materials, and using dispute settlement where justified⁴¹. However, such 'barriers' are often instruments used by developing countries with the aim to promote industrialisation, job creation and development, for example export taxes and regulations of foreign investment. The EU has been trying to ban, or severely limit, such measures in the on-going negotiations on trade agreements between the EU and African countries, the so called Economic Partnership Agreements (EPA) – a move which has been controversial and strongly opposed by the African countries.

The EU Commission acknowledges in its latest Communication that many African countries have not been able to translate their resource wealth into sustainable and inclusive growth, and that it is essential to enhance governance and transparency in the extractive sectors⁴². The EU has taken a first step through the amendments to its Transparency and Accounting Directive, but it remains to be seen if the EU will assume its full responsibility in the efforts to ensure that extractive industries pay their fair share of taxes in the countries where they operate.

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⁴⁰ IPIS, *Guide to Current Mining Reform Initiatives in Eastern DRC*, April 2011.

⁴¹ European Commission, *Tackling the Challenges in Commodity Markets and on Raw Materials*, Communication, 2 February 2011, p.17.

⁴² *Ibid*, p. 15.

RECOMMENDATIONS

African governments need to ensure good governance in the management of natural resources on the continent. But the international community plays a major role, and it has responsibilities and obligations, which it needs to fulfill. Top among the key concerns we would like to stress, is the attainment of revenue transparency in the extractive sector. Today, African countries lose considerably more revenue from tax evasion and avoidance by transnational companies than they receive in foreign aid. This illicit capital flight needs to be stopped.

There must also be a halt to trade in minerals which finance and fuel war and brutal conflicts, inflicting severe suffering on the local population in several African countries.

THE FOLLOWING ARE CONCRETE STEPS THAT WE URGE SWEDEN AND THE EU TO FOLLOW:

- ◆ The EU's raw materials policy must not threaten African countries' right to their own natural resources and sustainable use of these resources.
- ◆ The reporting requirement for companies in the EU's proposal for amendments to its Transparency and Accounting Directive must apply to all sectors and include data on for example sales, purchases, labour costs, profits and subsidiaries.
- ◆ The International Accounting Standards Board should adopt a mechanism for country-by-country reporting, mandatory for all types of transnational companies. That is, the companies should be obliged to report their financial activities with a breakdown for each country where they operate.
- ◆ The EU should support capacity building of revenue authorities in African countries, and support the strengthening of capacities of African governments to monitor and audit mining companies.
- ◆ The EU should take an active role and work for reforms at the international level to ensure that the taxing rights of African countries are not undermined by abusive international tax practices.
- ◆ As one of the world's largest importers of raw materials, the EU should assume its responsibility and adopt rules that require companies to ensure that they are not buying conflict minerals. It is, however, important to listen to demands from Congo in order to get the proper sequencing between legislation in the North and security and governance in Congo.

THE RESOURCE CURSE

YESTERDAY, TODAY AND TOMORROW

Kenneth Hermele

INTRODUCTION

At school I was taught that Sweden had managed to transform itself from one of Europe's poorest nations to one of its richest by making use of its endowment with natural resources: forests, iron ore deposits and abundant hydropower paved the way for industrialization and for the emergence of the welfare state. Thus, resources were good for development.⁴³

But today we are frequently told by economists and political scientists that resource abundance is a curse leading to corruption, violence and war, facilitating unproductive luxury consumption of the ruling elite at the expense of investments in production and education, which real development necessitate. People in countries which are unlucky to possess natural resources suffer from a paradox of plenty, a resource curse.

The resource curse discourse is so strong, that although there are many historical examples of countries rich in raw materials which have managed to transform their resource-based economies into more diversified and richer societies – from Sweden and USA to Australia and China – there are enough negative cases to sustain the belief that resource abundance is different for today's poor countries, especially in Africa.

The skepticism about raw materials starts early

The notion that natural resources (which I will use interchangeably with raw materials and commodities) may constitute less than a blessing for a country's development is as old as the discipline of economics itself. Already in *The Wealth of Nations*, Adam Smith, one of the founders of economics

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⁴³ As will become clear at the end of this chapter, I myself do not subscribe to this simplistic explanation of Sweden's trajectory. Many factors and conditions make Sweden's case more fascinating than a story line which only recognizes one factor, resource abundance.

as a social science, advised against investing in mining projects as it would “bring bankruptcy upon the greater part of the people who engage in them”. Thus, Smith concluded in 1776, no government ought to support such endeavours:

“Projects of mining, instead of replacing the capital employed in them, together with the ordinary profits of stock, commonly absorb both capital and profit. They are the projects, therefore, to which of all others a prudent law-giver, who desired to increase the capital of his nation, would least choose to give any extraordinary encouragement.”⁴⁴

The doubtful value of mines, in the eyes of Smith, arose because many people invested in them but few were successful. Hence, it was a waste to spend money for such projects, both “the judgment of sober reason and experience concerning such projects has always been extremely unfavourable”.⁴⁵

This early warning against attempts to take advantage of raw materials was soon to be overtaken by the opposite position. In the trade theory discourse propelled by economists like David Ricardo and Eli Heckscher and Bertil Ohlin, relative resource abundance was what explained how a country should specialize and participate in international trade: the relatively abundant resources, forests or land or minerals, for instance, would constitute the foundation of the national advantages that a country should use in order to increase its welfare.

But although mainstream economics was not against relying on raw materials or minerals in general – on the contrary it was claimed by Heckscher and Ohlin, relative resource abundance explained the pattern of international trade – more morally, or perhaps religiously, motivated economists held on to the belief that there is something inherently unsound in building social development on mining or other raw materials, sometimes adding a “Lutheran” objection to “unearned” riches simply found in the ground: real, lasting development is something you only get if you work hard, “in the sweat of thy face”.⁴⁶ Listen to economic historian David Landes in *The Wealth and Poverty of Nations*, an attempt to bring Smith’s account up to date two hundred years later, when he explains how Sweden could make the jump from rags to riches:

“Property rights were secure; the peasantry was largely free; and life was a long stretch of somber hard work broken intermittently by huge bouts of drinking and seasonal sunshine.”⁴⁷

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⁴⁴ Smith (1776/1976):73.

⁴⁵ Ibid.

⁴⁶ “In the sweat of thy face shalt thou eat bread till thou return unto the ground; for out of it wast thou taken: for dust thou art, and unto dust shalt thou return.” Genesis 3:19, King James Bible.

⁴⁷ Landes 1998:252. Landes does recognize that institutions as well as education and literacy had something to do with Sweden’s development as well, so his choice of words may be an attempt at joking. Note also that Landes’ title is paraphrasing Smith’s work.

