HOUSE OF COMMONS

Business, Innovation and Skills Committee

Oral evidence: Extractive Industries Sector, HC 832

Tuesday 19 November 2013

Ordered by the House of Commons to be published on 19 November 2013.

Witnesses including written evidence where submitted:

At 9.30am:

- **David Hargreaves, Mining Consultant and Publisher,** Week in Mining
- **Ros Lund, Senior Manager,** Mining on Top
- **Ben Peachey, Communications Director,** International Council on Mining and Metals
- **Ken Cronin, CEO,** UK Onshore Operators Group

At 10.30am

- **Eddie Rich, Deputy Head,** Extractive Industries Transparency Initiative

At 11.15am

- **Robert Fenton, Business Consultant and Secretary,** Mining Association of the UK
- **Nigel Jackson, Chairman,** CBI Minerals Group
- **David Odling, Energy Policy Manager,** Oil & Gas UK
- **Kevin McCullough, Chief Executive,** UK Coal
- **Nigel Holmes, Corporate Affairs Manager,** GDF Suez E&P UK **and spokesperson for** Oil and Gas Independents Association

Watch the meeting

Members present: Mr Adrian Bailey (Chair), Mr Brian Binley, Caroline Dinenage, Rebecca Harris, Ann McKechin, Mr Robin Walker, Nadhim Zahawi

Questions 1-121

Witnesses: **David Hargreaves**, Mining Consultant and Publisher, Week in Mining, **Ros Lund**, Senior Manager, Mining on Top, **Ben Peachey**, Communications Director, International Council on Mining and Metals, and **Ken Cronin**, Chief Executive Officer, UK Onshore Operators Group, gave evidence.

Q1 Chair: Can I welcome you and thank you for agreeing to answer our questions? May I just ask you to introduce yourselves, for voice transcription purposes?

David Hargreaves: My name is David Hargreaves.

Ros Lund: I am Ros Lund.

Ben Peachey: I am Ben Peachey.

Ken Cronin: I am Ken Cronin.

Q2 Chair: Now, could we do it again with you just saying who you are representing?

David Hargreaves: I tell you again: I am David Hargreaves. I am a mining consultant, self-employed.

Ros Lund: I am Ros Lund and I work for IntierraRMG. I am representing Mining on Top, their conference brand.

Ben Peachey: I am Ben Peachey. I work for the International Council on Mining and Metals, which is a representative body of large mining companies and mining associations in the mining and metals industry, focused on sustainable development.

Ken Cronin: I am Ken Cronin. I am the head of UKOOG, which is the Onshore Operators Group in the UK, the trade body representing all onshore oil and gas companies.

Chair: Thanks very much. Before we open the questions, in the interests of brevity, do not feel that you all have to answer every question. In fact, some questions will be person-specific. If you do feel the need to add to or subtract from what somebody else has said, then feel free to do so. I believe, Robin, you have to make a declaration of interest before we start.

Mr Walker: I should refer the Committee to my entry in the register of interests. Before coming to the House of Commons, I advised a number of mining and extractive companies, including Rio Tinto, Shell, CRH, Vedanta Resources, Kazakhmys, Hochschild Mining, Mineral Securities, African Barrick Gold, Forexpo, African Platinum and ArcelorMittal. I no longer have any relationship with any of those companies or the company where I advised them. I do have a smaller than disclosable number of shares in BHP Billiton Plc, though. I am also an active member of the all-party parliamentary group on the extractive industry and have campaigned for the UK to join the EITI.

Chair: Well, we have a little time left for questions.

Nadhim Zahawi: I should refer the Committee to my entry in the register of members' interests as well, both as a shareholder in Genel and in an advisory capacity for Talisman and Afren Plc. For anything else that I have forgotten, you can check the register.

Q3 Chair: Thanks very much. My first question is to David Hargreaves. It is a very general question to set the context for the inquiry. The UK has a long history of mining. It is a heritage that is often thought now to be dead. Do you think that, in looking at and doing an inquiry into mining, we are perhaps clinging to a bygone heritage?

David Hargreaves: Good question. The answer is that we do not need to be, because we have the rump of an industry still here. There is very little left in coal, but there are many coal reserves. We are developing a big tungsten mine in Devon. We have Cornish tin still with possibilities. We have the one major potash mine in Yorkshire, Boulby, which could be joined by a second one and make us a world force in all that. Thus we go on; there are lots of possibilities. Of course, the real one is shale oil, which everyone has on their lips. We could have quite a viable industry again, yes.

Q4 Chair: Would it be fair to say that there is the potential for a resurrection of the industry?

David Hargreaves: Yes, if we have the willingness to do it. Just quickly—you may pick up one of these when you go, if you like—I produce a weekly bulletin about it and, this week, I have specifically looked at British mining and what a resurgence of the industry could do for us. Very briefly, every direct job creates four indirect jobs. I just looked at coal. We will never go back to the 150 million tonnes per year, but last year, we imported 29 million tonnes, which is about £2.1 billion. We could produce that domestically. If we did, we would create 32,000 direct jobs and, therefore, 120,000 direct and indirect jobs. That would then feed on to the manufacturing industry. It would bring our colleges back because, without the academic side, we would be lost. The financing side would be stronger because we would have a viable industry. It hits on about five bases.

Q5 Mr Binley: I must declare an interest, in that I am the chairman of the all-party parliamentary group for clean coal; I founded it. I am deeply concerned that we have about 300 years of energy need underneath our feet and we are almost not bothering about it. Most of it is deep, and I understand that, but we are still not bothering about it. One of the reasons is that everybody seems to think that clean coal is an impossibility almost, when it is not at all. Is that a fair description, and should we be pushing the Government harder on this whole business of clean coal and the need to extract what is a massive opportunity underneath our feet?

David Hargreaves: Yes, we should. To give a quick example, most coal goes into power stations; the coal that does not goes into steel works. It is what comes up the chimney that creates the problems, not the mining, because that stays below ground. In a stack in a chimney in a power station, you have limestone filters. If you put a limestone filter in, as the sulphur goes through it, it creates gypsum. You are actually making a useful by-product and you have got your clean coal. It is a fairly simple method. What you have to do is look at the economics of it. Since we closed the coal industry, effectively, the economics have changed quite a lot. The world price is now such that we could be competitive.

Q6 Chair: Can I ask a supplementary to my original question? You said, effectively, we have a rump of an industry left, but the interesting thing is that the UK hosts a huge number of companies that are, effectively, international companies, operating mainly abroad. How do you think this has come about?

David Hargreaves: Because there was not a domestic industry, but, of course, when we were in our heyday in the manufacturing of mining goods, we had to spread abroad, and we took our expertise with us as miners and as manufacturers. I still call it the rump. That is what exists today that could be built upon. I had a very sad visit to a South Wales coal mine that was doing quite well. I sat down with the team afterwards when I had been underground and said, "Come on, how old are we all?" There was not a man under 55. There was no continuity, and not a college you could go to to learn your skills. It is backs to the wall, but we could restore it.

Q7 Chair: It is effectively a legacy of our past history. Could I ask a further question to Ros Lund? Of the host of extractive companies that we have here, how many operate in the UK?

Ros Lund: Very few. In fact, most of the companies that David mentioned who do operate in the UK are Australian companies. One is an Irish company. I do not know if Ben can correct or help me, but I do not think any of them do.

Q8 Chair: To summarise and see if I have this correct, basically very few that are headquartered here actually operate here, but there are some that are headquartered elsewhere that do operate here.

Ros Lund: Absolutely, yes.

Q9 Mr Binley: I have a lot of Amey Roadstone stuff going around in my area of the country, ripping up our river valleys. Are they not British?

Ros Lund: There are some quarrying companies and aggregate companies.

Q10 Mr Binley: Well, isn't that mining?

Ros Lund: We consider it slightly different.

Mr Binley: You do; we do not.

Ros Lund: If I am going to be correct, there are several aggregate and industrial minerals and some quarrying companies that operate and are listed in the UK. If we are talking about mining for metals, then no.

Q11 Chair: That is a useful distinction, but in the context of this inquiry, we are looking at the full range of extractive industries. David has outlined historically why they are headquartered here. This is really to Ros, but feel free if anybody wants to come in: what competitive advantages do those companies that are headquartered here have over those headquartering in other parts of the world?

Ros Lund: The competitive advantages they have are there are a lot of support services based in the UK. We are still regarded as a centre of financing for the development of mining companies. There is the London Metal Exchange. A lot of prices are set here. Because of those things and our heritage, there is a hub of service companies that provide services to the industry that are based here. There are construction companies. There are consultants: Mott MacDonald, SRK and the like. There are the big accountancy firms: KPMG and the like. There are all sorts of people who are based here in insurance.

All the services that a mining company needs, they can easily access here. London is still a hub that people from other mining centres come through on their way to somewhere else. If you are an Australian miner and you have a mine in Africa, you often fly through

London, visit London suppliers and consultants. Even with the big organisations like the ICMM, most of those are headquartered here. If you are headquartered here, you have the advantage of these people being on your doorstep rather than having to come into town to meet them.

Q12 Chair: Do you think the development of communication technology may challenge that supremacy because it will become potentially as easy to do business via various satellite communication channels and so on? Do you think there is a potential risk there?

Ros Lund: I still think that, in a physical business like mining, people like to see the whites of your eyes. Certainly, investors like to see the CEO of a mining company before they invest in a mining company. Yes, to a certain extent, it facilitates the start of a relationship, but it is cemented face-to-face, still.

Chair: Would others agree? I will take silence as assent.

Q13 Ann McKechin: This is a question for the whole panel. There are many examples of UK listed companies in the sector operating primarily in developing nations where there is little evidential basis of benefit to local communities, and there have been issues about employment—the local community may only be in very low-skilled jobs and skilled workers are brought in from other areas—land rights and compensation, and environmental damage. What do you think we should do here in the UK in terms of how we manage and regulate this industry, if it is deciding to list its companies here?

Ben Peachey: I will talk from an ICMM perspective. I should start by saying we are an international organisation, as Ros was saying, that happens to be based in London. We do not see our role as advising or giving input into the regulatory regimes of Government, but we tend to engage with international initiatives.

In part of my answer, I would say one of the biggest challenges that international mining companies face is different legislative regimes. My simple answer would be to encourage the UK Government in its legislation to partner and work with others through things like the Extractive Industries Transparency Initiative, so that the regulations that companies need to follow are consistent around the world. That would enable them to do what you want them to do, which is to do a better job and reduce the amount of red tape, i.e. it is the performance improvement that is important, as much as demonstrating that you are meeting those commitments. When there is a regulator in the US, the EU or the UK that is slightly different, that means companies have more work to do.

To come back to the issues that you mention, it has been shown, I think, on both sides that mining, when done well, can have a positive impact on economic growth and employment, both direct and indirect, as David was mentioning. It can, without a doubt, have a negative impact on the environment, but also a positive impact on the environment when managed well. It is important to recognise that as well.

Q14 Ann McKechin: Just to clarify, do you consider that the UK should try, in terms of the way it regulates these companies, to set down what its social responsibility obligations are in dealing with issues around land rights and dealing with sustainable environmental measures?

