3 December

2014

Alternative Approaches to Ensuring Transparency In Extractive Industries: The Canadian Experience

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CONTENTS

RESOURCE CURSE OR BENEFIT FOOTPRINT?

- The term "*resource curse*" is a popular theory why economic growth in resource-rich developing countries doesn't match expectations:
  - Government corruption
  - Bad development strategies
  - Profits extracted to overseas shareholders
  - Illicit flows – transfer pricing

NBER Working Paper 5398
December 1995

NATURAL RESOURCE ABUNDANCE
AND ECONOMIC GROWTH

ABSTRACT

One of the surprising features of modern economic growth is that economies with abundant natural resources have tended to grow less rapidly than natural-resource-scarce economies. In this paper we show that economies with a high ratio of natural resource exports to GDP in 1971 (the base year) tended to have low growth rates during the subsequent period 1971-89. This negative relationship holds true even after controlling for variables found to be important for economic growth, such as initial per capita income, trade policy, government efficiency, investment rates, and other variables. We explore the possible pathways for this negative relationship by studying the cross-country effects of resource endowments on trade policy, bureaucratic efficiency, and other determinants of growth. We also provide a simple theoretical model of endogenous growth that might help to explain the observed negative relationship.

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THE RESPONSE: INCREASING REVENUE TRANSPARENCY

"3.5 billion people live in resource-rich countries. Still, many are not seeing results from extraction of their natural resources. ***And too often poor governance leaves citizens suffering from conflict and corruption****. The EITI was formed to change this." – EITI Website*

…the lack of strong systems of transparency and accountability in the management of the extractive sector in some resource-rich countries has too often ***allowed revenues to be diverted from high-priority national needs****. – G8 Communique*

GRI – 2000

Global Reporting Initiative (GRI) establishes standard for CR Reporting, including Payments to Governments

EITI – 2002

Extractive Industries Transparency Initiative created for developing countries to track resource-related revenues

Dodd Frank – 2010

Economic reform law in US includes clause requiring disclosure of payments on project-by-project basis

G8 – 2013

On the eve of the G8 Summit, Canada announces it will establish new mandatory reporting standards on the heels of the European Parliament's vote for strong new disclosure requirements for extractive companies

"With country- and project-level information on the funds collected by their governments on resource extraction, ***citizens can hold their governments to account for the management of oil, gas and mining deals*** *as well as the money their governments receive in exchange for these assets." – Publish What You Pay*

CANADA HAS JOINED THE PARADE

- Canada was an original “supporting country” for EITI – but has not chosen to implement the standard for mines operating in Canada

- Canada now moving to enact regulations similar to the resource revenue transparency clause of the U.S. Dodd-Frank legislation

- Canada’s efforts are based on a template developed by an industry-NGO working group

Publish What You Pay CANADA · PDAC · Prospectors & Developers Association of Canada · The Mining Association of Canada · Revenue Watch Institute

The Resource Revenue Transparency Working Group

Background to Recommendations on Mandatory Disclosure of Payments from Canadian Mining Companies to Governments

6/14/2013

The Resource Revenue Transparency Working Group

CANADA'S APPROACH:

In the broadest sense, the framework seeks to:

1. Contribute to a process which results in communities, sub--national authorities and national oversight actors having access to the information necessary to hold their governments and decision makers accountable for revenues derived from extractive resource development,
2. Develop a framework that results in project--by--project reporting, on a country--by--country basis, for all levels of government in Canada and abroad;
3. Propose a framework for disclosure that remains broadly consistent with international standards, so as to find alignments, reduce duplication, avoid conflicting reporting requirements between jurisdictions, and seek equivalency with other jurisdictions where possible.

NEW CANADIAN LEGISLATION AND POLICIES

- Canadian legislation was introduced in late October 2014 that should allow for uniform reporting requirements that are uniform across jurisdictions and reduce associated administrative costs.
- Who is required to report?
  - An entity engaged in, or controlling other entities engaged in, the commercial development of oil, gas or minerals in Canada or elsewhere, …and that either:

1. is listed on a stock exchange in Canada; or
2. has a place of business, does business or has assets in Canada and, for at least one of its two most recent financial years, meets at least two of the three thresholds below:
   - the company has at least $20 million in assets (all currency Canadian);
   - the company has at least $40 million in revenue; and/or
   - the company employs an average of at least 250 employees.

