



**Do transnational businesses
aggravate conflict?**

Can they be regulated?

A Global Witness perspective





Overview

- Extreme example of use of conflict to abet highly corrupt shadow state
- Special role of natural resource sector in conflict
⇒ 'Paradox of plenty'
- Examples:
 - (1) Conflict diamonds
 - (2) Conflict timber
 - (3) Oil sector and transparency
- Different nature of commodity affects regulation



The rise of the shadow state

Global Witness tends to work on problem *in extremis* in failed or 'shadow states':

- Deliberate use of political and economic disorder to enable collective and highly-organised economic abuses and misappropriation of state's assets
- State not 'rational manager' but protection racket
- Institutional services as private property than public duty
- Abuses sustained by blaming conflict for social problems
- Business as war – for example, DRC and Zimbabwean loggers



Shadow state (2)

Problem accelerated since end of cold war

Cessation of large-scale ideological patronage

∴ Ideology absent beyond self-enrichment

Rise of the 'governance' agenda in development

→ Recognition that corruption and resource misappropriation is fundamental to hindering development

Acceptance that risks of complicity are not all one-way

→ The Economist: "firms doing business in countries with unpleasant governments ... [are] endangering the most priceless of assets, their good name"



Focus on natural resources

Often only source of revenue available to less developed states

Natural resource flows easily manipulated:

- Low 'transparency' of resource allocation process
- Extracted in frontier areas
- Losers are nearly always the poor or the 'future'

Natural resources businesses:

- Cannot divest from conflict areas
- Increasingly extract from countries where civil society and transparency are proportionately weaker



Recent resource wars

Algeria	1991+	Oil
Angola	1975+	Oil, diamonds
Cambodia	1988+	Timber, gems
Congo B.	1997-1999	Oil
DRC	1997+	Copper, diamonds, timber
Indonesia (Aceh)	1986	Natural gas
Indonesia (I.J)	1969	Copper, gold
Liberia	1989-95	Diamonds, iron ore, shipping register
Nigeria (Biafra)	1967,1984	Oil
PNG	1988+	Copper, gold, timber?
Sierra Leone	1991+	Diamonds, Liberian timber
Sudan	1983+	Oil
Yemen	1986-1994	Oil



'Paradox of Plenty'

Resources not only fail to bring development but may hinder it

Resource rich governments:

- Use low tax rates and patronage to dampen democracy
- Spend a high fraction of their income on internal security
- Lack of social and cultural changes to produce accountability

All of which may engender and sustain conflict

→ 22.5% higher chance of civil war over five years



Natural resources and conflict/poverty

Dependence	Oil	Minerals
Low HDI	✓	✓
Drop in HDI 1990-1998		✓
Poverty		✓
High corruption	✓	✓
Authoritarianism	✓	✓
Likelihood of civil war	✓	✓
Lack of effectiveness (ie. rank HDI << rank GNP)	✓	✓
High military spending	✓	✓
Low economic growth	✓	✓
High <5 mortality	✓	✓
Child malnutrition	✓	
Low life expectancy	✓	
Low health spending	✓	
Low primary schooling	✓	
Low adult literacy	✓	
Income inequality		✓
Economic shocks	✓	✓



Conflict diamonds

About 5% of total rough diamond production
c. US\$ 400 million to conflict areas
⇒ Was perhaps 20%?

Funding specific rebel groups:

UNITA US\$100-150 million in 2000
 US\$600 million in 1990s

RUF US\$50-100m in 2001

Recent link to Al Qaeda?

Lebanese radical sympathisers buying from RUF

⇒ Finance and connections for Tanzanian and Kenyan attacks?



Regulating diamonds

(1) Use of sanctions on rebel funding

But ineffective as easy to smuggle

∴ Threat of consumer boycott to very visible industry

(2) Trade regulation through Kimberley Process

- Verifiable and cross-checked certification
- Tamper resistant containers
- Independent auditing of process
- Licensing diamond traders

But will all measures be implemented equally?