Ben Peachey: In terms of the view of our organisation, we are a voluntary initiative where we have set up performance standards in the mining industry. We believe what has worked, and continues to work, is a mix of regulation and voluntary standards. What we would encourage is that, where regulation is developed, it should be done in respect to international regulation on these issues.

Q15 Ann McKechin: If I could also ask a question to Mr Cronin, when we think of UK oil and gas, we obviously think about exploitation in the North Sea or west of the Shetlands, yet your organisation reported that there are around 2,000 onshore wells. Could you just give us an indication of how significant that element of the industry is and whether or not, with the exception of the issue of shale, that onshore sector is growing or declining at the moment?

Ken Cronin: The industry has been going since 1851. We actually found oil in the middle valley of Scotland. Over the course of the last 30 years, we have drilled about 2,000 wells onshore, predominantly conventional oil and gas. We currently produce about 25,000 barrels of oil equivalent per day, which is roughly 1.5% of the total consumption of the UK. That has been pretty steady now for quite a few years. We have the largest onshore oil and gas field in Europe, in Wytch Farm in Dorset. We probably create directly somewhere between 3,000 and 5,000 jobs, and I think that will continue, regardless of the shale situation.

Q16 Rebecca Harris: First, just to turn back to Mr Peachey for a moment, can you explain to us a bit more about how regulation of the extractive sector works in practice, especially as it is a global industry? For example, who is really dictating how companies behave, particularly abroad? Is it the UK regulators or host countries' Governments? How does it work in practice?

Ben Peachey: There is a mix of things that happen. If we take the issue of transparency, the Extractive Industries Transparency Initiative is really the core place that is impacting on industry behaviour. We would say the model they have is a good one, in that it is a forum that brings together host Governments, civil society organisations and industry to talk about how one can improve transparency. That is one example of how it is working.

Obviously, there have been regulations, like the Dodd-Frank regulation in the US. I would reiterate our view that having standards that are consistent internationally is what will help companies. I come back to the areas that I believe your colleague was talking to around the non-financial reporting—i.e. sustainable development or corporate social responsibility—activities. The initiative that we support is the Global Reporting Initiative and those guidelines help govern behaviour as well. Our group of companies—we have 21 member companies—have all voluntarily declared that they will report in accordance with the Global Reporting Initiative guidelines. They have engaged quite intensively with the GRI since around 2003 and given input into their reporting systems. Just two weeks ago, we made a formal commitment, as a group of companies, to move to the G4 guidelines that have just been released.

Q17 Rebecca Harris: I suppose I am partly looking at ways in which it may not be working in practice. How much say would the local populations have on the behaviour of companies operating in their area or close to them, for instance when the companies are listed in

London? How much impact will the local population have on the way those companies behave?

Ben Peachey: The only way I can answer that is that in each locality it works differently. What I will say is that, for our member companies, they see that community consent for the projects they do is paramount to what we refer to as their licence to operate. When a company makes a major investment, it has a lot of upfront, capital-intensive investment, and the payback on that is over a long period of time, so it is seen as a material risk. Having a good relationship with the community is important.

The reality is that, in every country where you operate, you operate by the regulations of the country. The relationship is between the national Government, regional government, local government and the company. One way I can answer is by saying that the way that we try and encourage better performance is through doing a series of case studies in a number of different countries. The most recent of those was in Zambia, where we had a workshop last week that brought together a number of operators in the country with Government representatives from very senior levels of Government—the Deputy President was there—through to regional and local government representatives and community leaders.

The way that that workshop worked was to do an analysis of the economic contribution, both currently and forecast into the future, of those mines. The idea behind that is so that each of those constituencies can come together and talk about the development needs of the country and how each can contribute and benefit. That is the way that we play it, but it is hard to give a general answer. Within the industry, they see it as an important constituent that they need to have the support of.

Ros Lund: Ben represents 21 of the largest mining companies, and there are 3,450 globally listed mining companies. For the smaller mining companies, it is even more important that they have a social licence to operate. A large company can use all sorts of means to have their projects approved, whereas a small company with a limited budget has to build good relationships with the local community, otherwise they are not able to operate at all.

Q18 Chair: Can I develop this slightly further? I realise you are representing a number of different companies, and each will have possibly their own approach, which, again, will reflect the particular countries they operate in. Would you say, in general, that the companies you represent are prepared to have a higher level of local social engagement than the host country would dictate? Are there any examples of that?

David Hargreaves: I will give you a live example. I am currently doing a mining engineering study on a quarry in Ulster. It is fully permitted. It is allowed to blast, but not on Sundays—this sort of thing. For economic reasons, they want to expand. We have done the drilling to show that it can be done there, but the only way to the motorway, and therefore Belfast docks, is through a very pleasant village. Immediately, I engaged with the village. We met with the head people and so on, and we settled between us that it can do, instead of about 4,000 tonnes a month, 15,000. The owners were pushing for it to be 25,000, but that number of 50-tonne trucks hurtling through a village is just not on. That brings in a reality. You then show them what it means, in terms of extra employment; behave according to the permit that you have, so you are not blasting on a Sunday or in the evenings and so on; and keep them involved. That way, you find that they swing fully behind you, and you do not have any problems.

Q19 Chair: Have you any examples from the companies you represent?

Ben Peachey: I will not give any examples. Some of the companies who have made written submissions give examples of what they do in the communities, and I would refer you to that. The one other thing I would say, as an example of how our group of companies are looking at these kinds of issues, is that we have had a strong commitment to improving relations around mining and indigenous peoples over a number of years. Earlier this year, we released a new policy statement—what we call a position statement—which is part of our performance standard framework around mining and indigenous peoples. That certainly got some positive reaction from indigenous peoples' groups, although I would acknowledge, at the same time, that they would like the companies to commit further than that.

Q20 Chair: I was going to say, have you developed or are you developing some sort of best practice model?

Ben Peachey: Yes. On indigenous peoples, we developed what we call a good practice guidance publication—forgive me if this is not the exact year—around two or three years ago. It is available on our website. At the moment, given our latest policy statement, the position statement on mining and indigenous peoples, we are looking to update that good practice guidance document.

I should declare on that front, though, that as Ros and I have said, although we represent a small group of large mining companies, we also have associations who are members of the industry who expand our reach to something like another 1,500 companies in the sector. We produce a lot of toolkits and guidance documents across a range of issues, and all of those are freely available for anyone in the industry, and any stakeholder of the industry, to use. We encourage and promote their use through industry events and elsewhere. We also have a toolkit on community development. That was first released in 2005 and was updated again, I think, around two years ago. Again, that is available for people to use.

Ken Cronin: Can I add what we are doing in the UK? A social licence to operate is one of the key planks of the regulatory system that we have in the UK, and gaining public support is clearly one of the most important steps. In June this year, we published a community engagement charter, which all of the operators under the UK banner have to operate against. That includes, for example, pre-application consultation with the local populations, working with them all the way through the regulatory system. There are about 50 days now of consultation when we engage directly with the local population on a variety of issues, whether on the environmental, planning or well integrity side.

Q21 Rebecca Harris: I have a question for Mr Cronin. In your recent report of October on onshore oil and gas in the UK, you outline the regulatory regime facing any potential new drilling operator here. You list five regulatory bodies, 16 hoops to jump through in the form of licences and applications, and 14 separate pieces of European legislation. On the face of it, that seems quite a complicated regulatory framework. Have you got any comments to make on that?

Ken Cronin: We have a gold standard of regulation in this country, both onshore and offshore, and it is recognised as such by other people in the world, particularly our European colleagues. We have what I term a quadruple layer of regulations, starting with having to get a licence from DECC, and that goes through your financial capability, looks at your insurance, and so on. You then have a process with the Environment Agency, in that you have to get permits for water, soil and air—making it very simple. That process involves public consultation as well. You then have to go through a Health and Safety Executive design study, where your well is looked at to see if it is appropriate for the geology, and to make sure that the well integrity is well looked after. That process is then backed up by an independent well examiner on top of that, to ensure that the design and the process for drilling have been done properly.

You then have a local population regulatory system. You have to go through planning with the mineral planning authority. That process takes up to four or five months. There is, again, a public consultation with respect to that. Once you have received sign-off from the Environment Agency, the Health and Safety Executive and the mineral planning authority, you then go back to DECC to get a licence to flare and, if you are doing hydraulic fracturing, a licence to hydraulic fracture. Then, they go back to all the regulatory authorities again and say, "Are you happy?" It is a very, very comprehensive system of regulation that our European colleagues look at in amazement.

Q22 Rebecca Harris: You say "the gold standard". Unfortunately, it does not seem that some of our local populations are necessarily impressed with the thoroughness of this system.

Ken Cronin: I agree. One of the key things for both the industry and Government over the course of the next two years is to explain to local populations exactly that: this is a properly regulated industry with checks and balances all the way through. That process is starting.

Rebecca Harris: Do any other members of the panel have any concerns or observations to make about the UK regulatory framework in this regard, or even the need for better public understanding or reassurance on it? No. Okay, thank you.

Q23 Mr Walker: Mr Hargreaves, you mentioned the potential for major projects like York potash, which obviously has substantial potential but has been quite a long time in the offing, to put it mildly. Do you feel that that is in any way a victim of the intensity of the regulatory regime, or are there other issues that are holding that one up?

David Hargreaves: On the Sirius company's potash project, it is in a national park and therefore it is emotive. The caravan dwellers and three-horned toad society are very strong in that part of the world. If you think about it, though, next door is a potash mine that has been operating safely for 40 years. The reserves of potash in North Yorkshire are amongst the largest in the world; they are almost infinite. We could have, just there, combined, up to 10 million tonnes per year. The stuff—even now, when it is at a low ebb with its price—is $300 a tonne. You do not need to do much multiplying to realise that most of it will go abroad; they have secured orders already, with a massive swing on the balance of payments. We speak of 2,000 direct jobs and away we go, but it is being badly held up at the planning stage, and those people have been meticulous. For instance, they are piping the stuff away, like slurry, to a safe haven out of the national park and so on. They have really tried bending over backwards. They have looked at the Boulby mine and said, “After 40 years, it is not a blot on the landscape; it is working quite well.” Yet they have had to throw themselves on the mercy of the planners, and it is going to be at least another 18 months.

As a knock-on effect—I am not trying to throw the capitalist angle—a company whose shares were pushing 20p are today about 4p. If they come to the market for money at 4p, they will be diluted from sight, and people just get bored with it all. Those are some of the knock-on effects of trying to develop.

Q24 Mr Binley: Can I relate what you have just said to the aggregates extraction industry? It seems to me that that is a very finite resource that is quickly coming to an end. I wonder whether there is a way of linking extraction more firmly with recycling in respect of the aggregates extraction industry.

David Hargreaves: That is a tricky one. I do not believe that reserves of aggregate in Britain are coming to an end.

Q25 Mr Binley: They are, in our river valley. We all have our own little part of the world.

David Hargreaves: Of course, right. They may have to move on.

Mr Binley: And mess somebody else’s river valley up.

David Hargreaves: Yes. With aggregate, though, you create a huge hole in the ground. We are, in certain parts of the country, short of landfill. You have to be careful with landfill—what you put in and how you put it in—but it can be restored. Unlike something like a coal mine, where half of it goes back on to waste tips, all aggregate is effectively mined and taken away. It is a moving feast.

