



global witness

**BREAKING THE LINKS BETWEEN NATURAL
RESOURCES, CONFLICT AND CORRUPTION**

Annual Report 2006

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Pipelines carry natural gas from Turkmenistan through Russia and Ukraine to Europe, providing a vital supply of European energy – but where does the money go?



Pipe system, Western Ukraine © K.Thomas / Still Pictures

- Launching an international advocacy campaign highlighting the need for a coherent definition of conflict resources. This is part of an overarching Global Witness initiative to promote an international framework which will better control natural resources and the flows of conflict finance. 7
- Raising public awareness of the ongoing problem of conflict diamonds and the wider global problem of conflict resources - maximising opportunities created by the release of Hollywood blockbuster *Blood Diamond* and successfully campaigning for crucial improvements in the Kimberley Process including the need for increased government oversight of the diamond industry. 8
- Highlighting how British company Afrimex contributed to the devastating conflict in the Democratic Republic of Congo by trading in conflict resources, including testifying before the UK Parliamentary International Development Committee. 10
- Supporting, with hard facts and analysis, Liberian President Sirleaf's call for the renegotiation of a grossly inequitable US\$900 million mining deal between Mittal Steel, the world's biggest steel company, and the Government of Liberia and helping to ensure a better deal for the people of Liberia. 12
- Our investigations contributing to Dutch arms dealer and timber trader Gus Kouwenhoven being sentenced to eight years in prison for breaking a UN arms embargo, and as such helping to fuel conflict in West Africa. 14
- Exposing how a vital supply route for natural gas to the European Union is dominated by mysterious business interests (with suspected links to organised crime) and is utterly failing to bring any economic benefits to the population of the country of origin. Our report *It's a Gas: Funny Business in the Turkmen - Ukraine Gas Trade* reveals the completely opaque nature of the trade that brings natural gas from Turkmenistan through Russia and Ukraine to Europe, and how US\$3 billion of Turkmenistan's gas revenues have been kept out of the state budget in accounts at Germany's Deutsche Bank. 16
- Getting mechanisms in place which will determine for the first time whether countries signed up to the Extractive Industries Transparency Initiative (EITI) are genuinely working towards making their income from oil, gas and mining transparent or are, like The Republic of Congo and Equatorial Guinea, merely free riding on the initiative's good name. 17
- Through our Cambodia campaign, instigating a new commitment from the World Bank to review its policy on forest projects worldwide. We have been working since the late 1990's to change the Bank's approach to forest management, specifically in attempting to dissuade it from supporting the interests of logging companies over forest-dependent communities. 18
- Delivering a targeted advocacy campaign on the back of our report *A Choice for China*, exposing the US\$350 million a year illegal timber trade across the Burma-China border - leading to China closing the border to this trade in May 2006. 20
- Piloting Independent Forest Monitoring (IFM) in Nicaragua - at the invitation of the National Forestry Institute. IFM has been pioneered by Global Witness to provide objective information around forest exploitation and to create a political space that fosters transparent forest governance. 22
- Helping to secure a US\$1 million contribution in the US budget to support the Extractive Industries Transparency Initiative (EITI) and other unprecedented US government initiatives to further revenue transparency. 25

Global Witness exposes the corrupt exploitation of natural resources and international trade systems, to drive campaigns that end impunity, resource linked conflict and human rights and environmental abuses.

Boy playing among pools of polluted runoff in Azerbaijan © Gerd Ludwig / Panos Pictures



Message from the Directors

It's been another momentous year for Global Witness. That's an easy thing to say, but this annual report for 2006 proves the point.

Perhaps the main thing people will remember about 2006 is when Global Witness went to Hollywood. The film *Blood Diamond* not only brought the issue of conflict resources to a wider public than we could ever have hoped, but also brought welcome publicity to our work in general. Global Witness worked with the makers and stars of the film to help ensure that it had maximum impact.

And 2006 was the year that we launched our initiative to get the UN Security Council to agree a definition of conflict resources, to end the trade in resources from conflict zones and to take the money out of war. This is the start of what will probably be a difficult but essential campaign.

