# U4 Expert Answer

## Linkages between corruption and commodity trading

### Query

**What are the linkages between corruption and commodity trading? Please provide a brief overview of the state of knowledge including on the mechanisms involved, an estimate on the money flows and some case studies.**

### Content

1. Setting the scene: the nature and importance of commodity trading
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### Caveats

This answer was developed as an urgent request and provides preliminary information on the linkages between commodity trading and corruption that could be further analysed in a fully developed answer.

### Summary

Commodity trading is a sector of significant strategic importance that is exposed to major corruption risks that are not always sufficiently known or acknowledged. Generating high financial flows, trading companies often operate in high-risk countries with weak governance, institutions, rule of law and limited state accountability. The sector is also notoriously opaque and poorly regulated, with low levels of transparency and accountability.

Against such a backdrop, corruption is widespread, with practices ranging from bribery, money and commodity laundering, and various forms of favouritism. A number of measures can be envisaged to mitigate corruption risks in commodity trading, including transparency of commodity sales, open and transparent tenders, transparency of payments, specific due diligence processes covering both the production conditions and trading partners, the establishment of supervisory authorities as well as transparency of beneficial ownership. Banks and financial

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intermediaries can also potentially play a role in the process.

# 1. Setting the scene: the nature and strategic importance of commodity trading

## The strategic importance of the sector

As the need for raw materials and natural resources are increasing as the material basis of modern economies, commodities are becoming strategic goods with a sizeable economic and fiscal importance for both producing and trading countries.

According to the Encyclopaedia Britannica, commodity trade refers to the international trade in primary goods. It can take the form of a normal exchange of goods for money or can be conducted by means of futures contracts – an agreement to deliver or receive a certain quantity of a commodity at an agreed price at some stated time in the future.

Commodities are usually divided into three categories: 1) energy commodities which make up almost 60% of total commodity exports; 2) ores and metals (also known as mineral commodities and representing about 20% of commodity exports); and 3) agricultural goods ('soft commodities', accounting for the remaining 20% of commodity exports).

The commodity industry represents a multi-billion dollar business whose revenues have more than trebled in value between 1998 and 2009, mainly driven by rising commodity prices. As part of this, industry commodity trading makes up around a quarter of the total world trade volume. (Berne Declaration 2011).

In Switzerland, for example, which has become one of the world's most important centres of independent commodity trading, the commodities industry contributes some 3.5% to Switzerland's GDP (Swiss Federal Council 2013), and the market increased as much as fifteen-fold during roughly the same period, accounting for about one quarter of global commodity trading (Berne Declaration 2011).

Natural resources revenues represent a very significant economic opportunity for developing countries as it is estimated that 59% of all metals and ores, 63% of all coal and 64% of all oil originates from developing countries (BMWFJ 2011). Therefore, commodities and natural resource revenues can play a crucial role in development by providing the resources needed (which far exceed the amounts of foreign aid) to build infrastructure and deliver public services in many developing countries. While corruption and embezzlement schemes seriously endangering such opportunities are manifold in the *extraction of resources*, the most sensitive constellation in the *trading of commodities* is when state-owned enterprises and commodity trading companies directly interact. In this regard a recent study underscores how important sales to commodity traders are for developing countries, revealing that Swiss commodity traders paid US$55 billion[1] to the governments of ten African countries in exchange for crude oil between 2011 and 2013. This is the equivalent of 12% of the countries' combined government revenues and more than double the total amount of development aid received by those countries (Gillies, Guéniat and Kummer 2014).

However, the economic development potential of commodity trading for developing countries can only materialise when producing countries receive a fair deal in the production and sale of the resources, and spend the revenues in ways that benefit the public (Berne Declaration 2011). Corruption at the various stages of commodity extraction, production and trade can greatly erode the development benefits that developing countries could draw from their commodity sector.