Q26 Mr Binley: You have not answered my question, have you? My question was: could we do more to link the aggregates industry with recycling of aggregates? You did not touch on that.

David Hargreaves: No. It is pretty difficult and expensive. How do you recycle aggregate? It has gone into concrete, mostly. You would have to smash up this concrete and make more aggregate out of it. Of course, it would not then be aggregate per se; it would be aggregate mixed with cement. That would not quite be the same thing. I do not think you would get the same price.

Mr Binley: People are doing it. You might have a look at it in your next weekly newsletter.

David Hargreaves: Alright.

Q27 Nadhim Zahawi: Ros, in your written submission to us, you recommended light-touch but rigorous regulation. What does that mean?

Ros Lund: What it means is that it should be rigorous enough to ensure that all the issues are covered, but it needs to be proportionate to the size of the business. The members of the ICMM have a lot more resources to ensure that they meet all the regulatory requirements, but the majority of companies have a market cap of less than $50 million. For them to keep the same standards as Anglo American is ridiculous. It needs to be light touch, in that it does not strangle small companies from being successful in developing mines.

Q28 Nadhim Zahawi: I think you need to put more flesh on the bone, because it is difficult to understand. You say it has to cover all the bases—that was what I think you said—yet it has to be proportionate. How does it work to be light touch and rigorous?

Ros Lund: Give me a moment to think about that.

Q29 Nadhim Zahawi: While you are thinking about it, let me turn to Ben. For such an important sector, it is surprisingly difficult to find comparable data. I understand that the ICMM has calculated a mining contribution index, or MCI. Why is it important to know how companies impact host countries across the board? There are two other parts of that question. What is the MCI exactly, and what are your main findings from that, if you can share those with us today? Have you had any support from the UK or other Governments in this work?

Ben Peachey: I guess I will answer the last one first. We have not had engagement with the UK Government, but we have with the Canadian Government. Natural Resources Canada were part of the panel of experts that we engaged, in terms of developing the index. We also engaged with the World Bank. We used a consultancy—Oxford Policy Management—who are based here in the UK that helped with the analysis.

What the MCI was trying to do—I think it is important to say that it was our first attempt at doing this; it is something that we would like to improve in the future—was to look at the contribution of the mining industry in all of the countries of the world. What we did was we looked at the available data that was out there; we did not do any creation of new data; we looked at available data. The MCI—forgive me; I am not a mathematician but I will give my best explanation of how the formula works—looked at three factors. It looked at the mineral export contribution to every country in the world for 2010. The second factor it looked at was the increase and decrease of that export contribution from 2005 to 2010. The reason we looked at that was to give us a sense in the index of whether the contribution was going up or down over a period of time, so that it was not too focused on one year.

The third factor we looked at was a mineral production value as percentage of GDP. What we were trying to get at was the relative importance of the mineral sector to each country in the world. There are a few key things. Forgive me; I do not have the table in front of me but, in the publication that is on our website, if you look at the top 20 countries in terms of the actual mineral exports, you will see that many countries like, if I remember rightly, Australia, Canada and Chile would be in there.

Then, when you look at the top countries in terms of the mineral contribution index—i.e. where they have a relatively high level of importance to the economy as a whole—you get a very different list of countries, and you get a list of a lot of less developed countries. Part of the argument we would put is that there is a great development potential that the mining industry can have, which can help countries to develop and grow.

To give you a bit of background as to why we did that piece of work, this was based on a project we have been doing since 2004, which was initially called the Resource Endowment Initiative and is now called Mining Partnerships for Development. The Zambia work that I mentioned earlier was part of that. The first step of that project was to look at—I am sure you have heard of this—the “resource curse” theory, which is basically the theory that if a country is rich in natural resources, it is detrimental to that country, rather than positive.

Back in 2004, we identified 33 mineral-dependent economies in the world. We did economic analysis on those over around a 30 year period. Again, I will give my best description, but the full data are available and published. We found that roughly half of the countries had good economic performance over that period, and roughly half had poor economic performance over that period. That is something we recognise. As an organisation, we were interested in those countries that had done relatively well and wanted to understand the factors that helped them do relatively well. We did initial case studies in Chile, Peru, Ghana and Tanzania. I can carry on, if you would like me to.

Q30 Nadhim Zahawi: That is pretty comprehensive. Presumably, the findings were transparency, good governance—all the good things.

Ben Peachey: Transparency and good governance. One of the key challenges is capacity building in government. Especially in a less developed region or country, one thing that will happen is that a huge injection of money and development will come in and the biggest challenge is having the capacity to deal with that, for example when a mine site is being developed. I will just give one anecdotal example I remember from my early days in ICMM. There was a company who had a particular site in Peru; I will not name the company. One of the challenges they faced in their community relations was that they set up their own electricity generator for the site, and when there were power cuts in the local village, and they saw the lights were still on at the mine site, they thought, “Well, they’re taking our electricity.” Now, companies cannot be in a position where they are responsible for providing electricity in a country, and that is where we believe partnership between the Government, the company and donor agencies—be it DFID, the World Bank or others—working to understand the development needs of a particular region so that everyone’s needs are met, is the best model.

Q31 Nadhim Zahawi: Ros, was that enough time for you to come back? You can write to us, if you like.

Ros Lund: I may need to do that, because I am not an expert on regulation; I will say that. I guess what I was saying was, it needs to cover all the things that we need to be sure of—the Bribery Act, EITI, audited accounts, stock-market declarations, protecting shareholders—but at the right level for that company. Otherwise, it just makes money for consultants and accountants.

Q32 Nadhim Zahawi: What would be useful for us is: what would you exempt? Are there things that you would exempt the smaller cap companies from actually having to jump through?

Ros Lund: I do not think anything should be exempted; it should be about the level of detail required. That is what I was trying to say.

Chair: It would be useful if you could develop that response in a paper here, because it might appear on the surface that you are saying that, if you are a smaller company, you can get away with things that larger companies would not. Further clarification, I think, would be welcome on that.

Q33 Mr Walker: I wanted to pick up on something that Ben Peachey was saying about the potential for a role for DFID in capacity building. Obviously, we are the BIS Select Committee rather than DFID, so we cannot trespass too far into their territory, but one of the areas that we do look into is UK exports, UKTI and the role that they play. I wonder if you feel that they might have more of a role to play as well in that capacity building in the developing world, and in making sure that UK businesses are well placed to do business there.

Ben Peachey: I have had one conversation with UKTI, and our view is that, if they have an interest, which they seem to, having joined-up thinking is very important. One of the things that we found is that, if you do want to have an impact in developing countries—I am parroting something I heard a representative of the Overseas Development Institute say at an event I was at recently over in Canada—private sector investment will dwarf the kinds of moneys that a development agency can put in. Creating partnerships around that is a good thing if you are looking for development outcomes. Having said that, it is always important to ensure that there is a clear delineation of what private sector money is doing and what development money is doing.

Again, without commenting on it, I will just make you aware that there has certainly been an intense debate in Canada, which is a significant mining country, around the relationship between the Canadian International Development Agency, or CIDA, and the private sector in Canada. Again, if you are interested in how that relationship plays, it would be interesting to look at that debate. I would say that it does make sense, to answer your question, for there to be that dialogue between trade and industry and development, because there can be joined-up thinking on getting to development outcomes.

Ros Lund: I know UKTI have been working on this initiative. They delivered their "Delivering Global Mining Solutions" brochure back in June last year, which was full of case studies around how UK companies are partnering to help with the development of mines, associated infrastructure and the like across the world.

Q34 Mr Walker: That is good to see. Coming back to the ICMM, your report in July, "Approaches to understanding development outcomes from mining", concluded that the mining and metals sector has the potential positively and negatively to influence development outcomes in the regions in which it operates. What needs to be done to ensure that the outcomes are positive, from a UK plc basis?

Ben Peachey: I would carry on with the same theme of answer around collaboration. In the "Mining: Partnerships for Development" work, we identified six key themes in that toolkit where partnership would help. I hope I will be able to reel them off now: one was poverty reduction; one was local content planning; one was development planning. Forgive me, I cannot remember the others, but I can get that information to you. That is the key thing.

It is about getting the interested parties together. I go back to the Zambia study and the workshop we did just a couple of weeks ago, where four major operators in that country collaborated on the initiative to look at the contribution. I will give you one of the lessons learned from the economic analysis, which is being played out in every country where we have done these studies. When you look at development contribution, there are five key areas where there is a development contribution that mining makes.

The first of those is in foreign direct investment. In the case of Zambia, it found that 86% of all foreign direct investment in 2011 was mining. The second area is in exports. In the same period, again, in the example of Zambia, 80% of exports were coming from mining. I am going down in levels of importance in terms of contribution. The third level is then Government revenue—so tax contribution. It was greater than 25% of the Zambian tax take in the period looked at. In terms of GDP, it was greater than a 9% contribution. At the bottom of the chain was the direct employment contribution, where there was 1.7% of direct contribution. I would refer you back to David's answer earlier; that does not include the indirect contribution.

That is a slightly long-winded answer, but my view is that the way you can best impact is where there are a number of interested parties—I have talked about it in terms of companies—on development. In countries that are of interest to DFID, for example, or even to civil society organisations as well, it is finding all those players that have an interest in that area and getting them together to talk about what they are trying to achieve, and doing that based on data.

Q35 Mr Walker: That may be something that industry bodies and the industry itself is better placed to do than the Government, in terms of bringing businesses together to share data and information. It does not necessarily sound to me like a role for the UK Government.

Ben Peachey: Sure. Remind me of the exact question.

Mr Walker: I was just asking—as you say, the outcomes can be positive and can be negative—what we should be looking at, in terms of the legal framework, the regulatory regime and our approach to the industry, to ensure that the outcomes are positive and are having a beneficial impact on the developing world.

Ben Peachey: I guess there are two ways of answering that. One is in terms of within the UK. I think you have someone from the UK Mining Association coming later; I will leave the answer to them. In terms of impacting what happens in other countries, I would say supporting capacity building in those countries is important. One example is a forum that runs in parallel to ICMM and that was created at the same time as ICMM. Just to give you a slight bit of background, ICMM was created in 2001, so it is a relatively young organisation. It was created off the back of a very large, three-year intensive multi-stakeholder engagement initiative called the Mining, Minerals and Sustainable Development project, funded by industry but engaging industry, government, labour, civil society organisations and development agencies. Many thousands of people were engaged. A report was published, independently led by the International Institute for Environment and Development, if you know that organisation, based here in the UK.

That document, called "Breaking New Ground", is available from their website and our website. That came out with a number of recommendations. To come to the government recommendation, a forum called the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development was created. They have an annual meeting in Geneva hosted by the UN Conference on Trade and Development, or UNCTAD. At the current time, they have around 45 member Governments in that forum. DFID has been an active supporter of that in the past; I believe they are less active in supporting it at the moment. CIDA holds the secretariat for that, and I know they are looking for other countries to share the burden in supporting on that.

That brings together the mining departments from mining countries around the world. Again, I am happy to provide the link to the website that that organisation has. It brings together many mining Governments. To give you one example of their work, they developed what they call a template mineral policy framework, which was developed by member states, collaboratively. The idea is that, when a country is looking to review its mineral code, they can go to this template document to help them through the process of developing their own mineral code. I hope that answers your question.