It was also the year we began working on two other campaigns; on the financial services sector and on ending impunity. The thinking here is that all the money that is necessary for and is generated by corruption and illicit resource trading passes through the international banking system and that the system needs to change. Similarly, those people and companies that make the illicit resource trade possible must face prosecution. Currently arms dealers, mafia interests and those that buy resources from armed groups, do so pretty freely. Our campaign aims to bring prosecutions against companies and individuals who make these deals possible.

An early success was the prosecution of Dutch arms dealer and timber baron, Gus Kouwenhoven, who was sentenced to eight years in prison for breaking the UN arms embargo on Liberia. We have documented Gus' activities in Liberia since 2000, and his arrest by the Dutch authorities was, according to the public prosecutor, due to reports by the UN Expert Panel on Liberia and Global Witness' report *The Usual Suspects*.

Our report *Heavy Mittal* exposed how a US\$900 million mining deal between industrial giant Mittal Steel and the Government of Liberia was heavily weighted against the interests of the people of Liberia. The report played an important role in forcing the company to renegotiate the contract with the Liberian government and in highlighting the dangers of poor investments in post conflict countries.

Working with Cambodian civil society, our submission to the World Bank's internal ombudsman led to the finding that the Bank's five-year Forest Concession Management Project in Cambodia had broken internal safeguards, ignored local communities and failed to reduce poverty. This led to the Bank's announcement of its commitment to reviewing its forest projects worldwide.

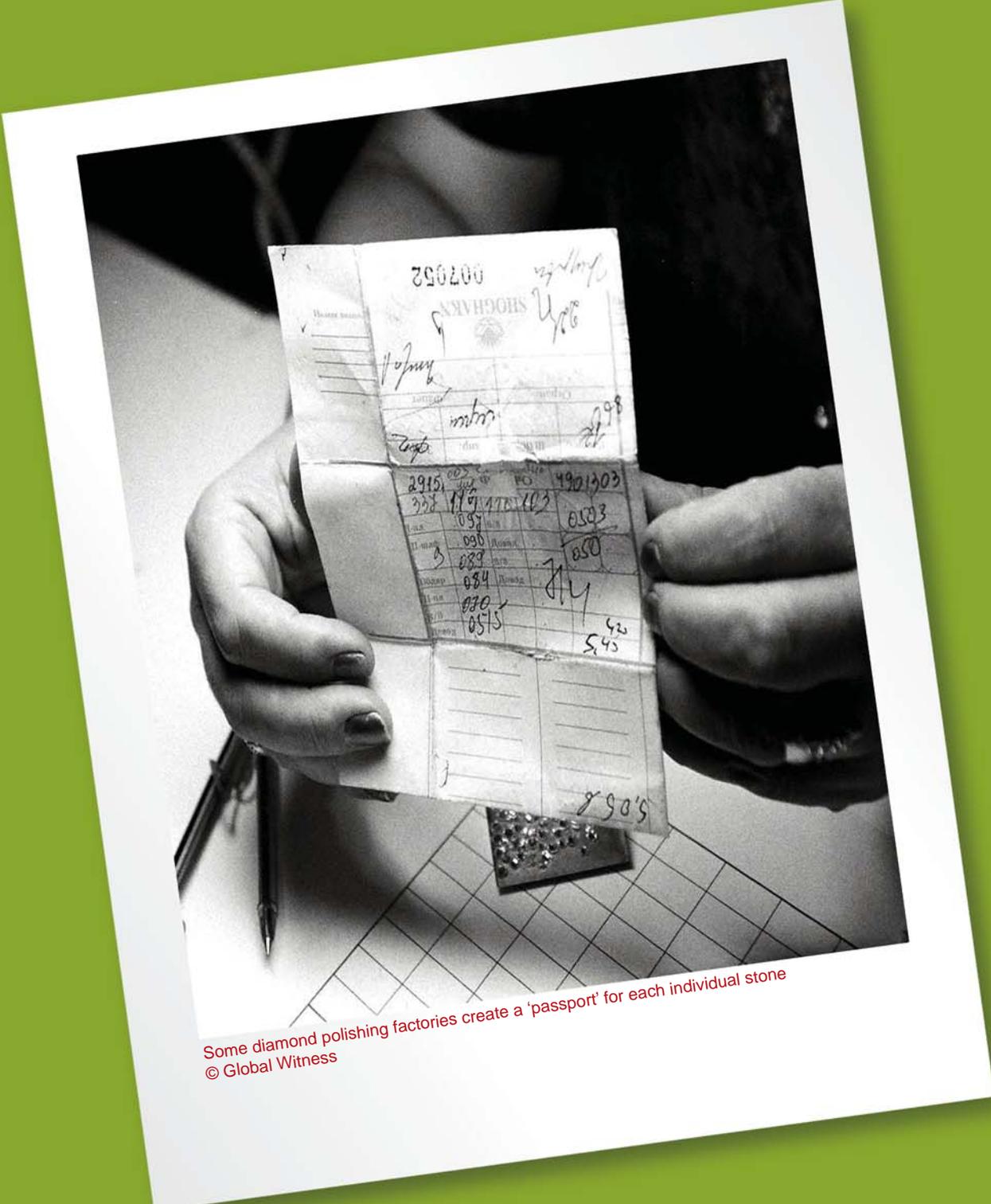
And classic Global Witness investigations exposed the domination of the natural gas trade from Turkmenistan to Europe by mysterious and opaque intermediary companies, since 'outed', and the fact that Turkmenistan's gas revenues, over US\$3 billion of them, were sitting in Deutsche Bank in Frankfurt while the bulk of Turkmenistan's population live in poverty.