(3) Regulation also linked to maintaining monopoly position



Cambodia 'wood-fired' war

Khmer Rouge timber trade over Thai border

Pol Pot, 1988: "Our state does not currently have sufficient capital either to expand its strength or enlarge the army ... It is thus imperative that we find ways to develop natural resources ... as assets to be utilised in the fight against the Vietnamese aggressor enemy"

⇒ In 1991, 22 logging concessions active (16 in KR areas)

SoC Government supported by Vietnamese logging

⇒ Each side's major ally had denuded own forests

Once elected after UNTAC, co-PMs secretly awarded 28 forest concessions (>35% of total land area)



State mismanagement of forest resource

- From 1990-1995, resources worth over \$500 million returned only about \$15 million to the central treasury
- Wartime market cut-and-run dynamics threatened to log out country only 10 years after industry colonised
- Institutions bent out of shape (export ban etc)
- Damning commentary by WB consultants, 1997: "notions of public authority and duty, property rights and legal entitlement and honesty are challenged as boundaries between legal and illegal, as well as public and private, are erased, voluntarily or not, by most actors in a highly predatory regional environment"



The 'million metre deal'

Three secret letters from co-PMs to Thai PM in 1995

- Authorised exports of 1.1 million m³ of logs
- 18 Thai companies applied for permits, almost all were based in hard-line KR areas earning c. US\$90m for the KR
- Took place in secret at a time when the Government was meant to be 'fully cooperating' with donors
- IMF pulled \$20m worth of funds in protest

But sweetener for a wave of defections in late 1996



Regulating Cambodian timber

(1) Sanctions

- FY95 US Foreign Operations Act - terminate assistance to military cooperating, tactically or strategically, with KR

(2) Positive conditionality

- Aid disbursement and structural adjustment loans made conditional on reform in sector
- Formed Forest Crime Monitoring Unit in May 2000 with an independent monitor to ensure transparency and credibility

(3) Consumer boycott?

(4) Future trade controls tied to development assistance?



Angola and oil

Unaccountable income to state misappropriated and looted

- Oil companies pay US\$3-5 billion in taxes
But do not publish what they pay to the Government
- Banks gave US\$2 billion in oil-backed loans
But do not check how revenues are spent

Revenues disappear in 'Bermuda Triangle' between Sonangol, Treasury and Presidency

∴ Real owners of resource (ie. people) disempowered cannot call Government to account over missing funds

🗨️ 🗨️ A third of all state revenue missing last year!



Mechanisms for state looting

Angolagate scandal

- US\$700 million of known arms deals from 1993-1996
- Paid for by oil-backed loans disbursed out of French banks with enormous commissions
- Angolan Third Ambassador in Paris received US\$18 million in commission. Argued that payments were not corruption but due to "operational logic over there in Angola"
- Complicity at high levels in French and Angolan establishment

Operational logic extended to subsidiary company of those in Angolagate that runs (overpriced) military procurement process

Nearly every item now consumed in war benefits ruling elite



Bringing transparency to the oil sector

- Voluntarily disclosure
 - **But** when BP tried, threatened with secrecy provisions
 - ⇒ Collective action?
 - ⇒ Role for OECD Anti-Bribery Convention or Global Compact
- Export credit agencies?
- Positive conditionality from Multilateral Investment Institutions?
- Threat of divestment from complicit companies ?
- US Alien Tort Claims Act?
- Change disclosure practices in Northern financial regulators
 - ⇒ US SEC can force disclosure "as necessary or appropriate in the public interest or for the protection of investors"



Nature of commodity and regulatory outcome

Every case different but may be possible to draw some lessons on
how to proceed with regulations

	Revenues	Investment	Portability	Elasticity
Diamonds	High	Medium	Very high	High
Timber	Medium	Low	Low	Medium
Oil	High+	High+	Medium	Low



Points for further discussion

- Thumbnail sketches of some problems which may fit into the wider scheme of:
 - Conflict promotion/exacerbation
 - Sustaining misgovernance
 - Direct and indirect bankrolling of conflict
 - Possible direct humanitarian abuses
- (2) How solutions inevitably change depending on commodity and interface with multilateral trading system
- (3) Complex motives – businesses don't just do one thing
- (4) Demonstrate viability of 'conflict economies' and deliberate use of political disorder for business ends