

Vogl Communications, Inc.

1100 New Hampshire Ave. NW., Washington DC, 20037-1501.

Tel: 202 331 8183 Fax: 202 331 8187 Voglcom@aol.com

www.EthicsWorld.com

**Corruption Challenges in the International Marketplace:
A Focus on Canadian Energy and Resource Sectors**

Transparency International Canada
in cooperation with
The Banff Centre for Management

May 14-15, 2000
Banff, Alberta.

Presentation by Frank Vogl

Frank Vogl

President, Vogl Communications, Inc.
Vice Chairman Transparency International
Board Member - Ethics Resource Center

Banff, May 14, 2000

Introduction

Ladies and gentlemen, thank you for inviting me to this conference to consider critical issues and trends in the global battle against corruption. We define corruption as the abuse of public office for private gain.

We are meeting at time of intense globalization, where international companies have greater opportunities to trade and to invest than ever before. Globalization can yield benefits, but they may not be evenly distributed and there is mounting serious questioning about the means of monitoring and regulating it. The choice for multinational corporations operating in emerging market countries will be increasingly stark: they can act as good citizens with a long-term perspective and boost local employment, contribute to growth and raise business standards; or, they can focus alone on the maximization of short-term profit and increasingly find that they are the subject of media investigation, civil society protest and governmental inspection.

Many natural resources companies have poor reputations. Too often junior companies, in particular, have exploited labor, abused the environment and bribed officials. In recent years the majors have increasingly recognized that acting in an ethical and socially responsible manner is not a choice, but a necessity. Those that have not yet understood this will get a rude awakening in the immediate years ahead. The media and non-governmental organizations are both getting stronger in almost every nation of the world and they are using the Internet to build global information networks. One of their prime priorities is reporting on the behavior of foreign multinational corporations.

Everyone engaged in the global exploration and development of natural resources confronts corruption. Many of the world's natural resources rest in the poorest countries of the globe and/or in nations where there is little, if any, experience of open and publicly accountable institutions of governments.

I believe that every international company engaged in natural resources has a compelling interest to strengthen integrity systems and institutions around the globe. It is the fate of natural resources' companies that they are in constant negotiation with host governments - to secure and extend permits and licenses, to review royalty payments, zoning and environmental issues and a seemingly endless list of other matters. If the relationship is initiated with bribes, then one demand will always follow another and amount to a rising level of secret taxation that wrecks prospects of profits, that ensures tension in every discussion and that mires operations in a swamp of immorality.

Natural resources' companies have a compelling interest to contribute to a business atmosphere that is transparent and based on integrity. This conviction is one of the reasons why I have been so deeply involved in Transparency International.

Transparency International

TI is the brainchild of Peter Eigen, a former World Bank executive. He was posted to Kenya in the late 1980s and recognized that vast amounts of aid money were going into the pockets of politicians, rather than building the clinics and the schools that were desperately needed by the mass of East Africa's poor population. Eigen saw the leading aid institutions ignore corruption. He decided to do something about this and he started to twist the arms of old friends to join him in launching a global non-governmental organization, Transparency International.

On May 10 -- just a few days ago - the Kenyan Parliament published a report on corruption. It published "the list of shame" that names the Vice President and many other leaders as warranting investigation. It proclaims that corruption exists at every level of Kenyan society, but is strongest in the civil service, provincial administration, local authorities and the judiciary. I have no hesitation in saying that the very idea that Kenya's Parliament would produce such a report one decade ago was inconceivable. The report, candidly, would not have been possible without the vision and leadership of Peter Eigen, the birth of Transparency International and the dynamism and, most importantly, the tremendous courage of a small group of individuals in Kenya who have promoted Transparency International in the face of formidable risks.

Back in 1991, Peter convinced me to become one of the founders. In a broad and general sense I shared his humanitarian passion. But, I also had a specific stimulus for my anti-corruption interest. In the early 1990s my firm had been engaged to provide strategic political and communications advice to Sutton Resources, a Vancouver based publicly listed mining company. Sutton's founders were convinced that vast mineral riches existed in Tanzania in East Africa - a country that had excluded foreign firms as part of its misguided socialist and nationalist development model. By the late 1980s the politics of Tanzania were changing and by the early 1990s Sutton could start to discuss exploration permits with the Government.

The driving force was Sutton's chairman, a Wall Street bred investor called Jim Sinclair, who was determined that every deal he did would pass any integrity test you cared to name. In due course I became a Board member of Sutton. And, last year Sutton was acquired by Barrick Gold, which is developing the former Sutton gold property into one of the largest new gold mines in Africa. For Tanzania this project has enormous direct benefits. Barrick says that the cost to bring the mine into production is about \$280 million - a huge sum in an economy with a national gross domestic product of barely \$3 billion. The predicted annual gold output from this mine will rise to about 500,000 ounces and cash costs are expected to average just \$160 per ounce, says Barrick.