Too much happened last year to mention everything here, but we hope these few points give a flavour of the dynamism that makes Global Witness the truly effective organisation that it is. And that dynamism is purely down to the impassioned, committed, expert, painstaking, energetic and sometimes anarchic people who make up the organisation, and also to those people and organisations that fund our important work, and support it in so many other ways.

We want to take this opportunity to thank them all, without whom, as they say, none of this would have been possible.

Patrick Alley, Charmian Gooch and Simon Taylor
Directors of Global Witness

Global Witness is advocating for the diamond industry to change the way it operates and become more transparent and accountable.



Some diamond polishing factories create a 'passport' for each individual stone
© Global Witness

Our methodology combines investigative research with targeted campaigning and support of local civil society led advocacy.

Investigating: We gather detailed, first-hand evidence of situations in which natural resource exploitation is fuelling conflict, corruption or human rights abuses and seek to directly name and shame those responsible. We have become a leading authority on identifying and addressing issues concerning how the unaccountable exploitation of natural resources has driven human suffering.

Changing: The evidence we collect is compiled into comprehensive reports which we use to brief governments, intergovernmental organisations, civil society and the media and to advocate for long-term solutions. We use our findings to urge governments, companies and international institutions into addressing problems which they have previously chosen not to act on. We do not just catalogue instances of human rights abuses or exploitation; our hard-hitting and authoritative reports make considered and practical recommendations for reform.