Here, three ideas appear at the same time: that institutions such as property rights matter; that a free peasantry and the absence of feudalism contribute to development; and that wealth is something you work hard to earn, not something you stumble upon by chance. The resource abundance that I was told explained Sweden's trajectory, is here totally absent from the picture.

The curse goes folklore

David Landes is typical of a widely spread understanding of why countries, and their populations, would benefit from having less rather than more natural resources: rulers of poor countries have to make sure that riches are created before they can appropriate them. Or seen from the other side of the same coin: richly endowed countries invite theft, and their rulers do not need to foster productive activities as everything is handed them on a silver platter. Here is the New York Times' columnist Thomas Friedman's version on this story, after visiting post-communist Russia:

*"You tell me the price of oil, and I'll tell you what kind of Russia you'll have. If the price stays at \$60 a barrel, it's going to be more like Venezuela, because its leaders will have plenty of money to indulge their worst instincts, with too few checks and balances. If the price falls to \$30, it will be more like Norway. If the price falls to \$15 a barrel, it could become more like America – with just enough money to provide a social safety net for its older generation, but with too little money to avoid developing the leaders and institutions to nurture the brainpower of its younger generation."*⁴⁸

What Friedman is formulating here is one version of the resource curse hypothesis: resource abundance impacts negatively on the relationship ruler-ruled, and the higher the price obtained for the resource, the worse for the country's population. But if a country lacks resources, or if the price of oil is low, the rulers will have to invest in people and in their capacity to create surpluses, otherwise they will have nothing to lay their hands on. Thus, resource poor countries are more likely to develop compared to resource-rich nations.

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⁴⁸ Friedman 2007. At the time of writing, the price of oil is 107 USD/barrel. Bad news for the oil exporting countries, and their populations, if we are to believe Friedman.

Development economists have good reason to doubt raw materials

There is a second resource curse hypothesis, and one which has quite a strong foundation in development economics. It has to do with pitting raw materials against industrial goods. More than sixty years ago Raúl Prebisch and Hans Singer presented two related, albeit distinctly different, arguments why a country of the South ought not to dedicate itself to raw materials exports:

- ◆ First, because the price of raw materials could not keep up with the price of industrial goods, thus leading to deteriorating terms-of-trade; this was Singer's argument.
- ◆ Secondly, as class structure and power relations in the South were biased against labour and to the benefit of capital, domestically as well as internationally, productivity increases in agriculture and mining resulted in lower prices and higher profits, not in higher wages in countries of the South, thus blocking the growth of a domestic market; this was Prebisch's argument.

The proof for these hypotheses was that the terms-of-trade of raw materials had been falling since the 1870s, Singer and Prebisch maintained, the purchasing power of raw materials expressed in industrial goods had a negative trend. Thus, the more raw materials you exported, the worse off you became. The conclusion in terms of development strategy was the same for both arguments, and it contradicted the Ricardo-Heckscher-Ohlin orthodoxy of welcoming raw materials dependency: do not export your commodities raw but transform them into industrial products.

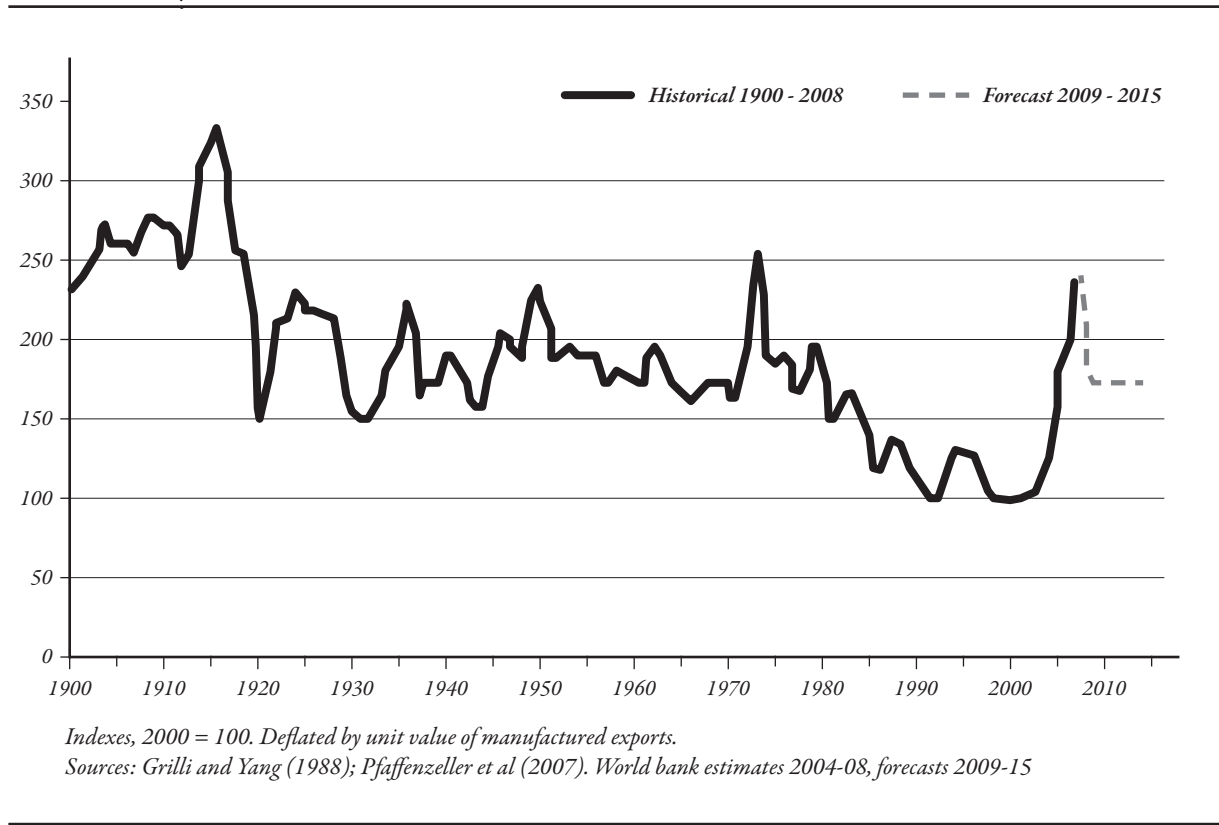
An effective development strategy would try to foster industrial transformation and inward-looking development. These thoughts were later turned into policies in many countries in a strategy called Import-Substitution Industrialization, advocating that countries of the South should transform their own raw materials into industrial goods, in effect substituting imports with their own production. Only in this way, it was argued in this tradition which was particularly strong in the Latin American dependency school, could the resource curse be turned into a blessing.