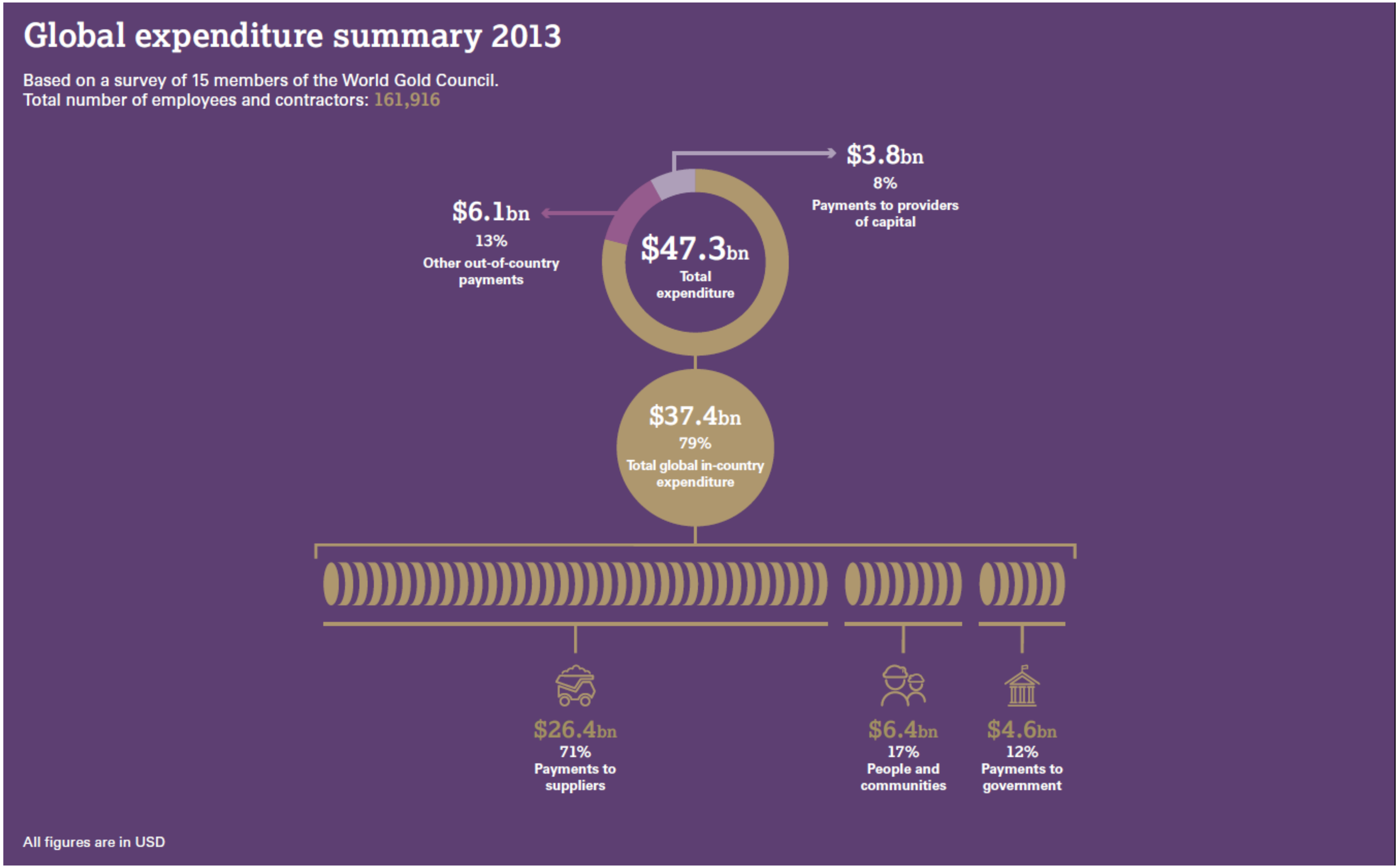
- What is Reported?
  - Amounts exceeding $100,000 (unless specifically prescribed)
  - Fees, royalties, taxes (including entry fees, regulatory charges, etc.); bonuses, dividends (apart from ordinary payments to shareholders), infrastructure improvements, etc.