When we started with Sutton to seek initial exploration permits there were quite a number of people who stated that we could never get what we wanted without paying bribes. Well, we did. We got the first permits, then more permits and licenses and eventually major concessions without paying bribes in a country where corruption was rising rapidly. We knew we could do this by demonstrating good corporate citizenship, by being honest, by being patient and by explaining to the leaders of the country that the investments that would be made would not only make a major contribution to the economy, but would attract many other foreign firms to make

equally large direct investments. We were confident of our predictions and we were right. We played it straight and we and, more importantly the people of Tanzania, are beneficiaries.

This particular experience in a business sector that you know so well has been a driving force for me in working on a voluntary basis to build Transparency International. I was convinced that a prominent and strong global anti-corruption organization could evolve to not only secure fundamental reforms, and thereby build democracy, but also create environments for open and constructive foreign direct investment. I am more convinced of this today, than ever.

Building Partnerships

The core of Transparency International is the creation of the kinds of partnerships that worked for us in Sutton. TI is the creator of coalitions, bringing together people from business, government and civil society to forge understanding through constructive dialogue, assisting as a catalyst to stimulate institutional reforms, and demonstrating that curbing corruption can bring huge benefits to all parties.

The forming of these coalitions in poor countries and in countries that are unaccustomed to democracy is difficult. We have had our setbacks in TI. But, we are developing skills and finding many individuals in many countries with the courage, the tenacity, the patience and the diplomatic talent to build what we call our National Chapters.

Today, in contrast to a few years ago, we are no longer alone. The World Bank, the International Monetary Fund and many other major international organizations have publicly declared anti-corruption policies and they are building anti-corruption programs. The major bilateral aid donors are all on board as well. A couple of years ago TI-Canada organized an anti-corruption education day in Ottawa. Lead executives from Placer Dome, Nortel and General Electric joined a few TI officers to enter into dialogue with cabinet ministers and senior civil servants. That event strengthened official Canadian Government support for TI and for anti-corruption initiatives in Canada's aid programs. It also built support for a business initiative of global proportions.

The OECD Convention

As TI has focused on institutional reform and National Chapter building in the poorer countries of the world, so it has been equally aware of the need to stimulate action to curb the propensity of multinational corporations to pay bribes to foreign officials. Our model has been the U.S. Foreign Corrupt Practices Act (FCPA), legislated in the late 1970s and highlighted by clauses that make it a criminal offense for U.S. corporations to pay bribes abroad.

In late 1993, TI started to lobby the Organization for Economic Cooperation and Development (OECD) in Paris to build support among its member countries - the world's leading industrial countries - to create a global convention along the lines of the FCPA. In tandem with this effort we started to lobby, through our National Chapters in Europe, for support in the OECD and for complementary national actions, such as abolition in Germany of tax breaks for German firms paying bribes to win foreign deals. The OECD Anti-Corruption Convention was

signed in December 1997 and the challenge then centered on getting individual countries to pass all necessary national legislation to make the Convention binding. I am delighted to say that Canada acted with dispatch and thanks to its leadership the Convention became formally ratified one year ago. Congratulations are due to the leaders of TI-Canada who worked so tirelessly for this goal.

What TI-Canada was doing was not only helping Canadian companies to eventually operate in a world where it would be competitive skill, not under-the-table bribes, that wins business, but it was also working internationally in a leadership spirit that, in this context, is exceptional. The fact is that although you have not had a FCPA, your business practices are widely seen as setting the ethical standard.

Who pays bribes?

It is one thing for Canadian businessmen to claim that they do not bribe foreign officials, but it is quite another thing to discover that foreign businessmen in emerging market countries rank Canadian firms among the cleanest in the world. And, they do.

Last year we engaged Gallup International to survey businessmen in 14 key emerging market countries, from Argentina to Russia, about their perceptions of major multinational corporations. We asked them to tell us what business sectors they saw as subject to the highest levels of corruption - construction was seen as the worst, arms sales was a close second, the power sector including petroleum and energy came next, followed by industry, including mining.

Bribery in Business Sectors	
<p>TI asked: Which are the sectors in your country of residence where senior public officials would be very likely, quite likely, unlikely to accept or extort bribes?</p> <p><i>The scores below are mean averages from all the responses on a 0 to 10 basis where 0 represents perceptions of very high levels of corruption, while 10 represents perceptions of extremely low levels of corruption. The standard error in the responses was small at 0.2 or less.</i></p>	
Public works contracts and construction	1.5
Arms and defense industry	2.0
Power (including petroleum and energy)	3.5
Industry (including mining)	4.2
Healthcare/social work	4.6
Telecommunications, post, (equipment and services)	4.6
Civilian aerospace	5.0
Banking and finance	5.3
Agriculture	6.0

Then, we asked a select sample of close to 800 senior business executives in these 14 countries the following question: “In the business sectors with which you are familiar, please indicate whether companies from the following countries are very likely, quite likely or unlikely to pay bribes to win or retain business in this country.”