What really propelled the curse discourse into prominence, I believe, was the dramatic increase in commodities prices during the 1970s following the oil price hikes of 1973-1974. Such price increases seemed to herald a new era and the Prebisch-Singer argument against raw materials specialization looked outmoded as terms-of-trade of commodities rose steeply (see Figure 3). But instead of growth and sustained development in the resource-rich countries, we witnessed the explosion of a debt crisis in 1982, less than a decade later. Why had the South failed to benefit from the price rises? Was there perhaps a resource curse at play?

The answers to questions such as these are important, for two reasons.

- 1 First, countries of the South continue to be dependent on raw materials to a surprisingly high extent to this very day. In Africa, Latin America, and the Middle East and North Africa, over 70 per cent of exports were raw materials 2003-2007; in South Asia, East Asia and the Pacific the share was 35-45 per cent.⁴⁹ Put differently, in two thirds of all developing countries – 96 out of 143 countries – commodity exports still account for at least 50 per cent of the export income.⁵⁰ So, the issue whether there is a curse or not is still crucial to development strategies of many countries of the South, especially in Africa and Latin America.

Figure 3 Real Non-Energy Commodity Prices 1900-2015



Source: World Bank, <http://www.voxeu.org/index.php?q=node/4696>, Figure 3. Note that the forecast for the period 2009-2015 indicates a stabilization of the terms-of-trade, which so far has not occurred.

⁴⁹ Canuto et al 2010:Fig 5.3.

⁵⁰ UNCTAD 2011.

2 Secondly, raw materials exports have indeed lost purchasing power during the last century, as shown in Figure 3. Over the period as a whole, raw materials (excluding oil) experienced a negative terms-of-trade development of -0.5 percent per annum. As can be seen from the figure, there was no smooth and continuous trend, however, and two dramatic shifts downwards of the terms-of-trade have occurred, after the First World War and after the raw materials boom in the 1970s. The explanation for this, economists believe, is that dramatic price shifts stimulate the development of new and less resource dependent production methods and life styles. For instance, the energy use curve, which had been growing exponentially since the Second World War, per capita and per GDP, shifted downwards and took a less dramatic form after the “oil crisis” of 1973-1974, heralding a less energy intensive growth path.

THE PROOF AND DISPROOF OF THE RESOURCE CURSE

There are many cases to prove the resource curse, but none more frequently referred to than Nigeria. The country has received over 700 billion USD in oil revenue since 1960, but is still among the world’s poorest and least developed countries when measured by its Human Development Index. Nigeria was number 156 from the top out of 187 countries ranked in 2011. Average income and life expectancy have declined and income distribution has worsened. 85 per cent of the oil revenues go to one per cent of the population, and 40-70 per cent of the revenue has “disappeared” in capital flight.⁵¹

But to prove a *general* resource curse, we have to go beyond individual country stories, such as Nigeria, since they may be extreme and unrepresentative cases. The most frequent method here has been to test the existence of a curse by the use of statistical correlation analysis showing that resource-rich countries fare worse than resource-poor.

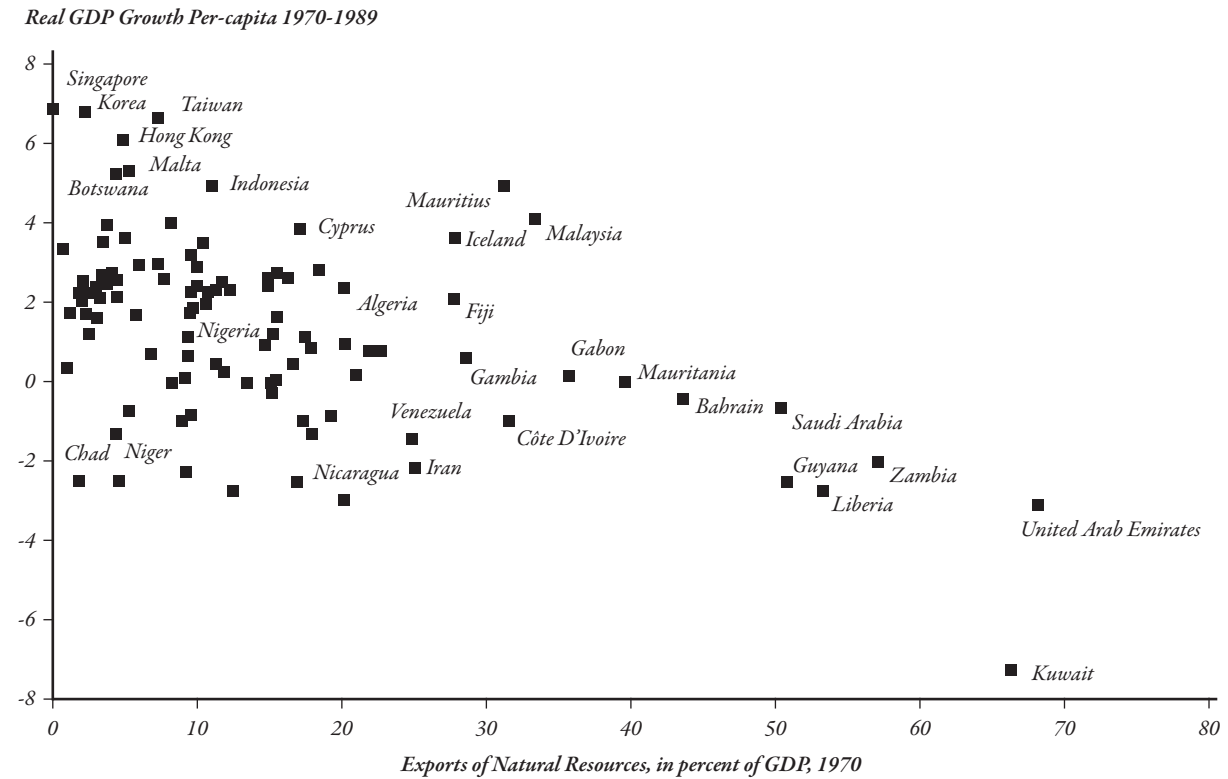
The most influential proof of the existence of a resource curse is a series of papers and articles by economists Jeffrey Sachs and Andrew Warner. They use statistical methods to correlate resource abundance with economic growth for over 80 countries 1970-1990, and conclude that resource abundant countries have achieved worse growth performance compared to countries with less natural resources (see Figure 4). Another paradox of plenty: the more natural resources you export, the less growth you reap.⁵²

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⁵¹ All data from Watts 2009, except the Human Development Index, see: <http://hdr.undp.org/en/humandev/>

⁵² The curse also holds true in relative perspective, Sachs & Warner underline comparing Southeast Asian countries: natural resource poor Singapore, Korea and Hong Kong have grown faster than resource-rich Malaysia.