In particular, the fact that producing countries are often developing countries with weak institutions and rule of law brings major challenges in the domain of human rights, environmental protection and the fight against corruption (Swiss Federal Council 2013; Berne Declaration 2011). A challenge of commodity dependence can be posed for those countries that are extremely vulnerable to commodity price fluctuations and collapses. According to a UN study, at least 50% of export revenues are derived from mineral, agricultural and fossil resources in 100 (of a total

[1] Note: Transparency International takes "billion" to refer to one thousand million (1,000,000,000).

of 151) developing countries. In half of all African countries, revenues from commodity exports actually exceed 80% of all export revenues (Swiss Federal Council 2013).

Traders can therefore play an important role in economic development, contributing to government revenues in many developing countries. They help developing countries' raw materials reach the global markets and provide financing and logistical expertise. They are major buyers of raw materials, generating significant public revenue. They also provide large loans to governments holding specific positions in their operations, acting as "alternative banks" for states dependent on commodity rents that they pre-finance in exchange for subsequent deliveries of raw materials (Rybi and Longchamp 2014). This makes them major players in developing countries, with the relations and leverage to influence public institutions, and economic and governance outcomes (Natural Resources Governance Institute 2015). Given the importance of the sector, corruption risks in commodity trading potentially represents a huge loss in revenues for producing countries.

## The scope of commodity trading activities

Trading and the extraction/production of commodities are two distinct types of activities conducted by commodity companies. While corruption risks in commodity extraction and production are extensively covered by the literature, including corruption risks in the award of contracts and licences, revenue collection and spending and addressed by initiatives such as the Extractive Industry Transparency Initiative (EITI), corruption risks in commodity trading are less known and acknowledged.

Only recently has the sector started to attract more public attention. As the UK Financial Conduct Authority notes: "Operating in plain sight, the trading firms represent a 'known unknown' that quite naturally attracts attention from regulators and central banks and will continue to do so." (FCA 2014). This Helpdesk answer will focus more specifically on this dimension of the commodity industry.

Commodity trading involves complex processes and interconnected players. It typically refers to a transaction in which a company purchases goods from a supplier abroad and then sells those goods on to another buyer abroad (Swiss Federal Council 2013). Important commodity trading hubs are located in Asia, Europe and North America (KPMG 2012) and in many cases, referred to as "transit trade", actual goods never touch the soil of respective trading countries. Although they are often involved in organising transport in connection with the transaction, insurance against loss of or damage to the goods, storage at loading and off-loading terminals, and verification of the goods, trading firms sometimes don't take physical possession of the goods (Berne Declaration 2011; Swiss Federal Council 2013).

An important dimension of the activities of commodity traders is to arrange for the financing of these capital-intensive commodity transactions and raise the large amounts of funding needed for the purchase of commodities. Trading companies can finance their operations themselves, and obtain these funds on the capital market (issuing bonds), directly from the banks via credit lines or by issuing shares. In some cases, commodity traders can also conclude individual transactions through a third party when for example, strong buyers such as major oil companies provide traders, who take on the role of middlemen, with credit lines to finance the actual transactions. In all other cases individual transactions require involving the banks that grant temporary loans in the form of documentary credits or letters of credit, with the shipment acting as the bank's security (Berne Declaration 2011).

As they are constantly exposed to the risk of a collapse in prices, commodity traders also need to safeguard themselves against price fluctuations with the help of financial derivatives – a practice known as "hedging"[2]. These practices underscore the close ties between commodity trading and the financial industry.

Yet, despite the strategic importance of their activities in scale and potential development and governance impact, and aside from a few high-profile scandals (see the case studies below), traders largely operate under the radar, in a largely unregulated environment, with limited external understanding of their business practices. Levels of transparency and accountability in the

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[2] For more details on the nature, forms and instruments of hedging please see "Commodities – Switzerland's most dangerous trade" https://www.ladb.ch/fileadmin/files/documents/Rohstoffe/commodities_book_berne_declaration_lowres.pdf

sector remain generally low (Natural Resource Governance Institute 2015). For more information on leading trading companies, please see a recent working paper that provides an overview of ten leading trading houses in the last decade (Gibbon 2014).

