

## Testimony to the Commission on Security and Cooperation in Europe

### THE RESOURCE CHARTER

Joseph C. Bell<sup>1</sup>  
Chair, Advisory Board, Revenue Watch Institute  
April 15, 2010

Mister Chairman, thank you for the invitation to speak to you about the Resource Charter. Natural resources -- oil, gas, minerals -- have been the source of many conflicts, much corruption, and on occasion great environmental damage. Even today resource competition is fueling conflict in the Eastern Congo, the Nigerian delta and elsewhere. But natural resources also provide an opportunity to support growth and rapid development as Botswana, Norway and indeed our own experience have shown.

The Resource Charter is one tool in the effort to support governments and societies in the positive use of their natural resources. My colleague Karin Lissakers, the Executive Director of the Revenue Watch Institute, will explain to the Commission how the Charter was developed, its current status, and how it fits in with other international initiatives. In my statement I will touch upon the basic substantive principles incorporated into the Charter. The full document is being submitted for the record.

---

<sup>1</sup> Partner, Hogan & Hartson, LLP, 555 13<sup>th</sup> St. NW, Washington, DC 20004. [icbell@hhlaw.com](mailto:icbell@hhlaw.com).

Resource management can be a particular challenge for developing countries having weaker institutions and limited human resources and where such resources can bulk large in government revenue. But success is possible, and that success is not only a benefit to the country but also to the international community in reducing conflict, eliminating poverty, and in general producing a more prosperous and stable world.

The Charter enhances the likelihood of success by drawing together what we now know about the wise development of natural resources and to provide that information in a useful format to governments and societies in resource rich countries. The Charter is organized around twelve principles or precepts. The first ten precepts or principles are directed to the countries which have significant natural resource endowments and the last two are directed to the extraction companies, home governments and international capital centers.

To facilitate the Charter's use it is also elaborated at three different levels. Level one states the twelve precepts in single sentence summaries. Each principle is then elaborated in a short policy summary, the level 2. The third level sets out in some detail the learning we have with respect to each principle, including references to other work, and listing issues that must be confronted and pointing to successful experience. I should emphasize that this is still a work in progress and as I speak the effort continues to be informed by comments by policy makers and experts from developing countries and elsewhere.

Under the Extractive Industries Transparency Initiative (EITI), the best known international effort to date, there has been much focus on one important aspect of resource development – the transparency of payments to the government. The Resource Charter reinforces the EITI, particularly with respect to the importance of transparency, but the Charter also goes beyond EITI by looking to the entire value chain from the decision to develop (or not), the development process itself, and very importantly how best to use the resulting revenues.

Outside the Anglo-Saxon legal tradition, natural resources are the property of the nation and the principles begin with the basic notion that they should be used to secure the maximum benefit for the citizens of the host country. The implementation of this simply stated and unexceptional idea is in fact not easy and requires many difficult decisions. Oil, gas, and mining projects are technologically complex and capital intensive, usually have long investment lives, and are affected by highly volatile commodity markets. Moreover, they can if improperly managed impose heavy social and environmental costs. Getting these decisions right in any country requires good processes, good technical knowledge and in the end good judgment.

A number of the precepts involve the technical issues of resource management. What is the role of competition and how can it help make better decisions and maximize value (Precept 3)? What are the options for the fiscal regime (Precept 4)? What basic principles should guide state owned companies (Precept 5)? What are the social and environmental risks that must be accounted

for and how can they be mitigated (Precept 6)? These tools emphasize the use of competition to maximize value to the country and the adoption of fiscal regimes that have flexibility to adjust to changing economic and social conditions over the long periods typically required for resource extraction.

Certain of the precepts deal with process, especially the importance of transparency and public involvement in resource use (Precept 2). The history of resource exploitation is filled with much bad history of secret dealings and private enrichment. The Charter emphasizes that these resources are public assets. Citizens have not only a right to information about their development, but such information is a basic element in getting policies correct and in building constituencies that will support such policies over the long term.

On the expenditure side, the Charter holds that resource revenues should be principally devoted to promoting sustained economic growth. Resource development should be integrated with the country's long term development plan, and the additional revenues should be used to accelerate movement along that plan.

This may seem an obvious conclusion, but there has been much debate about how much of natural resource revenue should be saved and how much spent currently and on what. Some have argued that revenues should be deposited in some sort of "future generations" fund with the only the interest being spent to support the budget. While appealing on its face, in fact the returns to investment in social and physical infrastructure within the country should in most cases be much higher than the returns available on internationally held funds, even more so

when one considers the vulnerability of such funds to future “raiding.” Particularly for poorer countries – but also for countries such as our own -- it is this internal investment that sets the foundation for prolonged and significant economic growth, a process which increases the welfare of both current and future generations.

The Charter’s value lies in providing wise advice based on experience as to how a country should go about this critical process of converting a country’s wealth in the ground to permanent wealth for its citizens. We are all beneficiaries when countries are successful in this task.