The optimum score would have been a perfect 10 and we found that three countries achieved over 8 - a score that indicates that companies from these countries are seen to very rarely, if at all, pay bribes. Sweden, Australia and Canada came neatly into this exclusive clean club.

While Canada scored an 8.1, the United States, despite a generation of the FCPA, scored only a 6.2, which was the same score as Germany and was behind the U.K. at 7.2. We found that most, but not all of the leading industrial countries have fully ratified - France and Italy are particularly important exceptions. So far, 20 countries have changed their domestic laws in accordance with the Convention: Austria, Australia, Belgium, Bulgaria, Canada, the Czech Republic, Finland, Germany, Greece, Hungary, Iceland, Japan, Korea, Mexico, Norway, the Slovak Republic, Spain, Sweden, the UK and the US.

1999 Transparency International Bribe Payers Index (BPI) Ranking 19 Leading Exporters						
TI asked: “In the business sectors with which you are familiar, please indicate whether companies from the following countries are very likely, quite likely or unlikely to pay bribes to win or retain business in this country.”						
Rank	Country	Score		Rank	Country	Score
1	Sweden R	8.3		11	Singapore n.s.	5.7
2	Australia R	8.1		12	Spain R	5.3
2	Canada R	8.1		13	France S	5.2
4	Austria R	7.8		14	Japan R	5.1
5	Switzerland S	7.7		15	Malaysia n.s.	3.9
6	Netherlands S	7.4		16	Italy S	3.7
7	UK R	7.2		17	Taiwan n.s.	3.5
8	Belgium R	6.8		18	South Korea R	3.4
9	Germany R	6.2		19	China n.s.	3.1
9	United States R	6.2				

OECD Anti-Corruption Convention: **R**=Ratified **S**=Signed **n.s.** = not signed

But, we also wanted to take the opportunity of this survey to examine other possible distortions in international competition. One of the objections to the OECD Convention that we had frequently heard in Europe was that U.S. corporations did not need to bribe. It was claimed that U.S. corporations secured unfair advantage in winning deals through the exceptional political pressure that, as the sole Super Power, the U.S. could exert on governments of emerging economies.

We wanted to at least see how business executives in the emerging market countries viewed this kind of potential political pressure in winning deals. We found that out of a maximum score of 100 the respondents overwhelmingly associated the U.S. with using unfair business practices to assist U.S. firms to win deals. The U.S. secured an uncomfortable score of around 60, followed at a distance by France and Japan with over 30. Canada was again among the cleanest with a score of just 8. The unfair business practices that were described included excessive diplomatic pressure, tied aid, special government favors, dumping and other commercial pressures.

TI has for many years compiled a Corruption Perceptions Index to try and rank countries in terms of the degree to which they are widely seen to be the home of corrupt politicians and/or public servants. This CPI tool has won enormous global publicity, it is used by credit-rating agencies, it helps firms in their foreign direct investment decision-making and it shines an uncomfortable public spotlight on some of the most corrupt regimes in the world.

The Transparency International 1999 CPI

The 20 countries listed below are those seen to have the least corruption among the 99 countries in the 1999 CPI. By contrast, the lowest scores - indicating the highest levels of perceived corruption - were obtained by the following countries: Cameroon 1.5; Nigeria 1.6; Indonesia and Azerbaijan 1.7; Honduras and Auzbekistan 1.8; Tanzania 1.9; Kenya, Paraguay and Yugoslavia 2.0; Kyrgyz Republic, Pakistan and Uganda 2.2; Albania, Georgia and Kazakhstan 2.3; Ecuador and Russia 2.4.

Country Rank	Country	1999 CPI Score	Standard Deviation	Surveys Used
1	Denmark	10.0	0.8	9
2	Finland	9.8	0.5	10
3	New Zealand	9.4	0.8	9
	Sweden	9.4	0.6	10
5	Canada	9.2	0.5	10
	Iceland	9.2	1.2	6
7	Singapore	9.1	0.9	12
8	Netherlands	9.0	0.5	10
9	Norway	8.9	0.8	9
	Switzerland	8.9	0.6	11
11	Luxembourg	8.8	0.9	8
12	Australia	8.7	0.7	8
13	United Kingdom	8.6	0.5	11
14	Germany	8.0	0.5	10
15	Hong Kong	7.7	1.6	13
	Ireland	7.7	1.9	10
17	Austria	7.6	0.8	11
18	USA	7.5	0.8	10
19	Chile	6.9	1.0	9
20	Israel	6.8	1.3	9

1999 CPI Notes

1999 CPI Score - relates to perceptions of the degree of corruption as seen by business people, risk analysts and the general public and ranges between 10 (highly clean) and 0 (highly corrupt).