## 2. Corruption risks in commodity trading

### Risk factors

There are a number of factors that exacerbate corruption risks in commodity trading:

- Commodity trading involves large financial transactions that provide incentives for corruption and rent-seeking activities (see forms of corruption below) (Rybi and Longchamp 2014).
- Many trades take place in high-risk countries. About two-thirds of energy and mineral commodities originate from developing countries in states which have no effective environmental or social legislation, where the underlying economic situation is uncertain, where corruption is endemic, where institutions and the rule of law are weak, and where political stability is judged to be critical or extremely critical (Rybi and Longchamp 2014; Berne Declaration 2011). Because they often operate in fragile contexts and conflict-affected states that often lack the capacities needed for dealing with these problems, commodity traders face major corruption and governance challenges. These corruption challenges are particularly acute where states act as commercial players, for instance in oil trading (Rybi and Longchamp 2014; Berne Declaration 2011).
- The exploitation of natural resources involves frequent and important interactions with public institutions and high-level state officials, including state-owned enterprises and monopolies, for the award of licences or specific allocations, payment of royalties and custom duties, etc. Traders have faced critical questions about whether and the extent to which they do business with politically exposed persons (Natural Resource Governance Institute 2015).
- Commodity trading is also a notoriously opaque sector of activity, not least because many of the companies involved are not publicly listed (Rybi and Longchamp 2014; Swiss Federal Council 2013). The sector involves many large privately owned firms with flexible business models. While US and European regulators are cracking down on big banks and hedge funds active on the derivative markets, commodity traders (aside from well-known listed companies such as international oil companies) are often privately owned, unlisted and family run and little known outside the commodities business. These trading firms do not come under the remit of financial regulators (Reuters 2011). In some cases, where the fragile context could endanger the reputation of bigger firms, small aggressive companies (known as junior trading companies or intermediates) are created ad hoc in secretive jurisdictions by traders as “fronts” for one deal or contract.
- The absence of full reporting and clear regulatory guidelines makes commodity trading highly vulnerable to corruption risks. It is alleged that suspicious payments and commissions to government advisers are paid by trading company representatives to secure new business opportunities, using complicated webs of offshore companies, which make it challenging for authorities to trace the funds (Natural Resource Governance Institute 2015).

A 2013 Swiss government report summarises the combination of these factors exacerbating corruption risks in commodity trading: “The relatively high degree to which companies in that industry are exposed to the risk of corruption can be explained by a combination of several factors. First, the majority of fuel and mineral resources come from fragile states where the problem of corruption is particularly widespread. This is exacerbated by the high degree of interaction between the companies concerned and the government authorities in those countries; the awarding of public contracts, the granting of licences, the payment of royalties, the creation of monopolies and the determination of customs policies are all procedures that tend particularly to attract incitement to bribery. Finally, although the amounts at stake are quite considerable, there is little transparency in the commodities market; the complex structure of certain holding companies, and the fact that not all companies list their shares on an exchange, are conducive to the industry’s relative opacity.” (Swiss Federal Council 2013, p 36).

Against such a backdrop, trading operations lack transparency and are highly susceptible to manipulation. Trading firms are often criticised for financing and profiting from conflicts, for corruption, lack of transparency, for their capacity to circumvent international sanctions and regulations, and for generating illegal flows of money and tax avoidance. In addition, firms are also criticised for contributing to environmental pollution, the violation of human rights in their supply chain by turning a blind eye to such practices (Rybi and Longchamp 2014; Swiss Federal Council 2013). More generally, trading companies can become complicit in illicit exploitation of raw materials by trading commodities of unknown or dubious origin and turning a blind eye to how those have been acquired and sold (Rybi and Longchamp 2014).

## Forms of corruption in commodity trading

Corruption risks manifest themselves in various forms in commodity trading. The OECD is expected to launch an in-depth typology of corruption risks and related mitigation efforts in the extractive sector, including commodity trading at the OECD Integrity Forum on 20 April 2016[3] (OECD 2016).