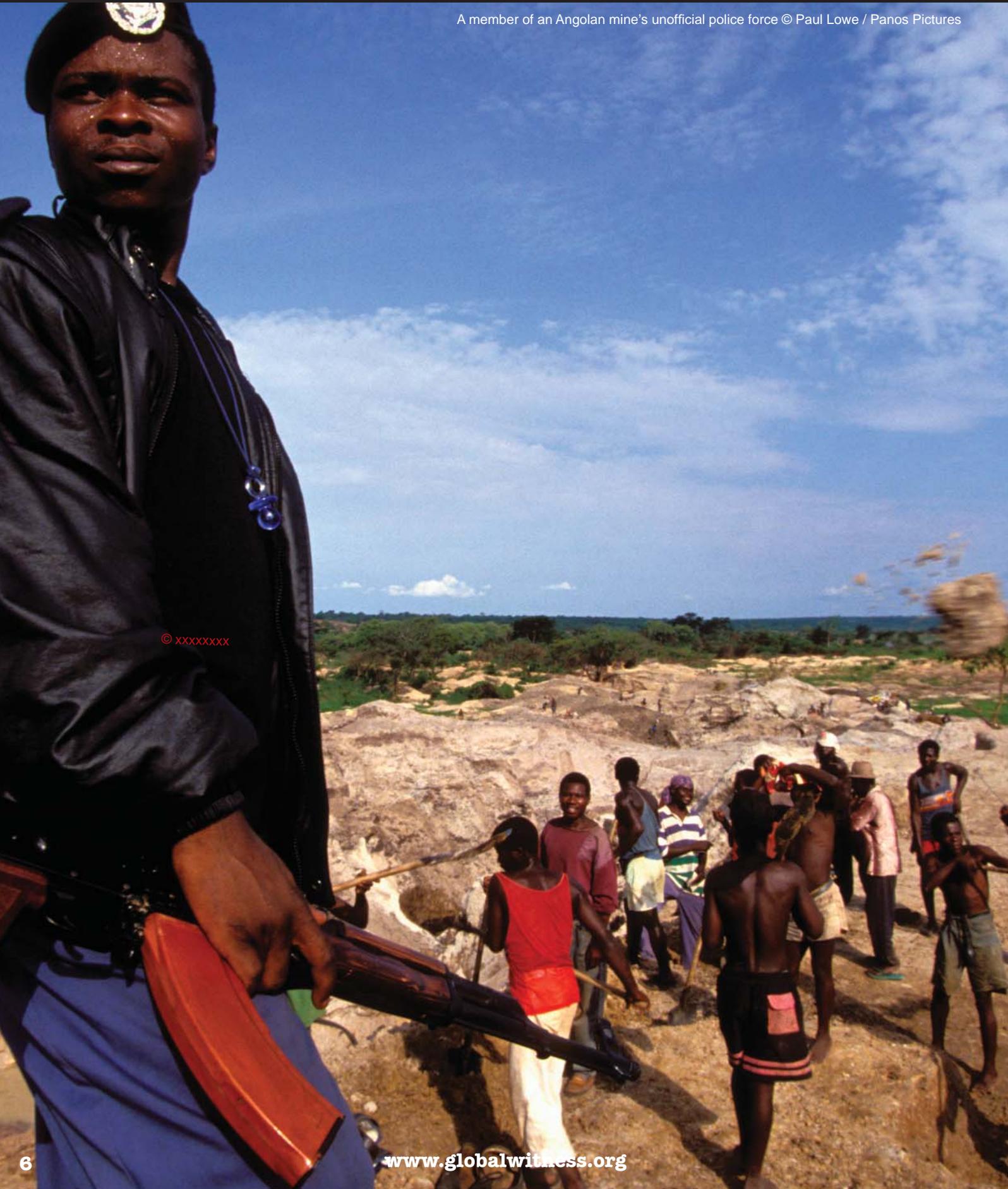
Supporting: We work closely with local civil society groups who, in many cases, are acutely aware of predatory and destructive natural resource exploitation but are unable to document and expose it because of intimidation and/or a lack of resources. To strengthen the call for change we work in partnership with such groups and use our leverage as a respected international organisation to raise issues at the global level and, ultimately, to create a domestic political space that local activists can move into.

‘They (Global Witness) epitomize the commitment, creativity and diligence that should be the hallmark of leadership – whether of non profit advocacy groups, companies, or nations... most notably... (Global Witness) have rejected easy answers that, for true champions of peace, are fleeting and empty’

Tony P. Hall and Frank R. Wolf, Members of US Congress and Patrick Leahy, US Senator recommendation letter for the 2003 Nobel Peace Prize

Although it is now universally accepted that revenue from natural resources provided the logistics for war in countries such as Angola, Cambodia, Liberia and Sierra Leone, the international community has yet to put an effective deterrent strategy in place to address this problem.

A member of an Angolan mine's unofficial police force © Paul Lowe / Panos Pictures



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ANALYSING AND EXPOSING THE RELATIONSHIP BETWEEN NATURAL RESOURCES AND CONFLICT

Wars need money. Natural resources such as timber, diamonds, oil and minerals play an increasingly prominent role in providing this money, which is often used to fund armies and militias who murder, rape and commit other human rights abuses against civilians.