Figure 4 Growth and natural resource abundance 1970-1989



Source: Sachs & Warner 2001: Fig 1

Is the statistical method sound?

Although the Sachs & Warner account has been extremely influential, their account has also been severely criticized.⁵³ First, their *statistical groundwork has been questioned*. As in any correlation analysis, the statisticians must “instrument” and find proxies for the correlations that they want to investigate. Thus, resource abundance (the independent variable) must be measured in some reasonable way, just as the impact on an output indicator must be quantified (the dependent variable). Sachs & Warner use for “natural resource abundance” the sum of agricultural, mineral and fuel exports

⁵³ I am following the critique by Lederman & Maloney (2007, 2008). It should be noted that the origin and publisher of both these studies is the World Bank, which has a stake in refuting the resource curse hypothesis since it finances raw materials investments: one billion USD of World Bank lending was directed to extractive industries in 2010; of this, 73 per cent went to gas and oil, i.e. precisely that sector of poor economies where the strongest evidence of the curse has been found; see the following discussion on “point-sources”. See World Bank 2010.

in GDP (not in exports), and for output they use GDP/capita growth (and not the level of GDP/capita). All these “instrumentations” are open to doubt. For instance, are they not using too wide a definition of resources, are all resources equally susceptible to be part of a curse?

A crucial question is whether we should measure exports of raw materials net or gross: net exports are advisable if many countries are both exporters and importers of raw materials.⁵⁴ But if we do measure resource abundance with net exports – and not with gross exports as do Sachs & Warner – the negative impact on growth disappears. There is no resource curse, at least not measured by net resource dependency.

What resources should be considered to be cursed?

Secondly, a crucial aspect is **how to measure “resources”**. Sachs & Warner lump all natural resources and raw materials together in one category, but is there not something intuitively wrong with adding diamonds to bananas to bauxite to coffee to oil.⁵⁵ A wise distinction can be made in order to capture the varying appeal and ease of capture of different resources: there is a difference between geographically concentrated and easily controlled resources – “point-sources” such as oil wells or mines, or perhaps plantation crops such as cotton or bananas – and diffuse resources, such as fertile lands, good cattle grazing lands, small-scale agriculture of coffee growers, or artisanal mining.

It is mostly the first category which has been of interest to the continuing resource curse discourse, sometimes joined by plantation crops.⁵⁶ In this way, the curse argument is restricted to certain kinds of resources, not to raw materials in general. Conclusion: resources in general are good; point-sources, however, may be different.

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⁵⁴ Sachs & Warner themselves abandon their preferred measure of resource abundance for two countries: instead of exports/GDP, they use net exports (i.e. exports less imports in relation to GDP) for Singapore and Trinidad and Tobago in order to account for re-exports, otherwise these two countries would appear to be resource abundant, which they are not. But shouldn't this measure be applied to all countries, and not just to these two?

⁵⁵ This is not the worst case of confounding and mixing resources with different characteristics, and prices, that I have found in the academic literature. In another influential study (Auty 1997), “resources” were measured by area of cropland per capita, and countries with less than 0.3 ha/capita were classified as resource-poor. With such a non-specific proxy for “resources”, the conclusion that resource-poor countries have greater possibilities to have autonomous/developmental states as compared to resource-rich countries should not be taken seriously.

⁵⁶ Isham et al 2005.

Historically resources have been good

Thirdly, the general resource curse thesis has been questioned by *historical analogies*. Have countries managed to grow and develop in spite of their resource richness? It turns out that the number of success stories is considerable, going from Scandinavia via USA, Canada and Australia to today's fast growing and resource-rich countries of the South, for example Botswana (diamonds and cattle), Chile (copper) and Brazil (iron ore).⁵⁷

In other words, relative resource abundance will help us little in forecasting countries' trajectories. Sweden and Switzerland are similarly rich, but extremely different in resource endowment, USA and Japan is another less than perfect match in commodity abundance.

Commodities are good for development

There is one more issue that I must raise, the failure in the academic debate to differentiate the impact of resources on growth from its *impact on levels of development*. One would assume that these two impacts would be mutually reinforcing, that reduced growth rates would lead to lower levels of development. But there exists a paradox in the academic debate about the curse that has attracted rather limited attention: even the proponents of the curse recognize that there is something disturbing to their argument: the fact that a number of today's rich countries have passed through phases of – or still remain in – raw materials dependency, which questions the existence of a *general* resource curse.

Even the original account in Sachs & Warner (1997) contemplated this, as they already at the outset of their many renderings of the curse admitted that although their data indicated that there was a curse – resource abundance leads to a decrease in economic *growth* – raw materials were nevertheless good for *development* (or “consumption”, as Sachs & Warner preferred):

*“Resource abundance may be good for consumption even if not good for growth. [...] Put differently, government policies to promote non-resource industries would entail direct welfare costs of their own, and these could easily be larger than the benefits from shifting out of natural resource industries.”*⁵⁸

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⁵⁷ See the various contributions in Lederman & Maloney 2007 for details on these and more cases.

⁵⁸ Sachs & Warner 1997:27-28. And they add in a footnote: “Nor should our results be taken to deny that there are benefits from good policies regarding natural resource exploitation. Compare, for example, the experiences of the primary producers in Asia, namely Malaysia, Indonesia and Thailand with those in Africa.” Here, the resource curse is an African affair and not a general characteristic at all.

Sachs and Warner are admitting here that their account of the resource curse is confusing: trying to reduce a country's dependence on raw materials could *retard* development (it would "entail direct welfare costs", to use the economists' jargon), a most surprising conclusion in a study that is widely quoted as the seminal proof of the existence of the resource curse. Thus they in fact end up with the confusing claim that, on the one hand, resource abundance has led to higher *levels* of development (measured by GDP per capita), while, on the other hand, resource abundance has retarded growth.

Or put differently, the resource curse in this rendering is not an absolute curse, only a relative one: resources retard growth but do not do away with growth. Hence, their claim is only that countries would have grown faster than they actually did, had they not been burdened by resources. A strange curse, indeed.

One way to resolve this contradiction is to separate short term and long term effects.⁵⁹ In the short term, it is claimed, price increases – commodity booms – have a positive impact on growth for the countries whose resources are booming, but this effect wanes off over time. So in the long term, resource abundance will correlate positively with lower rates of growth, while it in the short term still may have aided in rising the level of wealth.

