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HD **Natural resources - The curse of coal industry graft**

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Juan Pablo Perez Alfonso, one of the founders of the Organisation of the Petroleum Exporting Countries (OPEC), once compared the world's fossil-fuel use to "drowning in the devil's excrement". There is certainly plenty of evidence supporting his prediction that the fossil-fuel industry, with its powerful corrupting influence, will "bring us ruin". Indeed, coal-related corruption stories are breaking worldwide, shining a light on the murky space between "illegal" and "improper" where the extractive industries work.

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Last year, in the Australian state of New South Wales, the Independent Commission Against Corruption (ICAC) investigated former labour ministers Eddie Obeid and Ian Macdonald for conspiring to defraud the state over the issuance of multi-million-dollar licenses for coal exploration and mining. Today, the ICAC is conducting an even more far-reaching and complex investigation into a number of figures from the Australian Labor Party and the Liberal/Nationals Coalition, including for favouring the interests of Australian Water Holdings, a major infrastructure company.

Last month, India's Supreme Court found that all 218 coal-mining licenses allocated by the government in 1993-2009 had been granted in an "illegal and arbitrary" manner, with the committee responsible for the process lacking transparency and rife with corruption. Following the landmark decision, the government has cancelled 214 of the coal block allocations - and has fined several companies that have already begun production.

For its part, Indonesia is set to revoke the contracts of 17 coal producers that failed to pay government royalties. And, since the beginning of this year, the country's corruption commission has been focusing on the extractive industry, including the state officials who facilitate mining companies' illegal activities.

Likewise, China's ongoing anti-corruption drive - the largest in its modern history - has begun to focus on the coal industry. Last month, two Communist Party officials from the coal-rich Shanxi province were charged with corruption and abuse of power, signalling that Shanxi may well move to the forefront of President Xi Jinping's quest to eliminate entrenched corruption in the party's ranks. As Gao Qinrong, a former journalist from Shanxi, recently described the province: "It has coal; coal brought money; that brought corruption."

These stories highlight a simple truth: Where the coal industry operates, bribery and venality are likely to be rampant. But this does not have to be the case. In order to reduceÂ â|(94) if not eliminateÂ â|(94) such corruption, several fundamental weaknesses in the regulation of how mining contracts are allocated must be addressed.

For starters, instead of conducting fair and transparent open-tender processes, governments often empower their ministers to decide which companies are allocated lucrative fossil-fuel exploration and extraction contracts, and conflicts of interest are not disclosed. Indeed, there is an unguarded revolving door between politics and the extractive industry, and political donations are allowed. Finally, though states are responsible for regulation, they also receive royalties and levies for the sale of their resources, which tends to weaken regulators' effectiveness.

The key to addressing all of these problems is, of course, greater transparency. Otherwise, corruption festers and growsÂ â|(94) with very real consequences. Worldwide, corruption has weakened environmental regulatory systems, undermined citizens' capacity to effect change, and made a mockery of democratic processes.

None of this is a surprise. In fact, resource-rich countries, such as Equatorial Guinea and Sudan, tend to perform worse economically and experience more violent conflict than their resource-poor counterpartsÂ â|(94) a phenomenon famously dubbed the "resource curse".

Corruption plays a major role in this curse. Natural-resource wealth insulates leaders from accountability, while offering them the prospect of significant personal financial gain at the expense of the rest of the country. If foreign multinationals dominate extractive sectors and are allowed to repatriate their profits, instead of investing them locally, ordinary citizens receive virtually no benefit from what is often their country's largest and most profitable economic sector.

Furthermore, economies that depend on natural-resource exports are vulnerable to sharp price fluctuations, making government revenues and foreign-exchange supplies unreliable. For private investors, this makes involvement in these countries prohibitively risky.

If a country like Australia, with its robust civil society and strong democracy, is struggling with widespread graft among high-level government officials, no country is safe from the corrupting influence of the extractive industries.

Worse, as is so often the case, those who suffer the most from the extractive industry's opaque and unfair activitiesÂ â|(94) not to mention the selfish actions of corrupt officialsÂ â|(94) are those who can least afford it.â|(89)Â©2014 Project Syndicate $lt;p class="Footnote">Marina Lou is a legal adviser at Greenpeace International, specialising in financial-market regulation.

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RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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