Surveys Used - refers to the number of surveys that assessed a country's performance. 17 surveys were used and at least 3 surveys were required for a country to be included into the 1999 CPI.

Standard Deviation - indicates differences in the values of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources.

Challenges ahead

The challenges ahead are vast - we are nowhere near Base Camp yet, but we have an Everest of corruption to climb.

In the developing and emerging market countries, we must strengthen our network of National Chapters in order to enhance coalition-oriented dialogue on constructive approaches to curbing corruption. We must find ways to reduce press censorship so that investigative journalism can thrive; we must promote an independent judiciary and office of public prosecutions so that no bribe-taker is above the law; and we must strengthen other institutions that boost public accountability of public officials.

In the industrial countries, we must work to make the OECD Convention a reality. This requires, at a minimum, three sets of actions: first, ratification by all countries with national laws that are meaningful and powerful; second, establishment of effective law enforcement by all countries; third, active training and compliance programs in all multinational companies to leave no doubt in business that foreign bribery is a criminal act everywhere. For example, we must find ways to work with natural resources' companies so that their foreign-based managers and geologists understand that there are ways in which objectives can mostly be reached without paying bribes. Executives must recognize that in rare situations where the choice rests between closing an operation or paying a bribe, then the painful decision of closing-down and withdrawing is the right one.

In addition, we must work to strengthen public awareness of the humanitarian, the economic, the business and the political costs of corruption. We must build public support for still stronger global initiatives by the official international financial and aid agencies. At the same time, we must deepen our work in many sectors. The tragedy is that at every corner there is someone paying a bribe and someone with a hand outstretched to claim a bribe. This may be at a port and in a customs shed, or at the office of an environmental inspector, or in a police station. We will never eliminate all corruption, but we can surely make a difference.

Corruption remains among the greatest causes of slow economic growth, waste in public finance, and unstable political systems and institutions. We find corruption, and its handmaiden money laundering, across the globe. We find our TI agenda is a staggeringly large one.

We find this to be both exciting and daunting. We need active volunteers to expand our work; we need money from business, governments and foundations to strengthen our initiatives, and, we need people like you to demonstrate to the world that doing business without paying bribes, but with integrity, is a winning proposition.

Conclusion

Let me conclude by expanding the scope of this discussion. The fight against corruption is not taking place in isolation. It is converging with a host of other international efforts that are spawned by globalization and by the information technologies that make globalization so possible and so dynamic.

We are seeing movements spread that seek to promote good corporate governance. We see environmental and humanitarian movements growing that seek to ensure that business and government proceed to develop infrastructure in a socially responsible manner. We activist organizations looking at the behavior of leading multinational companies to see that they do not exploit labor, notably child labor, in the poorest countries of the world. We see a deepening of intellectual interest around the world in the benefits and the costs of globalization and a mounting questioning of the free trade and free investment ethos that so characterized the 1990s.

TI is part of a global set of movements which, at their constructive best, are bringing business, government and civil society together to find positive solutions to major political, social and economic dilemmas. I am extremely optimistic because I dare to believe that it is these constructive coalitions that will win the day and create a better world as a result.

If you ask me why I am optimistic, then I would like to point you towards two examples. First, there is the Sutton story. This company set an excellent example in all its Tanzanian negotiations and assisted the Government to open the door widely to the best international mining companies. The result is that there is a highly productive level of foreign direct capital at work today in a country that ranks among the very poorest in the world. Forty years of foreign aid dependency has not lifted 30 million Tanzanians out of poverty. The prospect of better-organized aid and private sector investment, however, does offer real hope.

Second, I am optimistic because of the TI experience. Seven years ago a dozen of us from an assortment of countries and backgrounds met together to establish a voluntary organization that had no funds, no clear business plan and the utopian goal of curbing global corruption. Today, we have a fully staffed headquarters in Berlin, a network of National Chapters on each continent of which TI-Canada is a brilliant example, the ear of governments, the respect of the media and the partnership of business. And, this is just the beginning.

Thank you.

For more detailed information on Transparency international please visit: www.transparency.org

Vogl Communications, Inc.

1100 New Hampshire Ave. NW., Washington DC, 20037-1501.

Tel: 202 331 8183 Fax: 202 331 8187 Voglcom@aol.com

www.EthicsWorld.com