Jeffrey Sachs himself appears to, belatedly, have recognized that his earlier formulations were misleading. This is how he sums up the resource curse, a couple of years after his original influential studies were published. Surprisingly he sides with the sceptics:

*"There is no generalized tendency, to be sure, for oil-rich countries to perform economically less well than oil-poor counterparts in terms of levels of economic performance."*⁶⁰

This, to be sure, is an astonishing conclusion coming from the main proponent of the resource curse hypothesis (although, as I have stressed, this conclusion was actually part of Sachs' initial resource curse story, only later to disappear from the discussion). Sachs goes on to rephrase the resource curse theory in terms which even his critics would have no problem of accepting:

*"The 'curse' is real, however, in one important sense: economic performance of oil economies has fallen short of potential, and sometimes disastrously so."*⁶¹

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⁵⁹ Collier & Goderis (2007): 9.

⁶⁰ Sachs 2007:174. Emphasis in original.

⁶¹ Ibid.

Thus, the curse is now redefined and limited in scope: it does not impact negatively on the level of development, and it does not even entail an absolute curse, just a relative one. The curse now only amounts to an economic performance which is less than what would be potentially possible, a conclusion which, as I argued above, is easy to embrace.

THE CONDITIONAL RESOURCE CURSE

Taken together, these objections make me question the existence of a general resource curse, one that applies to most countries and over extended period of time. This does not imply that basing a country's development strategy on natural resources is easy, only that the real issues do not reside in *the nature of the resources as such* but in a number of other factors, some of which are related to policy, which in turn may be conditioned by power issues, domestically and internationally. In other words, the real resource issue has now passed from discussing whether a country possesses raw materials or not, to assessing what it does with them – rather than what they do to it.

Instead of a general resource curse, we are well advised to think of a *conditional* curse, a paradox of plenty which operates in specific contexts and under certain circumstances.⁶² Thus it is not resource abundance as such, which constitutes the impediment to growth and development, but these other circumstances and conditions. In other words, the curse may now be rephrased as policy failures.

The Dutch disease

One framing of the curse deals with sudden and unexpected income increases, so called windfall earnings, which befall a country, frequently for a limited period of time. A case in point is the oil price hikes of the 1970s, which, after a decade of high prices were followed by two decades of low prices. With such a windfall gain (just as with any sudden inflow of money, be it loans or aid), the domestic economy could be affected by a rising exchange rate, rising wages, and a rising demand for labour to the sector which enjoyed the windfall. At the same time, the manufacturing sector would encounter difficulties in exporting its now more expensive products.

The outcome of such windfalls was often problematic: high rates of inflation, a loss of competitive edge leading to a deteriorating trade balance, and a tendency to de-industrialization as imported industrial goods trumped locally produced. This is, in summary, what occurred to the Netherlands after it started exploiting fossil gas in the North Sea in the 1960s, giving rise to the diagnosis “Dutch Disease”.

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⁶² Lederman & Maloney 2008:2.

The Dutch Disease thus stands for a situation where what looked like a blessing, turns out to be a curse. But the real origin of the curse should be looked for in the policy failures of the government – and in the power relations of the country which militate against adopting adequate policies, such as using the windfall to invest in production and education instead of letting the sudden richness lead to rising luxury imports; or “pacifying” the windfall by creating sovereign wealth funds in order to prolong and diffuse the impact over a longer period, and over various countries if the funds are invested abroad. Think Saudi Arabia and Norway!

Volatility is the curse

Another take on the curse is the *price and income volatility* that raw materials dependency entails. Again, the curse is not a resource curse, but a volatility curse, especially for concentrated point-source commodities.⁶³ Thus, the curse is one of concentration, of a narrow resource base, not of resources as such.⁶⁴

Institutions rule

In general, we end up with an argument where the resource curse is conditional upon other negative or problematic traits in the countries that harbour the coveted resource. In other words, when governance is weak, corruption rampant, the resource base narrow, the demand unstable, raw materials may be a curse; but where countries are well-functioning with many and efficient institutions, where corruption is low, and backward and forward linkages have been established, they have less of a problem of benefitting from their resource abundance and from windfall gains.

To repeat, it is not the dependency on raw materials as such which explains weak performance of countries, but their weak or corrupt institutions. Hence, the key issue is not resource dependency but institutional weakness. This also helps explain why many countries, as we have seen, have managed to grow and develop based on a bountiful resource base: they simply had institutions which allowed them to take advantage of the benefits that resource abundance bring. As economist Dani Rodrik, after assessing the resource curse, exclaims: “institutions rule”.⁶⁵

But although it may be comforting to learn that *in general* the resource curse is conditional upon the quality of country institutions, we still haven’t answered the logical follow-up question: what is it that determines whether institutions are good or bad?

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⁶³ v d Ploeg 2011:387. Similar conclusion in Cavalcanti et al 2011.

⁶⁴ Lederman & Maloney 2007:6.

⁶⁵ Rodrik et al 2004; see also Easterly & Levine 2003 and Gylfason 2001 for similar positions.

Not an easy question, and many attempts to answer it are less than convincing. Although the resource curse debate seems to have reached a consensus – the curse is dependent upon weak institutions and bad policies; with strong institutions and good policies there is no curse – there still rages a discussion regarding how to account for the institutional differences among countries. Here, the way various studies have instrumented for “institutional quality” is a contentious issue.

Recognizing that it is not easy to find a good proxy for institutions – the independent variable – one influential study uses mortality rates for European colonizers, based on the assumption that when colonies were settled by Europeans, the institutions that resulted were more developmental and less “extractive” compared to the institutions that came out of colonial occupation without European settlement. The settler institutions are thus less amenable to produce a resource curse than institutions that arose in countries that were not settled by Europeans.⁶⁶

But since we know that European colonization frequently replaced, or literally killed, the existing institutions that the Europeans found upon arrival, it is perhaps the exchange of institutions that we should care about? Haven’t European institutions stymied the social and economic development which would have occurred in the absence of colonization? Shouldn’t we investigate whether the European colonisation in Africa, Asia and Latin America may have had something to do with the demise of the colonized societies’ own institutions, fostering a dislocation of their development trajectories from the paths they might otherwise have taken? Perhaps even the dependency created by colonization is part and parcel of the continuing dependency that characterizes many poor countries?

Or take another dubious proxy for institutional quality, language: if the population speaks a European language, institutions are assumed to be superior to countries where other languages are spoken.⁶⁷ I wonder what such proxies can teach us when it comes to understanding why South Korea, Botswana or China have managed to avoid being cursed by bad institutions?

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⁶⁶ Acemoglu et al 2001.

⁶⁷ v d Ploeg 2011:384 reviews this literature in a positive light.