Chair: Can I just intervene at this point? We have seven minutes left on this session. Can I take a leaf out of Ros Lund's book and give you an instruction? I would like a full but brief answer to any subsequent questions.

Q36 Mr Binley: Very quickly, the Extractive Industries Transparency Initiative: launched in 2002; 60 pages long; full of talk of stakeholders and inclusivity; has an office of Validator, which I thought was a Second World War bomber, but never mind. Is it too prescriptive to be effective on a global level? Could it have been done more simply, quite frankly? Could it have been condensed?

Ben Peachey: I believe you have someone from the EITI coming later. I will give an answer, but obviously—

Mr Binley: I would like your view in order to question him.

Ben Peachey: We believe that the EITI has been a success. It has not answered all the challenges. Could it have been done better? I am sure it could have been, but a lot of that will be with the benefit of hindsight. They have tried to achieve a lot. A lot of countries have signed up to EITI, and I believe it is something in the order of 23 countries that are compliant. From our perspective, we view it as a success. Could it do better? Undoubtedly. The most important issue is to not beat ourselves up about these things. There is a commitment to greater transparency from industry, from civil society, from Government. To improve on that would be for all of those institutions to continue to engage and support the EITI.

Q37 Mr Walker: Mr Cronin, you spoke earlier about the UK's regulation being a bit of a gold standard. There is a great debate at the moment around shale and the extraction of that. What recommendations would you make, or does anything need to change, from your perspective, in terms of taking the right approach to building a domestic supply chain and creating the right environmental governance and safety for that industry?

Ken Cronin: Let me take the regulatory bit first. We have done a lot of work this year with Governments in terms of understanding the regulation from planning, the Environment Agency etc. The key risk is Europe. We have 14 EU directives at the moment.

There is a big debate going on in Europe about whether to add a shale gas directive, which is an overarching directive, over and above the other 14. We believe that that does not improve public perception and does not improve enforcement of the current regulation. What we have asked for is guidance on the 14 that we have already. That is probably the key risk in the regulatory area.

In terms of the supply chain, the IoD came out before the summer with a very good report, which talked about 74,000 jobs being created in the UK directly as a result of shale. We have a very good example here in the UK with respect to the North Sea, and how that has built up over the years. The same can happen onshore in terms of the contribution it can make, in terms of jobs, tax revenue, etc.

The key to our industry—ignoring geological gas-flow scenarios etc—is the economics. The economics improve when we get the supply chain to a point where that is economic. Part of my role over the course of the next two years is to start looking at the supply chain. I am working with BIS on various different studies in terms of the supply chain. I will give you one example. 2,000 rigs are working onshore in the US. We have 77 in the entirety of Europe, and probably about 10 working now in the UK. We are going to need somewhere between 100 and 200 rigs in the UK over the course of the next decade. We have a choice: we can make them here in the UK or we can buy them elsewhere. I would like to try to build them in the UK, economically, for our industry. As I said, we are working with BIS on that.

Q38 Mr Walker: We are running out of time, so I appreciate the answers. There are lots of follow-up questions I would like to be able to ask, but I do not think I will have time today. I just wanted to pick up on one thing from the Mining on Top submission. You have said, in order to ensure a healthy future for the extractive industry, the UK Government must keep an open mind and listen to extractive companies. Do you feel it is not listening at the moment?

Ros Lund: It feels like civil society has a stronger voice than the mining industry in Government. It feels like the perception is that mining is evil: resource curse, environmental damage, impacting communities negatively in developing countries, which is not always the case. I think partly the mining industry is to blame. I do not think the industry has done a very good job of raising its voice and telling the truth. If you indulge me, it reminds me of a Springsteen lyric: "You end up like a dog that's been beat too much 'til you spend half your life just covering up." The industry has felt beaten down so has stopped speaking out, and it is now time for the industry to raise its head and talk more about the positive things that the industry is doing, and for you to listen.

David Hargreaves: Very quickly, we should look at the American model and we should force it down the throats of the general population. America's entry into shale oil and gas has revolutionised its economy—absolutely revolutionised it. In particular, here was a country that took 40% of all the world's import oil and was also a gas importer and about level on coal. It has turned it around. Its energy costs have halved. It is about to become a net exporter, would you believe, in about three years' time. That has really hurt the OPEC block. Do we mind? It is going to bring down the price of oil, unquestionably. In doing so, it relieves the Middle East tensions, and my money is on eBay advertising about five American nuclear carriers, because they will not need them. In Britain, instead of saying energy prices must not double in the next 10 years, and instead of hurting our industry, we need to show they could halve.

Chair: It is 10.30 am. I want to conclude now. I am conscious that there may be one or two further questions that we would like to ask you, so we may put them in written form, and would be grateful to you for your response. Equally, you may feel that you would like to amplify answers that you gave us today; feel free to do that in supplementary evidence. Thanks very much, and I will look forward to buying tankers on eBay. That was very helpful, and I do appreciate your contribution.

Examination of Witness

Witness: **Eddie Rich**, Deputy Head, Extractive Industries Transparency Initiative, gave evidence.

Q39 Chair: Good morning and welcome. Thanks very much for agreeing to address the Committee and answer our inquiries. Could you introduce yourself for voice transcription purposes?

Eddie Rich: My name is Eddie Rich. I am the Deputy Head of the EITI international secretariat.

Q40 Chair: The EITI was launched in 2002. What sort of impact do you think it has had over the 11 years?

Eddie Rich: It has grown very quickly. This 2002 reference is not always the most fair representation, because it only became a standard in 2006 and had its international secretariat and board established in 2007. We have 41 countries implementing it around the world; 25 countries are compliant with the standard, and the impact in those countries is very varied. The reasons for them coming to the table are very varied. What we can say across all of those countries is that there has been a substantial increase in the trust between the Government, companies and civil society. That can sound like a bit of a woolly concept, but if you recognise that a lot of these countries are post-conflict—places like Afghanistan, Liberia and Iraq—they are countries that are coming out of very difficult processes, where there is, by its origin, the significant challenge of trust-building in the sector.

In addition, you can see, across almost all of those countries, improvements in tax-collection processes. The process has identified systems in government that need improvement in efficiency of tax collection. You are also seeing an increase in a level playing field for companies operating there.

Q41 Chair: What does a country have to do to be EITI compliant? Secondly—I recognise that you are the probably not the most appropriate person to ask this question of—why was this country so slow in signing up to it?

Eddie Rich: There are two main aspects; the first one is easier than the second. Each country that is implementing the EITI first has to produce a report of what is happening in the sector from a revenue perspective. How much money is coming in, in terms of tax, royalties and signature bonuses? That is what the Government discloses. The companies disclose how much they have received in tax, royalties and signature bonuses, and the two are reconciled. Through that process, it highlights a lot of issues, as I said, about the systems for tax collection.

Under the new standard that was launched this year, there are requirements around information on production and a whole load of contextual information on the operations of state-owned companies and so on, which gives a wider picture of the whole operation of the sector along the value chain. There is the report side, produced in each country every year. There are about 185 of those reports around the world. That is the heart of the EITI.

The soul of the EITI is the multi-stakeholder group in each country. This is a national committee of government, company and civil society representatives that sits in each country and oversees the process, decides the scope of the process, and tries to use the information to create a public debate to inform public policy. That is what the EITI is, in a nutshell.

In terms of why it took so long for the UK to implement, that is difficult—that is not really for me to answer.

Chair: I was just interested in your perspective.

Eddie Rich: The one thing that can be said is that the UK is not as rich in natural resources, as a percentage of its total GDP, as many of the countries that were frontrunners with this. There was some scepticism about the relevance of it then in the UK. As the Government saw the relevance across other countries, and they saw that it is not just about the classic resource curse issues, they increasingly saw its relevance and the opportunity to send a good signal.

Chair: We will certainly follow this up with the Minister. I realise it is the Government who should be answerable on that.

Q42 Mr Binley: To help us with the Minister, it is odd this was launched with great fanfare; it was proposed by Britain in 2002 at the World Summit on Sustainable Development. We all thought it was going to revolutionise the way the mining industry impacted on various countries around the world. I do not feel from your answer that I have your real view about why the Government did not implement it. Was it simply because we felt we were the good guys, and the bad guys needed to sign up but the good guys did not?

Eddie Rich: I do not know that that would be exactly how I would put it. The campaign of Publish What You Pay, which was very much the origin of the EITI process, was focused very much on resource curse issues: the relationship between being richly endowed in oil, gas and mineral resources and having high levels of poverty, corruption and conflict. For many people, that was not the key issue for the UK. I can understand the reticence, because if any country is going to implement this, be it the UK, Norway or Angola, they have to have an appreciation of how it will be useful for their own country. That did take quite a while. As the EITI has rolled out across countries, people have seen that it is useful for countries, beyond just tackling the classic resource curse issues.

Q43 Chair: Have you sought statutory powers to force, if you like, the bad boys to comply with the EITI, or do you think there is an international legal process where this approach could be developed?

Eddie Rich: There is a lot of confusion about the voluntary/mandatory issue with the EITI. It is a process for countries; it is not a process for companies. In that sense, it is voluntary. There is no statutory requirement. It is just like it is voluntary for countries to join the UN. There is a choice, and when they implement it, if they are going to become compliant with the standard, there is no question that every company and government agency in the country has to report. If they do not report, the country cannot become compliant. In that sense, in-country it becomes mandatory. Some countries have implemented laws to reinforce that. Others have done it through memorandums of understanding and so on, depending on the need in the country to force the companies and the agencies to comply.

Q44 Chair: I can see the problems in enforcing a particular standard or regulatory regime, and getting a country to adopt it that does not want to. However, as your chairman, Clare Short, said, "Leaders in some resource-rich countries have chosen to deny their citizens the possibility to see what happens to the money from their natural resources." On one level, it would seem quite outrageous that some Governments do not implement this. Can you see any way internationally that some sort of international regulatory regime could be enforced on those countries?

Eddie Rich: The efforts made around the G20, UN General Assembly resolutions and various other international bodies endorsing the EITI and encouraging countries to do so have been very effective. Let us not underestimate the UK and the US and other OECD countries saying that they are going to implement it. That has the massive effect of creating a situation where the EITI for resource-rich countries becomes the expectation and not the aspiration. We are getting to a situation where the few resource-rich countries that are not implementing the EITI—the Angolas of the world—do stick out.

Q45 Nadhim Zahawi: I declare my co-chairmanship of the all-party parliamentary group for the Kurdistan Regional Government. There is great political upheaval and political change in these countries. Take Iraq, for example, where you now have a federal system. The KRG attempted to work with the EITI, because it wanted to be transparent and show where the money is going, yet the EITI chose to ignore them and only work with the central Government. Do you think you need to change the way you behave towards some of these countries?

Eddie Rich: That is not quite the situation in Iraq. You are right to say that the EITI is set up at the moment to recognise only countries. What happened in the case of Iraq is that they produced a report and the board said that they needed to include the KRG, because the money coming into the Kurdish authority was coming into a part of the Government. However, there was an agreement, which we helped broker, between Baghdad and Erbil that Erbil would produce a separate chapter within an EITI-wide report.

Q46 Nadhim Zahawi: But you chose to ignore that chapter in the final report.

Eddie Rich: We did not; the Iraqis did.