### Bribery and kickbacks

Corruption is widespread in the commodities sector, in many cases involving buying political favours from corrupt elites who sell the right to exploit or buy commodities with unfavourable conditions for the country in exchange for favours for themselves or their cronies. More specifically, bribery to secure contracts or obtain access to natural resources on uncompetitive terms is a particular problem in the commodities sector. This is reflected by Transparency International's 2011 Bribery Payers' Index that ranks the oil and gas industry as the world's fourth most corrupt industry, with mining found to be the fifth. An OECD study on corruption in 2014 also shows that the natural resources sector is one of the sectors where corruption is most widespread (OECD 2014).

In its most simple form, such practices involve direct commissions paid to public officials and decision makers of the country of origin in exchange for buying the raw material under advantageous conditions. In other cases, trading companies can use intermediaries to pay this commission, whether individuals or fake companies controlled by corrupt officials that extract benefits from trading operations under various pretences. The use of intermediaries or a front company is especially beneficial to provide protection against potential complaints and prosecutions, as the trading company can easily distance itself from the corrupt practice in case of emergency. In some cases, the corrupt schemes involve the creation of offshore companies controlled by both the trading company and the corrupt officials in order to share the profits of the operation, hide the beneficial owners and avoid taxes.

The practice of extorting kickbacks and illicit payments from commodity purchasers to secure deals is also common, as illustrated in the UN Oil-for-Food programme. The volume and price of crude oil for sale on the international market was set by the UN at a fair market price below international market prices. Iraqi government officials started extorting kickbacks from oil purchasers for their own benefits that were then transferred to Iraqi controlled banks in Jordan and Lebanon (OECD 2016).

### Misappropriation of funds and embezzlement

Misappropriating revenues generated from commodity sale is another form of corruption in the sector, resulting in massive unremitted oil revenues to national budgets. Intermediary trading companies can contribute to the diversion of rents by cashing dividends on behalf of politically exposed persons or contributing to the creation of opaque structures making the identification of beneficial owners difficult (OECD 2016).

### Theft and smuggling

Commodity theft and smuggling is also a challenge in the sector, as reflected by Nigeria's oil bunkering problem. A report by Chatham House reveals a complex network that arranges the theft of oil worth billions of dollars a year, which may cost the country as much as US$8 billion a year, with an average of 100,000 barrels a day (b/d) stolen in the first quarter of 2013. The schemes benefit a network of politicians, security forces, militants, oil-industry staff, oil traders and members of local communities who have few incentives to refrain from the practice (Chatham House 2013; The Economist 2013).

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[3] OECD Policy Diaglogue on Natural Resource-Based Development: Detecting Corruption Risks in Extractives http://www.oecd.org/dev/pd-nrroadmapworkstream4.htm

### Commodity trade mispricing and price manipulation

This practice refers to underreporting volumes or under-invoicing the value of resources sold, which allows the purchaser to resell it at an inflated price, often using a share of the benefit to pay bribes. This also allows the trading company to reduce the amount of customs duties due to the exporting country. Another typical situation is when bribery payments are made by the foreign trading company to secure below-market discounts on the purchase of the commodity from state-owned enterprises (OECD 2016).

The risk of price manipulation is especially high when a single trader controls a large share of the trade and accumulates a dominant position in any particular type of commodity. Commodity trading firms have opportunities to exercise market power due to their expertise and their size, which make them almost uniquely positioned to exercise market power and lead to making prices diverge from their fundamental values with practices known as manipulation, or cornering (Pirrong 2014). This was the case in the early 2000s, when US refiner Tosco sued Arcadia and Glencore for market manipulation (Reuters 2011). More recently, in late June 2012, a class action was filed in the United States accusing one major commodity merchant, Louis Dreyfus (and its Allenberg subsidiary), with cornering cotton futures contracts in May and June 2011 (Pirrong 2014).

Trading companies can also collude to manipulate prices. In 2013, for example, the European Commission raided the offices of oil majors Shell, BP and Norway's Statoil, who were suspected to have made internal arrangements to manipulate the published prices for a number of oil and biofuel products and prevented others from participating in the price assessment process (International Business Times 2013).

