Natural resources and illicit financial flows: an interlinked story

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What are we talking about?

→ Natural resources sector (NR)

Oil, gas, minerals
Wildlife
Forest
Fisheries

→ Legal and illegal exploitation

Extractive revenues representing 60-90% of total budget
Valued at US$51-152 billion annually

Valued at US$7-23 billion annually

Figures based on: World Bank, Interpol, UNODC, OECD
What are we talking about?

→ Exploitation of natural resources often associated with illicit financial flows (IFF)

- Corruption (bribery, embezzlement, abuse of functions, trading in influence)
- Tax avoidance (e.g. manipulation of transfer pricing)
- Tax evasion (e.g. not paying customs taxes)
- Money laundering

Revenues lost annually:

- Illegal logging = US$6-9 billion
- Wildlife trafficking = US$1 billion

Corruption:

- Forest = US$29 billion lost annually
- Extractive = most prosecuted for bribery

Figures based on: World Bank, Interpol, UNODC, OECD

Common patterns & tactics

→ Combining 2 or more of the following to hide illicit practices

- Creating layers of offshore shell companies & hiding the beneficial owner
- Making use of secrecy jurisdictions
- Using intermediaries (professional enablers / middlemen)
- Opening bank accounts located in multiple countries
- Concealing resources with other goods / misdeclaring as something else
A global problem

→ Starting in one country but involving multiple jurisdictions & players

✓ Fishing quota granted
✓ Bribes paid
✓ Offshore / shell companies:
  - Cyprus
  - Marshall Islands
  - Dubai
  - Mauritius

- US$10 million bribes, labelled as consultancy fees

IFF and NR, a tale of OSCE countries

Illegal logging, timber laundering, and IFF

→ Austria, Croatia, Belgium, Germany, Italy, Romania, Slovenia, Ukraine

Opaque oil/mineral deals, and IFF

→ Azerbaijan, Romania, Mongolia

→ OSCE financial institutions (banks) used

→ Agency subsidiaries within OSCE countries: Belgium, AP, Cyprus, Germany, Italy, Russia, Luxembourg, Switzerland, USA, top 20 of PJN

→ Re-investment of illicit funds (real estate, luxury goods): OSCE countries, recipient countries
Key challenges

1. Natural resources & associated IFF not seen as top priority / serious threat
2. Crime convergence
3. Finding evidence & building a case → Cracking down secrecy jurisdictions (even within OSCE) → Lack of cooperation / selective cooperation
4. Targeting / investigating ALL players

What can be done?

Include natural resources and illicit financial flows high on agenda – a top priority
Promote transparency
Build capacity across law enforcement and criminal justice systems
Cooperate, collaborate, develop networks of experts, think out of silos, and share best practices
Support and protect civil society, whistleblowers, journalists
Support national, regional and international initiatives

→ Establishing (free & centralised) public registers of beneficial ownership & legal entities
→ Disclosure of asset declarations(0,2),(994,994) and interests
→ Public register of lobbyists
→ Joining transparency initiatives, e.g. Extractive Industry Transparency Initiative, Open Government Partnership
Thank you!

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