Q47 Nadhim Zahawi: Should you not then change the way you deal with these countries, because they are changing in their structures? That is my point. You say, “We only deal this way,” but these countries are becoming federal systems, and you should be encouraging transparency, rather than rejecting it on a simple premise.

Eddie Rich: We did not reject it. Absolutely, we did not reject it. What happened was that the KRG produced this chapter, which was extremely poor quality, frankly. The data did not add up; it did not seem to have any sources. There was real concern expressed by Baghdad about the quality of the data. Baghdad said, “We cannot put this in our report.”

Q48 Nadhim Zahawi: You should be the arbiters of that, not Baghdad. If there are tensions between federal Governments and regional, and you are going to do your job properly, you should be looking at this stuff directly. It is not an excuse to say, “Baghdad told us it was not good enough; that is why we did not include it.”

Eddie Rich: No. It is Baghdad’s report; it is the Iraqi people’s report. It is not the EITI international report. Ultimately, there is choice.

Q49 Nadhim Zahawi: But you are trying to encourage transparency.

Eddie Rich: The key point, as you say, is to promote transparency. What we have done is said to Erbil, “You have tried to produce this chapter, and we applaud that effort. However, that was a long way off the standard required to be EITI-compliant. We stand ready to help you if you are willing to put your chapter in with the Iraq-wide report.” They have not been willing to do that. That is the sticking point at the moment. However, the willingness on both sides is there to help to try to improve the quality of the Kurdish chapter.

Chair: I do not want to take a whole section on this. If there are further questions to ask, perhaps we can incorporate them in a supplementary written question. We have covered some of Caroline’s areas tangentially, but she might like to develop them.

Q50 Caroline Dinenage: The all-party parliamentary group on anti-corruption wrote to us and said that they felt the EITI must be implemented in a way that truly benefits our domestic extractive industries. Based on what you have already said, how much flexibility is there within the initiatives to allow individual Governments to adapt the implementation of your principles?

Eddie Rich: The EITI is a standard, but it is very much a minimum standard. It has seven requirements. I always say there are 41 countries around the world implementing the EITI and there are 41 models of implementation of the EITI. We very much encourage that adaptation. I do not know if we are able to say “adaptation”, because it is a standard, but it is beyond the minimum standard to use the process as a springboard for having the most meaningful conversation in each country. That is very much the idea behind the new EITI standard, which was agreed in May: to look at the process as a series of “this is required, but this bit is encouraged”, or “countries should consider also doing this aspect”, depending on the relevance in each country. We are trying to facilitate a conversation, in each country, on them collecting the most relevant data for the public debate in their country.

Q51 Caroline Dinenage: They cannot, then, pick and choose from the minimum standards; they have to enforce the minimum standards, and then they can pick and choose what they want to do in addition to that.

Eddie Rich: That is exactly right.

Q52 Caroline Dinenage: In that case, how can it be a global standard if every country implements it differently?

Eddie Rich: It is a global minimum standard, but beyond that it becomes a framework for a discussion in the country about collecting the most relevant data and promoting the public debate. However, there is a certain set of data that is a minimum requirement. I cannot imagine a situation where that is not a relevant and important piece of information.

Q53 Caroline Dinenage: The Confederation of UK Coal Producers told us that there had been no contact to involve coal-mining companies in discussion of the possibility of signing up to the EITI. Given that it increases the burden on companies, why do you not insist that Governments consult industry before signing up to this voluntary initiative?

Eddie Rich: Is that a UK issue?

Caroline Dinenage: The Confederation of UK Coal Producers told us there had been no contact to involve coal-mining companies in discussion of the possibilities of signing up to the EITI.

Eddie Rich: That would have to be an issue you would raise with the Minister in the UK EITI process. As far as the EITI international standard and process is concerned, in each country that becomes an EITI candidate—starts implementing the process—the Government has to state its commitment to working with civil society and companies in the country. When the application from the UK comes officially—because they are not yet implementing—to the EITI board, they will look very carefully at whether the right people have been consulted and there is a sign of commitment to work with the relevant bodies. However, I could not comment on the detail of that.

Q54 Rebecca Harris: I will slightly cover some of the ground we have already covered. It has been reported, and we have been told, that some of the less developed countries are resistant to signing up to the transparency initiative because its reputation has been that it is designed for poor and corrupt countries, and therefore to sign up to it might almost imply that you are a poor and corrupt country. Is that resistance something you have experienced, and how do you deal with that?

Eddie Rich: That is something that was experienced, but it significantly changed with the US announcement of a commitment to implement a couple of years ago, and was then massively helped by the commitments to implement of the UK and France during the G8 this year.

Q55 Rebecca Harris: It would be fair to say that, if some of these countries like Britain had signed up at the beginning, it might have been an easier task.

Eddie Rich: It might well have been. Whether or not we can rewrite history, it has been quite good to go through the process with so many of these countries and recognise the indications are that this is more useful than just as a weapon against the resource curse issues of anti-corruption, poverty and so on.

Q56 Rebecca Harris: Similarly, there is also the perception that this is the rich North telling the poor South how to run their affairs. Is that something that is still an issue you are dealing with?

Eddie Rich: It is certainly shifting. When countries ask us why they should implement this when the rich countries are not, our first answer is, "Only do it if you think it is useful for you." Our second answer is, "The rich countries are increasingly finding it something that they find useful for themselves, so we hope that it is something that is useful for you." However, we do not force it upon anyone.

Q57 Rebecca Harris: In your written evidence to the International Development Committee last year, you said, "Along with transparency must come accountability." Can you just clarify for me—we have covered it a bit already—who needs to exercise that transparency and who is accountable for it?

Eddie Rich: There is a problem if all we do is produce a whole load of data in any country. We have at least 185 reports from 30-odd countries being produced every year. There is an enormous amount of very important information that gives a lot of detail on how much companies are paying, and you can compare it with how much is being produced, what the contracts say, the tax regime and so on. There is an awful lot of very important information, but if there is no mechanism in-country for having a discussion about that, that information does not go anywhere; it is just information for information's sake.

The challenge of use and analysis of data to inform public debate is where we are in the evolution of the EITI, to go back to the Chairman's original question about impact. That is now our big challenge, collectively: to try to turn that transparency into a public debate in each country.

The accountability mechanism that has been there right from the beginning has been this multi-stakeholder group—this national committee in each country that oversees the process. It is very difficult to talk about 41 countries; there are massive differences among them, but it is predominantly an issue about collecting the data so far, and now we look at how we can make that multi-stakeholder oversight mechanism really work for making a public debate.

Q58 Rebecca Harris: There is an inherent dilemma here. If you are a regime or country that either does not have the capacity to have a public debate about how tax money is raised or spent, or is actually corrupt and therefore does not have the will to have it, how do we address that? How are you working to address that, and how optimistic are you that we can move forward?

Eddie Rich: On both of those, I am very optimistic. On the capacity-building side, there is a body of groups—the World Bank, Revenue Watch Institute, the Publish What You Pay coalition and lots of bilateral organisations, including DFID—who are working in-country with civil society organisations, government agency bodies and companies to improve the quality of data and the analysis of data. We can see quite a bit of a transformation in many of our countries in capacity to understand and interpret the data. That change is happening very quickly.

The second issue is about will. That, indeed, is more difficult, but the EITI process, in itself, has a requirement that government will work with civil society, and in a sense that provides a protective platform for citizens to operate and voice their views. Previously, you might have had a situation in a lot of countries where a civil-society activist would have made a statement or complaint about the operations of the extractive industry in that country and might have been imprisoned or exiled. Increasingly, that becomes difficult; there have been cases in the EITI countries where that has happened. The reaction, from a lot of the board members, was to say to those countries, "That is not within the principles of the EITI. If you do not take action to remedy that situation, then we will ask for you to be de-listed from the EITI." Those decisions have been reversed.

Chair: We have probably done this one enough. We are time-constrained, so please keep your answers as brief as possible. If you feel you have not covered a particular subject adequately, feel free to put in a written supplementary too.

Q59 Ann McKechin: You have obviously put a strong case for a voluntary, comprehensive strategy in-country being the best possible solution. However, clearly there are examples where countries are either not signatories or, in the case of the DRC, which obviously is one of the most fragile parts of the world, are currently suspended from the process. If I could put it this way round, should we not have a plan B on how we deal with companies if we cannot get countries to co-operate adequately? One suggestion has been to try to persuade the major stock exchanges of the world to adopt regulations that would compel members that are listed to be transparent in how much they pay. Has that route been considered?

Eddie Rich: For something as complicated as management of natural resources in any country, you need a plan B, C, D, E and F. No single tool or instrument is going to be able to deal with all the challenges of the sector. The EITI is not the magic-bullet solution to issues as complex as management of the sector in the DRC or Nigeria, where I was last week.

It is not really for me to comment on stock exchange issues. Our board would have very different views on that. I am quite limited in what those plans B, C and so on might be.

Q60 Ann McKechin: You have talked about the fact that you have supporting companies. If you have a supporting company, for example, that has been operating in the DRC and has been co-operating with the process, but you have now suspended the DRC—the actual state and the Government—from the process at the present time, is there any expectation on the companies that were involved in that process to still provide information?

Eddie Rich: The process in the DRC and in many suspended countries continues, because they want the suspension lifted. In order to get the suspension lifted, they need to produce their 2011 report by the end of this year, and make that compliant with the EITI standard, which will be tested early next year.

Q61 Ann McKechin: Do the companies themselves have to provide anything during that period?

Eddie Rich: They absolutely do, yes. At the moment, the company figures are being collected in the DRC, and they are being required to produce those figures by the Congolese Government.

Q62 Ann McKechin: Your website says, "No additional reporting or disclosure of payments is required for becoming an EITI supporting company." Why have you not taken a two-tier approach by setting transparency standards for both Governments and companies? I am just trying to get this point. You are saying that the companies have to co-operate, even though at the moment they are in a country that is suspended from the initiative, but they are not expected to report in countries that are not signed up to the initiative. It seems to me that companies can be operating in two different countries, side by side, but actually reporting something completely different.

Eddie Rich: This all comes back to the way the EITI was established as a country mechanism—as a process that happens in-country. All companies—whether or not they are EITI supporters, listed on Western stock exchanges or state-owned companies—in a country like the DRC have to report. They have to report. The EITI was not established as a global reporting mechanism—just as a group of activities and a conversation that has to happen in each country. It could develop into that, but that is not what it is.

Q63 Nadhim Zahawi: What role do you see investors having in the future transparency and accountability of the extractive industry, and when you answer that question, could you touch on the main features of your "Investors' Statement on Transparency in the Extractives Sector" and what progress you are making on sign-up?

Eddie Rich: Are you are referring to the institutional investors—the pension funds and insurance companies and so on?

Nadhim Zahawi: Yes.

Eddie Rich: They have been absolutely instrumental in helping build momentum for companies to support the process in the first place, and to understand the long-term business case for transparency and promoting the EITI process in these countries, and they continue to play that useful role.

Q64 Nadhim Zahawi: How many have signed up?

Eddie Rich: 85 or so have signed the investors' statement.

Q65 Nadhim Zahawi: Out of a pool of how many?

Eddie Rich: How many institutional investors? I would not know, but that covers $18 trillion of assets under management.