### “Bad deals”

According to experts consulted within the framework of this query, corruption can take place in many more subtle and complicated ways, resulting in “bad deals” whereby commodities are sold and bought under unfavourable conditions at the expense of government revenues. In such cases, it is difficult to assess whether an operation was poorly conducted due to bad management, or whether someone profited from it. For example, the terms of large oil-backed loans pursued by traders are quite opaque, providing incentives for political leaders to agree on terms that are bad in the long term in order to access cash in the short term for their own private purposes.

### Money laundering

Money or commodity laundering refers to inserting in commercial circuits goods that help finance conflict, terrorism, that are of illegal origin (e.g. stolen), illegally acquired or used through mispricing practices as vehicles for hiding illicit finance flows. As early as 1996, the Financial Action Task Force (FATF) acknowledged that the selling and buying of commodities is a method of money laundering that is widespread in African countries (FATF 1997).

As trading operations are not subject to the same checks and controls as monetary flows, commodities can be easily used to circumvent anti-money laundering regulations and hide the origins of illicit flows. Proceeds of crime can be used to buy raw materials from a trader who accepts “dirty money” in exchange for the commodity. Another practice is when traders accept to buy raw materials of dubious origin that have been acquired illicitly. “Dirty” commodities include those: that have been illegally or illicitly acquired (e.g. through theft or corruption); that have been acquired in violation of human rights standards; or that are sold to finance conflict or criminal organisations. Last but not least, by accepting to trade commodities from politically exposed persons that sell the country’s raw material under the market value through offshore companies, traders play a facilitating role in the misappropriation of resources by corrupt officials, either intentionally or because of negligence through a lack of due diligence.

The anti-money laundering regulations are not always effective in addressing these forms of money laundering. In Switzerland, for example, commodity traders are not subject to anti-money laundering rules and do not need to know the conditions of production of the commodities they trade in nor have detailed information on their business partners and how their counterpart had access to the commodity sold to traders, as the authorities’ interpretation of the Money Laundering Act is that it does not, for the most part, apply to commodity trading (Berne Declaration 2011; Rybi and Longchamp 2014).

### Escaping international sanctions

Commodities are sometimes the subject of trade sanctions, creating price disparities and incentives

for trading firms to attempt to evade the sanctions (Pirrong 2014). In some cases, commodity traders trade with countries that are under sanction. Although not adequately documented, according to experts consulted within the framework of this query, there are also allegations that some European banks may have financed trading deals with countries subject to international sanctions.

### Examples of corruption cases in commodity trading

A number of cases illustrate some of these mechanisms and how these corruption risks have materialised in the past.

A well-documented case of corruption in commodity trading is the "oil-for-food" scandal. The Oil-for-Food Programme (OIP) was established in 1995 to allow Iraq to sell oil on the world market in exchange for food, medicine and other humanitarian needs. Although Iraq did indeed buy humanitarian goods with the oil revenues, the ruling elite found ways to profit from the programmes and extract bribes. Renowned oil companies left the country leaving the market to traders who were willing to take the risk. Some small companies were often specially founded for the purchase of the oil, and the transfer of the bribes to Saddam Hussein's regime. Out of 248 oil companies, 139 that officially took part in the Oil-for-Food programme between 1996 and 2003 paid bribes amounting to a total of US$229 million (Independent Inquiry Committee 2005).

In Angola, the Swiss commodity trading company Trafigura is involved in business deals with politically exposed persons (PEPs), participating since 2009 in an opaque joint venture with General Leopoldino Fragoso do Nascimento, known as General Dino. The company, run jointly with a special adviser to the Angolan president, imports and distributes petroleum products. In 2011, it made sales of US$3.3 billion, 50% of which belong to Cochan Ltd., a company registered as a Bahamas mailbox company linked to General Dino (Berne Declaration 2014).