I have not come across any discussion regarding *when* a country becomes susceptible to the resource curse: at what point of dependence does resource abundance begin to constitute a drawback? Intuitively, it seems that a limited dependency on resources would be all right according to the curse discourse, while major resource reliance constitutes a problem. Just as with foreign aid it is likely that resources may be beneficial as they add income and earnings without constituting the only or the main source of income. But where should the line, where resource dependency passes from good to bad, be drawn?

Perhaps we could learn from the aid curse discourse. A study of aid dependency concludes that the threshold where aid goes from “good” to “bad” is reached only when aid constitutes as much as 16 per cent of GDP.⁶⁸ Then corruption and Dutch Disease phenomena outweigh the positive effects on growth that aid also brings.

Should a similar cut off level be assumed for raw material resources? If so, we could be warned that the *average* dependency measured in this way – Primary exports/GDP – is 11-12 per cent, which is not alarmingly high. But the highest dependency recorded (in a sample of 65 countries) was over 60 per cent, a level of resource dependency which certainly looks as inviting a curse.⁶⁹

Perhaps the relevant comparison is resource exports/total exports (and not share of GDP). If so, we have a number of countries with a dependency on raw materials which in all likelihood is way beyond what is recommendable. Botswana has the world’s highest ranking of resource dependency measured this way, 84 per cent of its merchandise exports came from mining in 2010. The number of countries with high raw materials dependency (measured as mining/merchandise exports, excluding oil), however, is not large, only 18 countries scored over fifty per cent on this resource curse index.⁷⁰

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⁶⁸ This very rough estimate is from Michael Clemens, Steven Radelet & Rikhil Bhavani (2004): *Counting Chickens When They Hatch: The Short Term Effect of Aid on Growth*, Center for Global Development, Washington DC. This share for aid is way over the average aid dependency which is only 5 per cent of GDP, but a number of countries, especially in Africa, have aid dependency rates which are higher than 16 per cent.

⁶⁹ Lederman & Maloney 2007:27.

⁷⁰ The countries are: Botswana 84 per cent, Zambia 84, Democratic Republic of the Congo 78, Mongolia 78, Suriname 75, French Polynesia 67, Chile 66, Guinea 65, Peru 63, Mauritania 60, Northern Mariana Islands 59, Mozambique 57, Mali 55, Sierra Leone 54, Papua New Guinea 54, Namibia 53, Nauru 51, and Armenia 51 per cent. Data courtesy Raw Materials Group, Stockholm.

THE POLITICAL ECONOMY OF THE RESOURCE CURSE

Following upon the debt crisis of the 1980s, international financial institutions such as the World Bank, the International Monetary Fund and the regional development banks of Africa, Asia and Latin America, imposed a neoliberal policy package on the debt-stricken countries. The policies included privatization of national raw material assets, and a reduction of the demands levied on transnational corporations in order to attract investments in a “race to the bottom”, a dramatic turn-about in raw materials policies compared to the 1970s which had been a decade of national policies to capture more of the surpluses emanating from raw materials production to use domestically.

The policy package, which is known under its World Bank and IMF name “Structural Adjustment”, in one stroke shifted the balance of power in favour of the foreign investors: in a series of moves poor but resource-rich countries relinquished their claims to majority ownership, and eased demands for royalties, local sourcing, and local employment of key staff.⁷¹

This shift was not something the World Bank tried to hide, or did timidly and half-heartedly. Although it in words, in a mining strategy paper, recognized that “the responsibility for change in the first instance is on the African governments”, it nevertheless knew what it wanted to achieve, a clear shift in the power over the mines of Africa:

*“A clearly articulated mining sector policy that emphasizes the role of the private sector as **owner and operator** and of the government as **regulator and promoter**.”⁷²*

Such a division of responsibilities set the stage for reducing state power and control over resource revenues. In this sense, the curse is intentional, a result of policies imposed by international financial institutions, backed by creditor governments of the North. See Box 7 for illustrative cases.

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⁷¹ See the collection of African case studies in Campbell 2009.

⁷² World Bank 1992:53. Emphasis added.

GHANA

A new mining code was instituted in 1986, when Ghana – the second largest gold producer in Africa, and number ten globally – was still considered to be a model reformer as one of the first countries implementing Structural Adjustment Policies. The new code reduced the state's ownership share to 10 per cent (minimum, with 30 per cent optional), limited its royalties to 3-12 per cent of the gross production value, and the profit tax to 45 per cent of net profits (only later to lower it further, to 35 per cent). By 2005, mining taxes' share of total tax revenue was down to 11 per cent, a reduction in Ghanaian terms, but still much higher than in many resource-rich African countries.

In 2006, a new code was introduced, which reduced tax on net profits to 25 per cent and limited the upper bound for royalty to 6 per cent (while keeping the lower at 3 per cent); state participation was now restricted to a maximum of 10 per cent.

The mining code lacks specific regulations to foster backward and forward linkages, hence the mining sector remains an enclave economy in Ghana, with quite low employment generation effects and with an almost complete dependency upon expatriate staff for the more qualified jobs. When it comes to Ghana's newly found oil reserves, however, it has guaranteed the Ghanaian state a share and requires that the joint ventures use local sourcing where available.⁷³

A major impact is felt locally, however, the dislocation of people who live in the mining zones: 30 000 were displaced in the 1990s to make room for gold mining in the Western Ghana.

GUINEA

Guinea has traditionally been extremely dependent on its mining industry, in 1986 it accounted for as much as 74 per cent of government revenues. This dependency decreased gradually, reaching 26 per cent 1996 and 15 per cent 2007. Still, bauxite, gold and diamonds are Guinea's dominating export products, accounting for 90 per cent of total exports 2004.

As a result of the policy reforms introduced in Guinea in 1984, the state's ownership and revenue base was reduced, the bauxite sector kept isolated and completely export oriented without linkages to the domestic economy, and with a limited impact on employment due to the capital intensity of mining investment. In addition, mining companies were exempt from a number of taxes and fees, including import duties.

continued on the next page

⁷³ See Gregow 2010:58.

... continued

In 2007, a popular uprising, led by the Guinean trade unions, demanded that contracts with foreign mining companies be made public, and a possibility to renegotiate them. Transparency and an end to the culture of secrecy characterizing the relations with the mining companies were central demands in the uprising.

MADAGASCAR

Madagascar is a case where the government so far has not managed to regulate the mining sector to the satisfaction of the mining companies. Although investments are growing, mining is still only 5 per cent of Madagascar's GDP, and legal exports are quite limited. As a consequence, illegal exports, held to be in the order of 200-500 million USD annually, dwarf the official export value which in 2000 was only 37 million USD.

But mining has nevertheless been on the increase, with investments coming from some of the leading global actors (such as Rio Tinto), exploiting Madagascar's large variety of minerals, from mineralized sands to diamonds, uranium and oil (attracting among others Exxon Mobile, Norsk hydro and Statoil). Investments in the mining sector are now estimated to be in the order of 2 billion USD annually.