Q66 Nadhim Zahawi: Your website describes the participation of civil society organisations as being central to the EITI process, yet only eight NGOs are listed as supporting your initiative. Why are you apparently struggling to gain the support of these organisations?

Eddie Rich: Eight are given as illustrative. About 600, I believe, NGOs support the Publish What You Pay campaign around the world. That is an international coalition, and that is mixture of northern NGOs and in-country NGOs. There is no problem about support from civil society.

Q67 Nadhim Zahawi: Is there sufficient engagement between the three stakeholders—companies, Governments and the NGO sector?

Eddie Rich: It is a long way from perfect, but it has to gain a certain level for a country to become compliant. It is a constant challenge, and it should be a constant challenge. If they all get on beautifully, they are probably discussing the wrong thing.

Q68 Mr Walker: The Government has made a submission to us on signing up to the EITI, and we discussed earlier the fact that we were perhaps late to the party in that respect. I should probably mention our colleague, the hon. Member for Falkirk, who was here briefly earlier, who campaigned with me for the UK Government to sign up to the EITI. It was good to see him drop in. The Government submission said that the UK signed up to show leadership on extractives transparency and to encourage other countries to follow suit. What transparency and accountability issues face the UK extractive sector, and how much work needs to be done to ensure that the UK is fully compliant?

Eddie Rich: I only came in for the end of the previous panel, but there was clearly a concern expressed by them about how the mining and oil and gas sectors are perceived. There are issues about what contribution people think they make to the economy. We have declining oil revenue. We have lots of issues, as was heard, about fracking. Clearly, these are all issues where the public debate could be better informed by reliable data, and I hope the EITI process can make a contribution to creating a better informed public debate. Sorry, what was the second part of your question?

Q69 Mr Walker: How much work does the UK need to do in order to become compliant? Is it the case that most of our businesses are already providing enough information and the UK will fairly easily be able to produce its reports to the EITI, or is there a large amount of work needing to be done?

Eddie Rich: There is a significant amount of work needing to be done. I am not sure I know enough about how much data information is already out there, and in fact I am having discussions tomorrow with the UK multi-stakeholder group on what information is there. However, presenting it in the right way, to make it accessible and understandable for public consumption, is clearly the road that needs to be travelled. It is not necessarily a matter of the information being there; it is how it is presented.

Q70 Mr Walker: To play devil's advocate on this slightly, you will have heard the Mining on Top representative talking about the need for light-touch regulation. We have had a submission from the Mining Association of the UK saying the EITI will introduce a further level of red tape to an already over-regulated sector for no benefit. Given that this Committee has a role in promoting the UK as a great place to do business, what would be your answer to those arguments?

Eddie Rich: I would be surprised if that were the case. This information is going to be required by European legislation anyway. I do not believe that what is going to be asked for by the EITI process should add any burden on to that. This is yet to be seen as it plays through, and the multi-stakeholder group has to decide the scope of the UK EITI, the key questions they want to address and how they want to see the data presented. However, this instinctively seems unlikely.

Chair: Thank you, and thank you for your brevity. I am conscious of the fact that we have another panel and we need to finish by 12 noon. Can I thank you very much for your contribution? If you feel that you need to add to any of the answers that you gave, feel free to do so. Equally, we may feel that we need to ask one or two follow-up questions, but thank you; that is very helpful indeed.

Examination of Witnesses

Witnesses: **Robert Fenton**, Business Consultant and Secretary, Mining Association of the UK, **Nigel Jackson**, Chairman, CBI Minerals Group, **David Odling**, Energy Policy Manager, Oil & Gas UK, **Stuart Hoult**, Technical Operations Director, UK Coal, and **Nigel Holmes**, Corporate Affairs Manager, GDF Suez E&P UK and spokesperson for Oil and Gas Independents' Association, gave evidence.

Q71 Chair: Good morning and welcome. Thank you for agreeing to answer our questions today. I need to move quickly, so can I ask you to introduce yourselves and the organisations you represent for voice transcription purposes?

Nigel Holmes: My name is Nigel Holmes. I work for GDF Suez E&P UK, but I am here representing the Oil and Gas Independents' Association, which is a fluid group of 30 smaller companies operating in the UKCS.

Stuart Hoult: Good morning. I am Stuart Hoult. I am the Technical Operations Director for UK Coal. I am representing coal mining within the UK.

David Odling: Good morning. My name is David Odling from Oil & Gas UK, which is the principal trade association for the offshore oil and gas exploration and production industry in this country.

Nigel Jackson: Good morning, Chairman. I am Nigel Jackson. I chair the CBI Minerals Group, and I am also Chief Executive of the Mineral Products Association.

Robert Fenton: I am Robert Fenton. I am the Secretary of the Mining Association of the UK, which represents what we like to term the non-energy underground mining sector. I am also a director of the Minerals Industry Research Organisation.

Q72 Chair: My first two questions are to David Odling. In your written evidence, you claim that the UK's offshore oil and gas industry paid £6.5 billion in tax last year. What was the total gross profit of the industry, and what would that £6.5 billion represent in percentage terms?

David Odling: I am afraid I cannot answer what the gross profit is, because that is peculiar to the companies, and of course the companies report at company level. The taxation system we are under, though, is a very different taxation system from the rest of the economy because it is ring-fenced. In other words, for tax purposes, the operations offshore are treated as completely independent of all other operations in the company. Even if you lose money in other parts of the company, you cannot offset those loses against the profits made from production. The system does not match how the companies report. What we do know, however, is that over the last three years, our contribution in terms of productive output to the country has been in the range of 2.5% to 3% of gross domestic product, but our contribution to the corporation taxes paid to the Exchequer has been between 15% and 25% of the total received, which is almost an order of magnitude higher than our share of the economy.

Q73 Chair: Are you saying that you do not have the information about gross profitability, or that it is impossible to collect?

David Odling: It is not something that we can deduce from publicly available information.

Chair: But should the Government be able to do that?

David Odling: I honestly do not know; I am sorry.

Q74 Chair: We may wish to pursue that. Can I just come on to employment? You again told us that the UK oil and gas industry supports 450,000 jobs. The operators themselves employ only 36,000. Where do the rest work?

David Odling: The vast majority are in the supply chain. There is a very extensive supply chain right across the country; there is obviously a big concentration in and around Aberdeen, but it does extend right throughout the country. We also have a big export business from the supply chain, which is worth about £7 billion a year in goods and services. That obviously is a lot of jobs. On top of that, there are a huge number of jobs in what the Treasury calls induced activities—things like hotels, taxies and so on and so forth—all of which, certainly if you visit Aberdeen, is abundantly apparent.

Q75 Chair: You have made this assertion, and you have given it in broad terms. Is there a database that would demonstrate that?

David Odling: It is very difficult to get precise employment numbers on activities almost anywhere in the economy. We have done a lot of work ourselves. We have employed consultants to help us, and nobody for a moment would imply precision, because it is not available. However, they are the best that we have been able to deduce from all the sources of data and all the assistance we have had from those who are active in this kind of analysis.

Q76 Chair: Would you be able to furnish the Committee with such evidence as you have on that—written evidence or data?

David Odling: We can certainly give you a breakdown of the 450,000, but going into detail behind each and every calculation would be a step too far, if I may say so. I am not sure that it would be very illuminating.

Interestingly, *The Economist* just the other day published a special report on Britain. There is a map on page 4 of the special report that shows that, in gross-value-added terms throughout the economy, the region around Aberdeen is right at the top of the scale, which I think demonstrates the value that this industry of ours contributes to the economy.

Q77 Chair: That is the sort of evidence that I would like submitted. The point is that, if we are to do a report, it has to be evidence-led. With the greatest respect to those who submit figures like this, we need to know the evidence base behind them in order to be confident that, in effect, our conclusions reflect the reality of the situation there. Any written evidence that you could get to back up those figures would be helpful. Just quickly, what proportion of employees of the companies operating in the UK in oil and gas come from the UK? Again, you may not have this figure to hand, but if you could provide us with some evidence, that would be helpful.

David Odling: We do not have it precisely, but we do know with reasonable accuracy that about 45% of the jobs are located in Scotland. Obviously, some of those are still fulfilled by overseas nationals.

Q78 Chair: If you could provide us with any further breakdown, that would be very helpful.

David Odling: Certainly, yes.

Q79 Chair: My last question is about regulation. You wrote that it should be "designed to encourage investment, incentivise innovation or consolidation of existing regulations". What would you recommend specifically for the UK oil and gas industry?

David Odling: We have had an interesting period in trying to cope with the European side of regulation over the last two or three years, not least on health and safety. We eventually persuaded the Europeans that the regime that prevails in this country is an extremely good one, very well developed, matured over many years. The biggest plea of all we always have is that we do not have imposition of new regulation that treads across the ground already occupied by existing regulation, and it is this confusion of regulation that is perhaps more worrying than anything else. There is a tendency for that to happen as the European Union has spread its wings further and further.

Q80 Ann McKechin: I have another question for you, Mr Odling. You have made an emphasis of the fact that oil and gas provides 15% of the total receipts for corporation tax in the United Kingdom. You have also stated, "It should be understood that the oil and gas industry is truly international and when companies are looking to invest the regulatory environment is one of the key considerations." I would have thought the international price of oil would be the key consideration when it comes to whether or not you extract it.

David Odling: Of course, but that applies wherever you go in the world.

Q81 Ann McKechin: Yes, exactly. The companies you represent work globally in all sorts of different regulatory environments and make a profit out of it.

David Odling: Yes, but there is more than just that, if I may say so. There is the whole question of the regulatory regime, the tax regime, and the prospectivity of the area you are going into: is there a large or small resource there to be exploited?

Q82 Ann McKechin: That is about the mineral base.

David Odling: Yes.

Q83 Ann McKechin: That is a determining feature: how much oil you have; the depth; the difficulty in extracting it; and the environment, if you are dealing with deep waters, all of which your industry has been expert in for decades. You are used to doing that. The point is that some people feel that the weight of huge international, global conglomerates means that they have the upper hand in terms of how Government prepares its policy. I know it is not the direct example, but we have just gone through the INEOS refinery issue in Grangemouth, where some may have thought that the company had the upper hand because it was a key strategic asset. Would you agree that the oil companies, as a lobbying force, are in a remarkably strong position in dealing with Governments?

David Odling: It is interesting that there has just been a review undertaken, under Sir Ian Wood—the interim findings were published on Monday last week, 11 November—into how we exploit the remaining reserves of oil and gas to the maximum benefit of the country. Sir Ian and his team have made a series of recommendations in that report, most significantly asking for greater resource inside the Department of Energy and Climate Change, and more expertise in the unit that is responsible for licensing and the overseeing of the development of our oil and gas activities.

Q84 Ann McKechin: I was talking more of the issue of the tax rates and level of regulation. You are talking about regulation under the European Union, but a great deal of that is regarding health and safety, environmental concerns, and marine conservation areas; a lot of that is actually about preserving other important facets of our natural life and the people who work on the site. When you talk of this confusion of regulation, what precisely are you talking about?

David Odling: As I explained earlier, we already have a very well developed system of regulation, and all we are trying to guard against is more regulation that cuts across what is already well developed and works. That was the point I was trying to make.