NEW CANADIAN LEGISLATION AND POLICIES (2)

Canada's New CSR Strategy for the Extractive Sector:

- The new CSR strategy endorses several international best practice standards that the Government of Canada has set as the performance benchmark for Canadian companies operating abroad.
- These standards include:
  - The 2012 International Finance Corporation Performance Standards on Environmental & Social Sustainability (IFC performance standards);
  - The United Nations Guiding Principles on Business and Human Rights (UNGP);
  - The OECD Guidelines for Multinational Enterprises (OECD guidelines);
  - OECD Due Diligence Guidance on Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas;
  - Voluntary Principles on Security and Human Rights (VP);
  - Global Reporting Initiative (GRI).
- Companies wishing to receive support from Trade Commissioners and "enhanced Government of Canada economic diplomacy" must abide by the new policy

NEW REPORTS BY WORLD GOLD COUNCIL SHOW BENEFITS GO WELL BEYOND TAX REVENUES



KINROSS AND OTHER COMPANIES ARE ALREADY DISCLOSING THIS TYPE OF INFORMATION

- Through our CR reports, we are providing stakeholders with a full picture of the value we generate
- This information is valuable in discussions with local communities and authorities

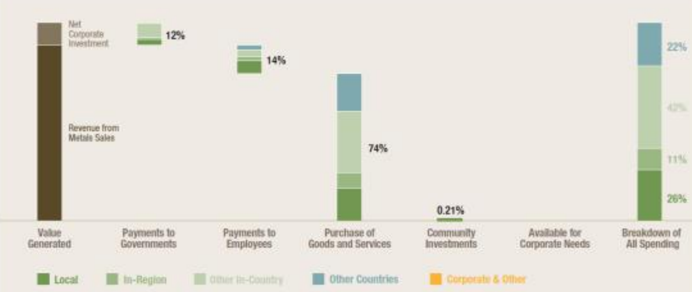
KINROSS **2013** CORPORATE RESPONSIBILITY REPORT

2013 DISTRIBUTION OF ECONOMIC VALUE[1]
($ millions)

		PAYMENTS TO GOVERNMENTS								
2013	REVENUE	ROYALTIES & FEES	INCOME & CORPORATE TAX	DUTIES, OTHER	TOTAL TO GOV'T	IN-COUNTRY SUPPLIERS[2]	IN-COUNTRY WAGES[3]	COM-MUNITY[4]	OUT-OF-COUNTRY SUPPLIERS	ECONOMIC VALUE RETAINED[5]
Brazil	710.1	7.0	24.2	12.4	43.6	440.9	74.0	2.9	68.2	80.5
Chile	522.4	0.0	58.5	31.3	89.8	533.1	83.0	0.4	12.9	(196.8)
Ghana	387.8	22.6	41.0	0.0	63.6	247.2	33.8	2.1	106.0	(64.9)
Mauritania	344.5	10.1	7.4	5.9	23.4	378.9	55.5	2.0	448.6	(563.9)
Russia	775.1	84.3	61.8	5.3	151.4	252.5	102.0	0.5	164.5	104.2
USA	1039.6	5.5	92.5	21.2	119.2	498.0	154.7	1.0	19.7	247.0
Corporate	0.0	0.0	0.0	0.0	0.0	49.7	217.7[6]	2.3[7]	30.1	(299.8)
TOTAL	**3779.5**	**129.5**	**285.4**	**76.1**	**491.0**	**2400.3**	**720.7**	**11.2**	**850.0**	**(693.7)**

1 In 2013, Kinross reported adjusted net earnings from continuing operations of $321.2 million on revenue of $3,779.5 million. Operating costs were $3,285.9 million and payments to providers of capital were $171.4 million. The distribution of economic value shown above also includes capitalized expenditures of $1,187.3 million. For a complete account of Kinross' 2013 financial performance, see our 2013 Financial Statements in the 2013 Annual Report.
2 Suppliers registered as tax-paying businesses in the host country are considered to be in-country suppliers.
3 In-country wages reported by country include payments made to nationals and exclude payments to expatriates (which are reported under Corporate[6]). Total employee compensation, as shown in the above table, was $720.7 million.
4 Community investments include donations and investments in non-core infrastructure.
5 Economic value retained indicates returns to the Company; negative totals in this column indicate areas where operating and capitalized spending exceeded revenue.
6 In this table, corporate wages include employees at corporate offices, as well as expat salaries for the Company.
7 In this table, community investments made in 2013 at FDN are included with donations made at the corporate level.

2013 BENEFIT FOOTPRINT



1 Percentages shown are in relation to total expenditure by the Company.
2 Net corporate investment is the amount spent in excess of revenue from metal sales.

GENERATING ECONOMIC VALUE 33

THE TAKE-HOME MESSAGE

"This data demonstrates that mining has a significant and growing role to play in economic development in general and poverty reduction in particular. Evidence from ICMM case studies in Chile, Ghana and Brazil illustrates that mining areas have enjoyed stronger poverty reduction and social development performance than non-mining areas."

ICMM – "The Role of Mining in National Economies"

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