The Swiss trading company, Gunvor, is being investigated for corruption and money laundering in Congo-Brazzaville. Between 2010 and 2012, a former trader of the company active in Geneva allegedly set up a system of illegal "commission payments" to export 18 million barrels of crude oil from Congo-Brazzaville, allowing the company to acquire the oil at a discount of US$4 per barrel. The beneficiaries of the commissions were close to the notoriously corrupt president, Denis Sassou Nguesso (Berne Declaration 2014).

In Congo again, a report showed how an inexperienced Swiss company ran by a friend of a Congolese PEP received, without any public tender, large amounts of state oil and then sold them for a higher price (Guéniat 2015). An investigation has also been launched in the Netherlands against Glencore for over-invoicing minerals bought from a Kazakh company. Parts of the payments made by Glencore through an offshore company in the Caribbean have been allegedly used to buy off a close adviser of the Kazakh president (Rybi and Longchamp 2014).

## 3. Overview of mitigation measures and strategies

There are few papers discussing anti-corruption measures for this specific sector. However, a number of measures are discussed in the literature to address corruption challenges in the sector and promote higher standards of transparency and accountability.

### Transparency

Similar to the EITI approach, the first set of measures consists of establishing mandatory reporting systems, requiring commodity trading companies to publish payments made to commodity producing states and state-owned enterprises to improve the scrutiny of such payments. In 2013, EITI introduced a rule requiring its member states to disclose state sales. Its implementation has started, but slowly (EITI 2015). The disclosure of data broken down by individual sales would be especially important to increase the transparency of the sector (Natural Resources Governance Institute 2015).

However, as has been experienced within the extractive sector, not all resource-rich countries are prepared to implement the EITI. This has triggered transparency regulations by international institutions and home states of extractive companies such as Norway, the EU and the US to complement the EITI.

Switzerland has announced a willingness to require commodity trading companies to disclose payments made to governments but not before other major trading hubs also commit to do so. A

recent study concludes: “A pragmatic approach would therefore seem to be to form a small group of like-minded, pioneering countries and to move forward in a coordinated manner, towards a levelled playing field.” (ECDPM 2014).

Such transparency measures could be expanded to make state-related deals and contracts in the sector transparent to identify “bad deals” that may have been concluded as a result of corruption or favouritism (Rybi and Longchamp 2014).

In particular, transparency in commodity sales should be thorough and detailed enough to enable citizens to scrutinise the fairness and integrity of deals. Sale-by-sale data is essential in this regard, including the following reporting for each sale (Natural Resource Governance Institute 2015):

- the name, beneficial owner and country of incorporation of the buying company, and a description of how the buyer was chosen
- the sale date, the grade of the commodity sold, the volume, the price and information about how the price was determined, the amount of the payment made and to whom it was paid
- information on non-monetary sales, i.e. when commodities are exchanged for other assets such as petroleum products or infrastructure, or used to repay loans

Transparent trading would also require reporting on other activities performed by trading companies that affect public revenues and public sector governance, such as their lending operations, joint ventures with state-owned companies, or with companies whose beneficial owners include PEPs, upstream exploration and production activities that can lead to government payments (taxes, royalties, etc.) and downstream activities that affect public revenues, such as the sale of petroleum products to state-owned entities.

## Due diligence and the establishment of supervisory authorities

While not directly subject to its oversight, the UK Financial Conduct Authority notes that financial crime risk in commodity markets can arise in relation to compliance with sanctions regimes, lack of understanding and awareness of bribery and corruption risks to and from the businesses, firms’ assessment of relationships with high-risk customers, most notably with PEPs. Specific regulation of physical commodity trading remains rare and, contrary to financial intermediaries, there are generally no laws applying to commodity traders obliging them to conduct any Know Your Customer (KYC) process. In general, and while there is increased public and political scrutiny of the commodity markets, exposing firms to heightened reputational risk, there are different standards across the industry on KYC requirements (UK FCA 2014).

Specific, transparent and effective due diligence processes are therefore needed for the commodity sector, requiring commodity traders to investigate both the production conditions, and the trading partners and their environment before proceeding with the transaction to ensure that no illegal commodities have been acquired and to prevent embezzlement while dealing with PEPs.