Back to your question on whether the oil companies have the upper hand, I think they do not. Obviously, there are some powerful companies in amongst our members—some very big companies—but they do not have the power to dictate to the licence issuer, which is the Government, exactly what can and cannot be done. The Government has extensive powers.

Q85 Ann McKechin: Can I clarify how many of your members, who all extract UK oil and gas, are listed here in the UK?

David Odling: That is a good question. Clearly, the biggest are BP and Shell.

Ann McKechin: If you want to come back to us with the information, that would be helpful.

David Odling: It is only a small number of the very biggest, but it also includes some supply chain companies that are listed on the London market.

Q86 Ann McKechin: Could I turn to Mr Holmes? You represent some of the smaller oil and gas companies. Do Mr Odling's responses ring true to you, in terms of concerns about the regulatory environment?

Nigel Holmes: Yes. I can fully support everything that David has said. He is speaking pretty much for the whole industry, whereas I am talking for a subset of 30 small companies primarily focused at the exploration and development end, estimated at perhaps 25% of exploration but perhaps only 5% of production. We are a very different grouping. We are more like a self-help group. We have addressed issues with the Government—particularly, in the last few years, the taxation regime. We are maybe not so much involved in regulation as regulation, but David has spoken about the major issues and the possibility of over-regulation, and we would be concerned. In our group, there is some private finance, there are some small companies, mainly listed on AIM, and other companies, like the one I am involved in, which is the UK exploration arm for a foreign company.

Q87 Ann McKechin: What features make an attractive place to list an extractive company, in terms of listing, regulatory skills, geography, etc? What would the first and second priorities be, in terms of investment decisions?

Nigel Holmes: You are focusing there, I think, on whether we should be listing here in the UK, as compared with other countries. I would not necessarily have the ability to answer that question.

Q88 Ann McKechin: You represent companies, some of which are listed abroad.

Nigel Holmes: Yes. As I say, most of the ones that have been listed on AIM, for instance, would have moved from private finance to the small—

Q89 Ann McKechin: Small? Thank you very much for that clarification. Finally, Mr Holmes and the whole panel, how would the UK sign-up to the EITI affect your member companies operating in the UK, in terms of bureaucracy and regulatory burdens?

Nigel Holmes: As a small operator, I would see no problem at all. We, as an industry—I am sure David would reiterate this—provide a wealth of information anyway. I see no added burden in that respect.

Q90 Ann McKechin: Does anyone have a different view, or would the panel concur with that?

Nigel Jackson: Yes. We need to be convinced of what the purpose would be. One needs to make a distinction in terms of size and capacity of companies and across the sector. Certainly, my members in the industry that I represent have no difficulty with transparency. There is a lot of information already in the public domain. The critical things here are that it is proportionate and the process is managed consistently and sensibly. So far, we were not consulted on the decision the UK Government has made, which seems extraordinary to me, given the significance of the sector, and I think we are having a kind of retrospective contribution to that debate.

Q91 Ann McKechin: Mr Jackson, if I might stop you, you represent the larger-scale companies. Mr Holmes is representing small companies, but most of the largest companies will already be operating in EITI environments anyway, so why would complying with it in the UK present them with that much difficulty?

Nigel Jackson: The majority of our companies are actually SMEs; 460 of our 465-ish members are SMEs. I am just saying the case needs to be made. I would echo the point made earlier by another witness. I saw you grappling with what "light touch" is and the rest of it. It just needs to be proportionate, and the purpose of any process needs to be clear, if it were to be applied within the UK.

Q92 Nadhim Zahawi: Robert, how many mining companies are there in the world?

Robert Fenton: I cannot answer that.

Nadhim Zahawi: You are probably going to struggle with the next three questions then.

Chair: We will accept a written answer.

Q93 Nadhim Zahawi: You can write back to us. How many of those mining companies operate in the UK?

Robert Fenton: We have six or seven underground mining companies operating in the UK.

Q94 Mr Walker: That is non-energy, presumably.

Robert Fenton: Non-energy. As to dimension stone, I do not know how many underground mines are out there, because they are covered under the aggregates sector.

Q95 Nadhim Zahawi: How many of those mining companies operating in the UK are listed in the UK?

Robert Fenton: Actually operating, none.

Nadhim Zahawi: There are none listed.

Robert Fenton: There are four UK companies listed. Two of them are still exploring, one of them being Irish owned. Sirius is still exploring. Anglesey Mining has not operated an entire mine for more years than anybody likes to remember. There is one operating in Northern Ireland called Galantas, which extracts gold. That is the only one listed, and that is a small one.

Nadhim Zahawi: Did you say that is the only one listed?

Robert Fenton: That is listed.

Nadhim Zahawi: You said there were four listed as well.

Robert Fenton: No, one. Sorry. One operator is listed. The other three are only in the exploration stage or non-operational stage.

Q96 Nadhim Zahawi: What power does the UK have over those companies operating here but owned or listed elsewhere?

Robert Fenton: What do you mean by "owned"? All our operating members are either owned by the French or Americans.

Q97 Nadhim Zahawi: But they still have to follow the regulatory process over here.

Robert Fenton: They are registered UK companies fully owned by overseas interests.

Q98 Nadhim Zahawi: They are a registered subsidiary.

Robert Fenton: They are a registered subsidiary, and therefore have to follow the tax and Companies House regimes.

Q99 Nadhim Zahawi: What do you think are the benefits to communities of having a local mine?

Robert Fenton: The benefit of having a local mine is that we support downstream UK manufacturing.

Q100 Nadhim Zahawi: I get that, but I am talking about the local communities that are close to the mine.

Robert Fenton: All our mines operate within local communities, many of them rural. They give a lot of work to those local communities, beyond their own employees. I can quote an example of one mine that has only 17 miners. However, it has a contract with 30 employees just doing transport for them. It is all local, where possible.

Q101 Nadhim Zahawi: What proportion do you think are local employment within a mine? What sort of proportion of the workers would come from the local community, versus people who would be roving or working across the business?

Robert Fenton: In the sector I deal with, 90% of the employees are locals and not roving.

Q102 Nadhim Zahawi: Stuart, does that ring true to you?

Stuart Hoult: Absolutely. One of the submissions talks about Potland Burn, one of the surface mines that we operate: 96 employees, of which over 90% live within 12 miles. Again, it supports the local community and community funds quite well.

Q103 Chair: To Stuart, how many coal mines are there in the UK, and is this likely to change in the future?

Stuart Hoult: We have three operational mines in the UK, at the moment. We also have a number of mines within different phases of operation within Wales; they are in the development stage. Within our portfolio, we have one mine that is currently mothballed and requires investment to access around 50 million tonnes of reserves.

Q104 Chair: In general, would you say there is likely to be an increase, rather than a decrease?

Stuart Hoult: There is opportunity to increase within deep mines and surface mines, but there are a number of things fighting against that at the moment: the directives around large combustion plants, the IED, and indeed the carbon floor pricing are all hedged against coal to a certain extent, and the market for coal and the investment in it. It is one of the areas we are having to think about a lot at the moment, in terms of what the life of coal-fired generation in the UK within these directives is, and whether we should invest money in these mines or not.

Q105 Chair: If you had to list those factors that are likely to lead to an increase and those factors that could result in a decrease, how would you classify them?

Stuart Hoult: The factors that are likely to lead to an increase would be an energy policy that allows for a reasonable mix including coal, and technologies that support de-carbonisation of coal. Equally, the current directives that are in place are likely to lead to a gradual reduction of both coal usage and, invariably, mining in the UK.

Q106 Chair: I think I know the answer to my next question, but I will ask it anyway. What proportion of the UK mines' work force comes from the local area?

Stuart Hoult: Within the deep mines, generally 100% of all employees and contractors come from within a 30-mile travel radius. As you move towards surface mining, it is probably a much smaller radius. It is nearly all UK-based labour within a reasonable locality of the sites.

Q107 Rebecca Harris: This is a question for all of you. What might be seen to be the main advantages or disadvantages of having companies that are operating in the UK, but are not listed here?

David Odling: Certainly, as far as offshore oil and gas is concerned, perhaps I can answer that, because we have a lot of them. As the whole industry has matured in this country—production went over its peak in 2000 and has been declining—we have had an influx of newcomers who have brought new ideas and technologies and have taken on some of the older fields—some of the declining assets—that the big boys originally developed, and they have been teetering on the brink of whether to reinvest or sell. Quite a lot of them have sold and moved on to other things.

For example, if you go to the west of Shetland, it is big boys' territory; that is where they have moved to. If you look back at the mature parts of the North Sea, however, we have seen an enormous amount of new companies come in, bringing new capital, new technologies and, perhaps, a willingness to think two, three or four times about how to make the most of what we already have.

The number of active companies has been growing rather than decreasing, actually, and it has introduced a completely new life to this later phase of the North Sea's existence. It is most encouraging. It has spawned a lot of new technology. Aberdeen is probably now the world centre of sub-sea engineering technology. It is absolutely first class, and all of that has been built on the back of North Sea developments—keeping them, and putting off the desperate day when decommissioning eventually hits you.

Robert Fenton: The advantage of this foreign investment has kept the industry alive. Without it, we would not have any industrial mineral mines left. In the last two years, two mines have been brought back into action thanks only to investment from Italy.

Nigel Jackson: Could I make a distinction between ownership and listing? We should not confuse the two. 48% of capacity, certainly for mineral products, which are 80% of total extraction on the island, are in the hands of overseas companies. That is not a bad thing; I think that is a good thing, for many of the reasons David and Bob have referred to. It has ensured that there is continuity of capacity to supply, investment and the raising of standards.

However, we should not take that investment for granted. If the cumulative impacts of regulation and taxation are not kept in balance, they have the option to disinvest. That may recycle the equity into other hands, but we should never forget the long tail of independent companies who have no choice but to do business indigenously. They are also susceptible to the same issues in terms of regulation and taxation.

There is a difference between ownership and listing. Currently, we have very few companies listed in our sector, but there are an awful lot of people invested in the sector.

Q108 Rebecca Harris: Mr Jackson, is the non-energy mineral sector growing or declining in Britain?

Nigel Jackson: It depends on demand. Given that we have had five years of very significant decline in demand, the sector has shrunk. Although there is some indication that things may be beginning to improve, one would expect capacity to increase. Most of the SME companies have been very resilient throughout the recession, did put stuff away when the sun was shining and are still there.

Major companies have found it very tough. Margins have been very much eroded and the will to remain and stay invested in the UK is quite fragile. As I have said before, it is an option for them to take their investment elsewhere. The critical thing is demand: what is happening with demand?

Q109 Rebecca Harris: In your submission, you listed many of the current risks in the sector—whether that is the planning and regulation system or energy and climate-change related issues—but I wanted you to drill down, if you will forgive me for so putting it, to what the absolutely key threats to the sector are.

Nigel Jackson: It is really about demand. The ability to supply that is predicated on one critical word, which I have not heard this morning. We operate indigenously with a plan-led system. It is all about the planning and permitting. That is the critical thing for onshore development. We are only as good as the ability of the plan-led system to provide plans through the county councils for us to be able to plan ahead. The permitting system then kicks in, which is the regulatory side. The critical issues are about planning and permitting, and then you get to carbon and energy and all of the other issues.

Q110 Rebecca Harris: It would be something like a county council's mineral plan.