MALI

Mali is a major gold producer, ranking number four in Africa by the late 1990's, a result of new mining codes in 1991 and 1999. Although already the 1991 code was favourable to the interests of the mining companies, the 1999 code took a further step in the same direction: maximum foreign ownership was increased from already high 85 to 90 per cent, depreciation allowances were made more generous, the value added tax was eliminated, and the companies were exempt from paying duties and taxes on petroleum products, without time limit.

The lifespan of the mines is quite short, the agreements for two of the major gold mines only run 13 and 10 years, respectively. In reality, the mining companies have stepped up their exploitation speed and will terminate mining two and four years ahead of time, respectively.

The potential benefit that Mali can get from such activities is extremely short-term, if any. The companies are also arguing that their responsibility for any environmental effects on the mining sites should be limited to five years only. Quick and dirty does not seem to be an unfair summary of their stance.

Source: Campbell 2009.

WHO BENEFITS FROM THE RESOURCE CURSE?

There is something apolitical about the way that resource curse proponents argue, it seems as if it were the character of the resources as such, their “pointedness”, the ease with which they can be grabbed, that explains why they constitute a curse and not a blessing. Actors, power, and conflicts are pushed to the background. Just listen to how a state-of-the-art article sums up the difference between point-sources and diffuse resources, based on one case study alone:

“A recent quasi-experimental study of the districts of Colombia offer evidence that capital-intensive resources such as oil are much more prone to civil conflict than labor-intensive resources such as coffee, rice, or bananas.”⁷⁴

Here, the acting subjects are the resources themselves, oil and bananas being more or less disposed to go to war it seems.

But we can go in another direction and look at the curse in the context of global production chains and networks and their actors and wielders of power. In such a political economy perspective, the state is central but so are local and indigenous peoples, local and transnational corporations, as well as international financial institutions. In other words, it is not the resources which are the object of study and analysis, but a whole complex of social, economic and political forces, some of which have awesome global reach (see Box 8).

Given this impressive global embrace, the oil nexus possesses strong transformative powers which directly and indirectly restructure the actual forms of governance, building upon pre-existing, and pre-oil, political and economic dynamics, a “coupling of state, company and profit” leading to “economies of violence”.⁷⁵ In this light, Nigeria is falling apart, not a nation but a “mere geographical expression”, as once said about the oil rich country at independence.⁷⁶

The oil complex in Nigeria has produced an “unimaginable community”, an ever more fragmented nation, with 36 states compared to 3 fifty years ago, and with 700 instead of 50 local governments.⁷⁷ The conclusion is given for Nigeria, but it would appear, in an oil curse perspective, that it would also apply to other oil dependent countries.

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⁷⁴ v der Ploeg 2011:406.

⁷⁵ Watts 2004:75, Bridge 2008:411.

⁷⁶ Quote from the Nigerian politician and former prime minister of Western Nigeria Abafemi Awolowo (1909-1987) in Watts 2004:74.

⁷⁷ Watts 2004:74. Watt’s phrase “unimaginable community” is a reference to Benedict Anderson’s influential essay on nationalism and the nation-state, *Imagined Communities* (1983).

Box 8***Oil. Nothing Quite Like It.***

“The production network is held together materially by a global oil infrastructure with its own particular geography [...] the arteries and organs of the oil and gas global value-chain is nothing short of gargantuan. Close to 1 million producing oil wells puncture the surface of the earth (77,000 were drilled in 2008, 4000 offshore); 3300 are subsea, puncturing the earth’s crust on the continental shelf in some cases thousands of meters below the sea’s surface. More than 2 million kms of pipelines blanket the globe in a massive trunk-network (another 180,000 kms will be built at a capital cost of over \$265 billion over the next four years). 75,000 kms of lines transport oil and gas along the sea floor. Another 156,000 kms of pipelines will be completed between now and 2012. There are 6000 fixed platforms, and 635 offshore drillings rigs [...] 4295 oil tankers [...] move 2.42 billion tons of oil and oil products every year, a figure which represents over one third of global sea borne trade. Worldwide over 700 refineries process crude oil; over 80 massive floating, production and storage vessels have been installed in the last five years. A large field such as the Kashagan reservoir in Kazakhstan might incur over \$150 billion in investment over its lifetime; Sakhalin-II off the eastern coast of Russia, operating in deep water at winter temperatures of minus 24 degrees Celsius with platforms built to withstand massive ice-flows moving at 2 meters per second, will alone cost more than \$20 billion. All in all there is nothing quite like it.”

Source: Watts 2009:4-5. In reality, the extension of the oil network is even vaster than here described as the whole distribution system after the refineries is unaccounted for.

The Lundin-Sudan case (see Box 9) shows that the origin of the negative impact of resources on governance and democracy cannot be grasped without understanding prior conflicts and contradictions that exist on the ground. The resource curse does not play itself out in a vacuum, but in the statistical treatment of the curse, as we have seen, this is exactly how the question is framed, with aseptic data on resources and growth rates, without paying any attention to the concrete case.

With the opposite approach, looking for a concrete understanding of a concrete and particular case, we are led to question correlation analyses built on national data. Such national approaches must be combined with analyses which focus on the local and regional level, something which is completely absent in the statistical renderings of the resource curse.

The Lundin Oil and The Devil's Excrement in Block 5A, Southern Sudan

“Oil is the Devil’s excrement” is a phrase attributed to the Venezuelan founder of OPEC Juan Pablo Perez Alfonzo. A case in point is the devastation that followed upon the arrival of a transnational oil consortium to Southern Sudan. The consortium was led by Swedish Lundin Oil (with a 40 per cent share), in collaboration with Petronas, Malaysia (29 per cent), and OMC, Austria (26 per cent), and with a minority participation by the publicly owned Sudanese Sudapet (5 per cent).

The result after six years of operations in Block 5A: indiscriminate attacks and intentional targeting of civilians, burnings of shelters, pillage, destruction of homes and means of survival, killing of thousands of civilians and massive rape of women, abduction of children, torture and forced displacement of at least 200 000 people.

Although the area of southern Sudan where the operations were located had been the scene of a civil war for years, the Lundin consortium neglected to include human rights safeguards or even to mention that international law should be respected in the contract that was signed with the Sudanese government in 1997. Worse, the consortium worked alongside armed bands as well as government forces, thus relying for the safety of its own operations and staff on the support of the armed groups operating in the area; at the same time, the perpetrators and criminals could take advantage of the roads and bridges that the consortium had brought. In this way, says the European Coalition on Oil in Sudan, ECOS, the Lundin Consortium is guilty not only of accepting but of facilitating criminal acts.

