

Revenue Watch Index

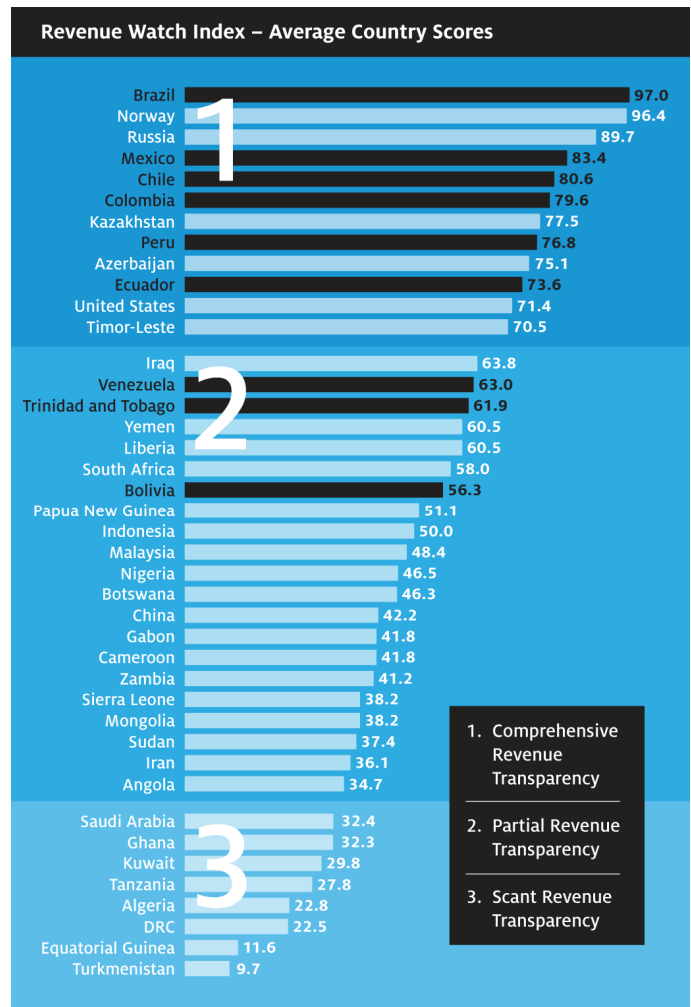
Latin America and the oil, gas and mining industries

With Latin America having second largest share of the world’s oil reserves, the economies of several countries in the region are heavily dependent on the exploitation of hydrocarbons. Oil accounts for about 50 percent of Venezuela’s government revenues, 57 percent of Trinidad and Tobago’s and almost 40 percent of Mexico’s. Recent offshore discoveries in Brazil may place it among the countries with the largest oil reserves in the world. The mining sector plays a significant role in the economies of countries such as Chile and Peru. Transparency in the management of natural resources is essential to ensure that the revenues are effectively used for development in this region.

MAIN FINDINGS

Latin American countries included in the Revenue Watch Index rank relatively high, with Brazil, Chile, Colombia, Ecuador, Mexico and Peru in the highest of the index’s three tiers. This means that governments in these countries tend to provide public information about their management of their oil, gas and mining sectors. Bolivia, Trinidad and Tobago and Venezuela are located in the middle tier of the ranking, which includes governments that provide their citizens with information about the extractive sector yet with important gaps in access to public data.

The availability of information about contract terms varies country-by-country. Colombia and Peru publish contracts in full, while Brazil provides information on taxation of oil and mining. Chile has clear terms for the extraction of minerals written on its mining law, while Mexico publishes information



Country scores are constructed as an average of the Revenue Watch Index’s transparency indicators. Countries are ranked according to their average score. To learn more and download report data, go to: www.revenuwatch.org/rwindex.

on the taxes paid by its state-owned company. Trinidad and Tobago discloses model contracts and terms but not actual contracts. Venezuela publishes information on auctions for oil contracts, but there are important caveats. Venezuela’s rules for participation by private companies create different areas in the oil sector, and disclosure of information is inconsistent, depending on the type of project for oil production.

Research for the index found two cases of government policies that resulted in less transparency. In 2010, Bolivia

removed previously published contracts with oil and gas companies from official websites. In Ecuador, the government cancelled production sharing contracts, which were available in full on official websites, and started negotiations in 2007 for service agreements with private companies. Unlike the older contracts, the new agreements remain unavailable to the public.

Latin American countries included in the index publish data on the payments received by the governments. Although the level of detail about payments varies, these governments disclose information about their main sources of revenue. Most of the countries publish data on a quarterly or monthly basis. However, in Bolivia, Trinidad and Tobago and Venezuela, we found only annual reports.

The countries surveyed publish the full text of their laws and regulations governing the extractive sector. However, levels of disclosure vary on other topics. State-owned companies from Brazil, Chile, Colombia, Mexico and Trinidad and Tobago publish regular reports on their operations, including on their taxes and other payments to governments. The state owned companies of Brazil, Colombia and Mexico also file information to domestic regulators and to the U.S. Securities and Exchange Commission. These reports include audited information as well as balance sheet and cash flow statements.

On the other hand, countries in this region have shunned the EITI. As of late 2010, only Peru has adopted this initiative. Support for the EITI would highlight the regions' commitment to transparency and provide civil society organizations with a forum to promote transparency in a crucial sector of the economy.

Although independent organizations are already evaluating governments based on their budget priorities and the outcomes of public expenditures, the index identifies additional areas to be monitored, such as access to state-owned companies' data or the clarity of transfers to natural resource funds. Although the region shows examples of good reporting practices, disclosure of information is not the final goal. Transparency should be regarded as a tool to promote accountable and effective management of natural resources.

OUR RECOMMENDATIONS

1. Contract transparency needs to improve substantially in those Latin American resource-rich countries that do not publish agreements. Contracts, details about investment

agreements and government income from extractive industries should be open to public scrutiny.

2. Governments should require companies, public and private, operating within their borders to disclose detailed financial information on oil, gas and mining projects.
3. Resource-rich countries in Latin America should provide support for EITI; either when regional companies operate in implementing countries, considering implementation or backing international initiatives to strengthen transparency standards in the extractive sector.
4. Resource ministries and state owned companies should meet the same standard of public reporting as central banks, finance ministries and other public institutions controlling important public resources.
5. Latin American governments should ensure compliance with requirements of periodic, comprehensive and timely reporting for their state-owned natural resource companies.
6. Countries in Latin America that have natural resource funds (Chile, Colombia, Mexico, Trinidad and Tobago, and Venezuela) should develop measurable benchmarks to monitor transparency and accountability of these accounts.
7. Governments in the region should make information about transfers of revenues to regional and local governments public. Regional and local governments should be held to the same disclosure standards as national governments.
8. Parliaments in Latin America need to make better use of their oversight powers to provide more effective checks on executive powers.
9. Governments in the region should improve their levels of transparency regarding reports about the environmental and social impact of the activities of extractive industries.

The Revenue Watch Index evaluates the availability of information in seven key areas of natural resource management: access to resources, generation of revenue, institutional setting, state-owned companies, natural resource funds, sub-national transfers and implementation of the Extractive Industry Transparency Initiative.

The index, which ranks countries according to their score out of a possible total of 100, can be an important tool for citizens, elected officials, civil society and media seeking greater access to resource information.