Similarly, some organisations, such as Berne Declaration and individual experts in the field[4], advocate for setting up supervisory authorities to develop clear guidelines, and require commodity traders to verify their supply chains and their business partners (Berne Declaration 2014).

## Transparency of beneficial ownership

While not specific to commodity trading, the use of offshore shell companies and straw men often come into play in corrupt deals to disguise the identity of real owners and beneficiaries. Forthcoming analysis from the OECD confirms the popularity of “intermediaries” as a vehicle in such cases (OECD 2016). The introduction of publicly accessible registers of not only beneficial owners of companies but of foundations and trusts as well would constitute an important step in the right direction.

## The role of the banks

Traders often argue that since banks are regulated (through FATF standards, etc.), they do not need to be regulated because everything they do is scrutinised from there. As banks and financial intermediaries play an important role in commodity trading, some options proposed could

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[4] The Swiss Commodity Market Supervisory Authority (ROHMA) – Board of Directors http://www.rohma.ch/en/about-rohma/organisation/board-of-directors

require banks involved in financial transactions to identify and block problematic operations.

However, while banks can only indirectly control traders' operations and not when traders operate without financial intermediaries, the effectiveness of such an approach can be limited for a combination of reasons: 1) part of the transactions are self-funded and therefore do not rely on banking credits, escaping Anti Money Laundering regulations; 2) not all commodity trading operations require financial flows, as in swaps or "barter trade" deals; 3) banks are not always in the best position to assess the legality of trading operations not least because traders can conceal some important information; 4) the bank has very limited access to information on the traders' partners and is not in a position to ensure adequate due diligence (Rybi and Longchamp 2014).

## The respective role of the host governments, home countries of trading companies and trading companies

The OECD recently launched a report, synthesising possible and targeted actions that can be taken by host governments, home countries of trading companies and trading companies.

Among the recommendations targeting the producing countries, governments can:

- clearly define the institutional and legal arrangements and practices governing the state's role in the industry
- ensure independent audit and oversight over financial flows between state-owned enterprises and the national budget
- create a transparent and public tendering process for the selection of trading companies, based on performance against a selection of anti-corruption compliance criteria
- provide a transparent price system for commodity trading companies, using internationally recognised benchmark pricing
- require state-owned enterprises to publicly report on volumes produced, received, sold and revenues, disaggregated by individual companies, government entities, revenue stream and projects
- publish the name of commodity buyers and require them to disclose payments related to the transaction made to governments or state-owned companies and reconcile data received from buyers and disclosures made by governments and state-owned enterprises. Home countries of trading companies can, among other things, require trading companies to conduct rigorous due diligence on their business partners, their supply chain to verify the origin of the commodities and conditions under which they were acquired
- require trading companies to disclose beneficial ownership of businesses involved in transactions, including the direct or indirect involvement of PEPs
- require commodity trading companies to disclose all payments made to governments and state-owned companies

From the side of the home countries of trading companies, they can, among other things:

- require companies active in commodity trading to disclose all payments made to governments
- ensure suitable oversight mechanisms on material transactions in commodity trading
- require companies active in commodity trading to carry out due diligence on their business partners and supply chains to prevent illicit transactions with PEPs and to verify the origin of the commodities and the conditions under which they were produced
- require trading companies to disclose beneficial ownership information of businesses involved in transactions

Commodity trading companies can, among other things:

- disclose payments to governments, also where not required by an EITI implementing country
- adopt and clearly communicate to suppliers a supply chain policy for identifying and addressing corruption risks
- structure internal management systems to support supply chain management
- establish a system of controls and transparency over the supply chain

- incorporate due diligence standards and requirements into contracts and agreements with suppliers and other business partners
- identify and assess corruption risks and design a strategy to address these risks, either by taking appropriate mitigation measures, by suspending temporarily the trade or by disengaging with a business partner
- publicly report on supply chain due diligence policies and practices

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