Nigel Jackson: Exactly, yes. That is critical; it is absolutely central to our ability to supply whatever the demand is.

Robert Fenton: May I come back to the original question you asked Nigel, on whether the industry has performed or declined? In my sector, it depends on what the mineral is. There is increasing demand for potash. We see serious exploring, because they have found a variation of potash that is exciting to the agricultural industry because of the growth records. We have rock salt. We have seen bad winters and councils complaining they do not have enough de-icer. Those areas are growing as best they can, while other sectors are not.

Q111 Chair: The next question is to Nigel Jackson and Robert Fenton. If you feel that you can better answer in a written supplementary, feel free to do so. Mr Fenton, you stated in your written evidence that the UK Government does not have minerals extraction high on its agenda, and that the UK Government needs a UK minerals strategy at the centre of an industrial strategy. How would you summarise that? What would a strategy look like?

Nigel Jackson: This is a central piece of what we are trying to do to help throw light on these issues. There is a general lack of understanding of the need for minerals. This is not optional: we need minerals. The only issue is whether they come from our island or somewhere else. Fortunately, we are able to be relatively self-sufficient for the bulk materials, which are predominantly the construction materials: the aggregates, cement and concrete; however, there are metallics and other things where we are not quite so well blessed. Since the war, no Government has really gripped the realisation of how important mineral wealth is to the economy and to giving us the built environment, the natural environment within which we all want to live.

It is very piecemeal. Planning is owned by DCLG; that is where the primary driver for the availability of resources sits. The National Planning Policy Framework does acknowledge the central role that minerals play, which is good. DEFRA, however, are very much concerned with the operational permitting aspects, and the link between DEFRA and DCLG is not as strong and co-ordinated as it could be; this applies to the agencies as well. DECC are clearly very focused on energy and carbon issues and BIS are there to champion the interests of industry.

We see a fragmented approach to this, and it is no wonder, really, that there is no clear vision on the overall need for minerals, whether they be energy or non-energy. I know that BIS and David's sector have an oil and gas industrial strategy in place now. There is a need for something for non-energy. This industry will attempt, and it is happy and keen to work with Government, to help develop it so that there is clarity in terms of metrics, the need for these essential minerals and the issues that bear upon their availability and constrain them.

That is the missing piece: this recognition of the need for minerals. This is not an optional thing. We need this stuff to fuel the economy. It would be very helpful to Government and all stakeholders, including community groups and NGOs, if there was a jointly crafted strategy there. Certainly through the UK Minerals Forum, where industry meets with the planners, the NGOs and representatives from key Government Departments, we have a golden opportunity to develop something that has stakeholder integrity.

Q112 Chair: Would it be a fair summary to say that cross-departmental issues generated by the formulation of such a strategy have so far impeded its development, basically, and there needs to be some sort of process by which Government takes ownership of it?

Nigel Jackson: Yes. Government Departments are very good at looking forward and back; they are not very good at looking sideways. We do not have a problem with that per se. We are trying to create a place where you can join up those forces and issues outside, but we need Government to take an interest and be in the room, as they currently are, certainly, at the UK Minerals Forum.

I think there is an opportunity. As long as we have mineral development in boxes called coal, shale gas, oil and gas, and aggregates, we are not making the best and most sustainable use of this wealth, which is so important to us.

Q113 Rebecca Harris: To clarify, in this country, we do have planning imposed, to plan, monitor and provide everything for aggregates and so on. I was not quite clear where the problem was, but it is about looking at them—

Nigel Jackson: To be able to have any form of development, whether it be potash or coal, an operator—an investor or developer—has to submit a planning application to get approval for that use of land. The approach that the previous Government and this Government have taken is that plan-led is the way to do it. Each county council has a duty to prepare these plans, so that there is clarity for the community and all stakeholders to see what development can take place in what location. After 10 years of this, we still only have 50% plan coverage, and less than 25% in terms of the detail on the mineral-plan level.

Aspirationally, this process is probably worthy, but it is actually still relatively unfit for purpose. We are not against having a plan-led system. Let's get some plans, and then you will get some certainty, and that will help encourage investment.

Q114 Rebecca Harris: What you want is more years ahead of supply to be ploughed out at the beginning.

Nigel Jackson: This is a long-term industry. The investments that everybody across this table are making are typically going to be in the territory of 10, 20 or 30 years, and often far longer. This is not like housing, which is over two to three years.

Rebecca Harris: No, it is not. We have 15 to 20-year plans for housing.

Nigel Jackson: I understand that. However, you can get in and out of the system pretty quickly with housing. With mineral extraction, which is not something generally regarded as what people want to see in their backyard, these things take a lot longer. It is measured in decades, rather than years.

Q115 Chair: I think we get the point. It was also submitted that there was "no encouragement for exploration in the UK compared with the rest of the world." Could you explain that, and are you saying that the UK taxpayer should subsidise it? Is it subsidised in other parts of the world? Robert, you put in that submission.

Robert Fenton: Difficulties are put in front of companies when they want to do exploration. In other countries, barriers are removed so that they can explore. There is lot of exploration even in Ireland. The Irish system encourages exploration; we do not encourage exploration in this country. We put up barriers to stop us doing it.

Q116 Chair: Are the barriers what was referred to earlier, i.e. the planning system and so on? Are there other barriers as well?

Robert Fenton: It is planning and environmental issues.

Q117 Chair: You are not talking about taxation incentives.

Robert Fenton: It depends on how you use the term "taxation". The cost of putting in the planning applications is in the hundreds of thousands or millions of pounds, let alone the cost of the exploration.

Chair: The cost of going through the process, effectively, is taxation on the company, in the broadest sense of the word.

Q118 Mr Walker: We have had a lot of sometimes contradictory evidence around skills and the risk that a skills shortage essentially poses to the sector. We have heard from Sirius Minerals that it is well known that in the extractive sector there is a national and global shortage of people with the skills required. On the other hand, Intierra have said there is a good enough skills base overall. What is the view of the panel on that?

Robert Fenton: It depends on what skill you are looking at. If you are looking for mining engineers, who are the main leaders of these companies, there is a world shortage. Over the last two decades, mining schools in this country have closed down. There are maybe one or two now. We have seen a slight change recently, in that Camborne has a higher proportion of mining engineering students—at least 40. However, mining engineers are being sought all over the world. If we train them here, they can earn salaries many times what they can get from our operators, because there is a shortage of skilled, qualified mining engineers. In respect of other skills, we are looking at training methods to improve people from within and train them up, but qualified engineers is the problem area.

David Odling: Certainly, the oil and gas sector has a shortage of experience in particular. We can and do recruit many excellent youngsters, whether they are graduates or people coming in as technicians and that kind of thing. There are all sorts of training programmes. The area where we are short of people is those who have at least 10 and preferably 15 to 20 years' experience, i.e. the kind of people who can be in charge of design teams and take authority for designs or who can lead a construction site and project-manage. This is the area where we are short of people; it is true worldwide. Unfortunately, that is bidding up the cost of those skilled people. Costs are rising on that account.

Stuart Hoult: We would echo that in the coal sector. We have an ageing work force now. Certainly, at the senior-management levels we are struggling to get—and, in some cases, we are competing globally for—those skills. We are able to recruit and train young technicians, though.

Q119 Mr Walker: In terms of the importance of having that skills base, as a lot of you have commented, it is a very international market. The people who have these skills can travel the world and work in other countries. I have certainly visited mines in far-flung places where there are UK engineers working. What is the importance and benefit of having a UK domestic industry in terms of making sure that that skills base is maintained?

David Odling: It is enormous. It is absolutely enormous. The only downside to it is that people who have been properly trained in this country—or any part of Western Europe, frankly—are highly desirable worldwide and, of course, they are mobile. There are plenty of people who travel as a matter of routine. A very good friend of mine at home is a drilling engineer. He works in the Caspian—four weeks on, four weeks off. This is his life. Before that, it was Egypt—four weeks on, four weeks off. That is the nature of the business.

Nonetheless, it would be extremely difficult to measure the value of having that fundamental skills base here in this country. None of us is in any doubt that it is highly valuable. These are very high-value-adding jobs. Our rates of pay are roughly twice the national average.

Nigel Jackson: In a more local aspect, our sectors are providing 1 million tonnes of material every day in a normal year. There is nothing else that moves that much material. We need the skills and the capacity to be able to keep the wheels on the bus in the economy. This is not high-value, but it is very high-volume.

I can understand why you are getting contradictory messages on that, and I think you need to be quite forensic about it. Where are those skills needed? What is the supply? Right now, with the economy maybe transitioning into higher demand, there is a shortage of drivers to drive trucks to move the material around. You might not think that is a highly skilled job; right now, it is an incredibly important job, with a number of people who are on the road and competing for space on the road. You need to drill down to understand that. I can understand why it is contradictory.

Q120 Mr Walker: There is a lot more we could discuss in this space, as well, but do you feel that there is a healthy and active relationship between the industry, training providers and universities? You mentioned the world-renowned Camborne set-up, but it is relatively small in the grand scheme of things. Is there more that could be done on that front to strengthen the ties?

Nigel Jackson: Certainly, in our sector, we have a very good relationship with our training providers. We have created our own organisation to do that, because the skill-sector approach does not work for us. It confuses and lengthens the conversation, because they have a self-interest. In terms of our relationship with universities, it is pretty strong, but we need a bigger base, because we have cut geology and mining engineering departments; therefore, the population within academe has shrunk. Those who are left are struggling very hard to find funding to stay in business in earth science departments. This is something that also perhaps ought to be understood.

David Odling: We would certainly support that question of earth sciences, even down in schools. We have been putting money into a school programme for 12 years now to encourage the teaching of earth sciences in schools. However, on the academic side, we have very close links with the two universities in Aberdeen, Heriot-Watt in Edinburgh, Cambridge, Manchester and, in this city, Imperial College, which are all well-known sources. There are strong links, but, frankly, we are suffering from the lack of demand through the second half of the 1980s and the 1990s, when there was a surplus of energy around and people did not train as many people in those years. In this century, things have picked up a lot and so the shortfall is evident from those who would have started their careers in that 15-year period.

Chair: Could I intervene at this point? I have to be somewhere else at 12 noon. Ask for written supplementaries if necessary.

Q121 Mr Walker: I would love to hear, in written evidence, perhaps, more about how you feel the industry could be future-proofed and how we can future-proof the UK's position.

I have one final question. We have an all-male panel here. We recently did a report on women in the workplace, which identified a very low proportion of women going into engineering. What message would you send about the extractive industries and the opportunities for women?

Nigel Jackson: Part of the skills problem actually hinges on this issue. I frequently hold the mirror to us. We are absolutely gender-imbalanced; it is an own goal. Part of the skills debate is that it is no wonder you have a shortage if you are only looking at half the population.

Robert Fenton: There are women down there. We mentioned Cleveland Potash. The last time I was underground in Cleveland Potash, there was a lady geologist down there a mile underground. They are going underground.

Nigel Jackson: There are not enough of them, however.

Chair: Thank you. Could I repeat what I said before? If you feel that you have not been able to answer every question adequately, please submit further written evidence. We may well pose further questions to you in written form. I am sorry; I would normally spend a couple of minutes socialising with you, but I have to race off to another event. Can I thank you very much for your contribution today?