ECOS concludes that the parties to the Lundin consortium are complicit in the commissioning of war crimes and crimes against humanity. An oil curse of dramatic proportions. The Swedish, Malayan, Austrian and Sudanese governments have a joint responsibility for these crimes and violations of human rights. They therefore also should be obliged to pay compensation to the victims of the crimes committed, as stipulated in the Sudanese Comprehensive Peace Agreement (article 4:5) and the Interim National Constitution (article 208:5) which resulted in the establishment of the independent state of South Sudan in 2011.

Source: ECOS 2010.

FROM RESOURCE CURSE TO RESOURCE WARS

We have seen that the proponents of the resource curse argue that resources are bad news, while the institutional “school” maintains that resources can be turned into a blessing if a country is equipped to negotiate with international corporations, establish satisfactory rules and regulations, receive and make good use of taxes and royalties, and then manage to control possible Dutch Disease effects, and take care of the proceeds in a constructive and productive way, economically and socially.

On the other hand, we have also seen that resource abundance, especially when it comes to point-resources, may contribute to the disintegration of societies and nations, and it may go hand in hand with civil wars and violent conflicts. In fact, the literature on the resource curse has an accompanying literature on resource wars, where the quest for, and competition over, resources – especially oil but increasingly other coveted commodities – engender violent and extended conflicts.⁷⁸ What we are seeing today may well be, in the words of an astute observer:

“the emergence of a new geography of conflict – a global landscape in which competition over vital resources is becoming the governing principle behind the disposition of and use of military power.”⁷⁹

The perspective here was of the United States ten years ago, but also lesser powers are joining the fray. The European Union Raw Materials Initiative has recently focused on the growing need for EU member states to access raw materials. In a statement by the EU Commission in 2006 regarding the EU Global Europe Strategy, raw materials were singled out as key elements in unequivocal language:

“More than ever, Europe needs to import to export. Tackling restrictions on access to resources such as energy, metals and scrap, primary raw materials including certain agricultural materials, hides and skins must be a high priority. Measures taken by some of our biggest trading partners to restrict access to their supplies of these inputs are causing some EU industries major problems. Unless justified for security or environmental reasons, restrictions on access to resources should be removed.”⁸⁰

In the policy statement that subsequently was made part of EU policy in early 2011, the aggressive wording has been softened, but this cannot hide that continuous and unimpeded access to minerals and agricultural resources is of pivotal concern to the EU. According to the Commission, the EU should develop a “raw materials diplomacy” in order to secure a constant flow of raw materials.⁸¹

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⁷⁸ See Le Billon 2004, and Klare 2002.

⁷⁹ Klare 2002:214.

⁸⁰ Quote from Gregow 2010:27-28.

⁸¹ European Commission 2011:11.

The wording sounds neo-colonial to me, as if access to resources is a right of the EU, thereby legitimizing violence and military interventions in order to secure this “right”. As Clausewitz famously mused, war is the continuation of politics by other means.⁸²

But the same concern – the wish for a continuous flow of raw materials from the South to the North – may also be framed in pacific, non-confrontational words, posing conflicts as “risks” and “challenges”. This is the approach of the global business community and the World Economic Forum (WEF) which has formed a Risk Response Network.⁸³ The WEF underlines as one of three global risk “nexuses” climate change, food and water insecurity, and the volatility of energy prices. If this sounds familiar, it should: the WEF risk nexus describes quite accurately the situation we witnessed during the period leading up to the financial crisis of 2008. Then, a number of countries of the South introduced bans on food export in order to stave off domestic protests and food riots. The flow of food and other resources to the North was threatened.

We are now, only three years later, approaching a similar situation: food prices are in real terms higher than they were before the crisis of 2008, and the same goes for agricultural commodity prices in general.⁸⁴ As I believe resource crises are here to stay, I also hold that violent resolutions to such crises will constitute an ever greater threat to peace, sustainable development and human rights.

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⁸² Carl von Clausewitz's *On War* was originally published in German in 1832.

⁸³ World Economic Forum 2011. Two other risk nexuses were identified: The economic crises nexus, and The illegal economy nexus.

⁸⁴ See UNCTAD 2011 and www.fao.org for up-to-date data. Most raw materials recuperated surprisingly quickly after 2008. Compare this to the forecast of Figure 1, above, which assumed that terms-of-trade would stabilize or even fall after the vertical decline of 2008-2009. This forecast has not been borne out by real developments so far.

CONCLUSION

The dominant view among economists and political scientists of a general resource curse is misguided. Although there indeed are many cases where resource abundance coexists with poverty, corruption, violations of human rights, civil wars and international warfare, the curse is nevertheless wrongly framed.

Instead of a general curse which can be attributed to the resource richness as such, a more nuanced consensus view considers the resource curse conditional upon the capacity of the resource abundant countries and societies to manage and make use of the resources that they harbour, and to force the transnational corporations that engage in raw materials exploration, extraction and exploitation to conform to international standards in order to contribute to the development of the host societies.

Focussing on institutions and policies allows us to discuss the paradox of plenty in a historical perspective, where many countries have managed to use their resources as building blocks in society-wide transformations to improve livelihoods and promote human rights. Any one-factor explanation cannot but fail to account satisfactorily for such complex and contradictory processes, over such long time frames, and with such varied national, regional and local outcomes.

This also holds for Sweden, whose resource richness was but one of the many factors that contributed to the success story that Sweden's transformation during the 19th and 20th centuries constitutes.⁸⁵ What is more, the need to bring in local and regional levels of analysis is equally underlined by the example of Sweden, where economic growth and development for the majority of the population occurred at the expense of the indigenous minority the Saami, who furthermore owned the lands where the most valuable iron ore deposits were found, from the 16th century and onwards.⁸⁶ That the Saami people's rights to these areas were violated, is further evidence that resource richness and development ought to be analysed on more levels than one, and that the national perspective frequently hides more than it discloses. To Sweden, and to Swedes, raw material resources may have been a blessing, but to the Saami they turned out to be a curse.

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⁸⁵ Sweden's history is better understood as the outcome of a complex set of factors rather than the result of only one circumstance, such as resource abundance. We are better advised to look for explanations originating in a relatively free and accumulating peasantry, plus the early institution of compulsory primary schooling in 1842, plus the social movements – religious, temperance, trade unions – that arose in the late 19th century, plus the fact that Sweden avoided two world wars and could thus supply the reconstruction of Europe post-1945, plus a culture of compromise and cooperation, etc, etc PLUS an endowment with abundant natural resources. No single explanation can constitute a catch-all for such complexity.

⁸⁶ See Kvist 1994.

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