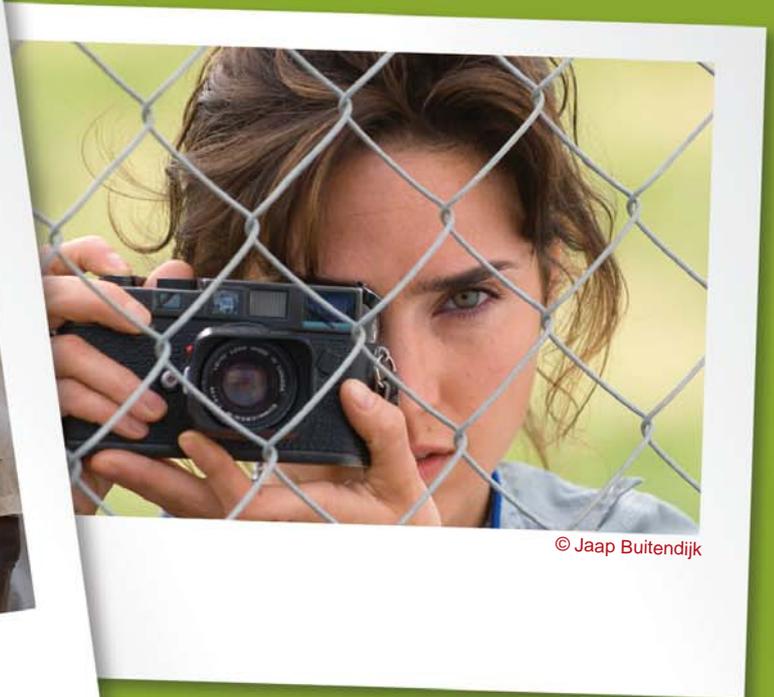
It is now commonly accepted that countries with an abundance of natural resources are many times more likely to experience war and prolonged instability than those that do not possess such easily exploitable riches.

Throughout 2006 Global Witness continued our overarching work of analysing and exposing the relationship between natural resources and conflict, using our findings to influence international and national policies. We have identified the need for the creation of international mechanisms to ensure coherent action to prevent the escalation of future natural resource-fuelled wars, including the establishment of triggers for targeted action packages (such as sanctions; if corrupt leaders and rebel armies are unable to sell the natural resources they plunder they are less able to pay for war). As such, in 2006 we called for the creation of a UN definition of conflict resources.

An agreed UN definition of conflict resources would help create an international framework to better control natural resources and the flows of conflict finance. Implemented, it could greatly speed up international responses and action in regard to specific cases of state looting and profiteering from conflict resources, triggering action through the UN and clarifying the international community's mandate to act and control the trade in natural resources that fund conflict. In May 2006 Global Witness presented this policy brief to UN Security Council members and other key policy makers, including the Department of Peacekeeping Operations and the US Department of State. In November 2006, we published *The Sinews of War*, outlining the role of natural resources in initiating and sustaining conflict and highlighting the need for a coherent definition of conflict resources.

Global Witness defines conflict resources as natural resources whose systematic exploitation and trade in the context of violent conflict contributes to, benefits from, or results in the commission of serious violations of human rights, international humanitarian law or violations amounting to crimes under international law.

Leonardo DiCaprio as Danny Archer, Djimon Hounsou as Solomon Vandy and Jennifer Connelly as Maddy Bowen in Warner Bros. Pictures' and Virtual Studios' action drama "Blood Diamond".



Global Witness acted as an informal consultant in the making of the film *Blood Diamond*, set during the civil war in Sierra Leone in the late 1990's during which the Revolutionary United Front (RUF) rebel group traded millions of dollars worth of conflict diamonds onto the international market in exchange for arms. Director Ed Zwick paid tribute to Global Witness' success at forcing the international community to take action to address the issue of conflict diamonds.

Throughout 2006 Global Witness took advantage of the unprecedented opportunities around the release of the film to raise public awareness of the ongoing problem of conflict diamonds and the wider issue of conflict resources. We created a joint website with Amnesty International (www.blooddiamondaction.org) to outline concrete actions that individuals can take to help prevent the trade in conflict diamonds and carried out extensive media work on the need for governments to adopt stronger measures to strengthen the Kimberley Process and increase oversight of the diamond industry.

CONFLICT DIAMONDS

Conflict diamonds, also known as blood diamonds, are diamonds that are used to fund conflict, military adventurism and human rights abuses. In 1998, Global Witness first exposed how diamonds were fuelling conflict across Africa. Our pioneering investigations and campaigning on this issue compelled the international community to take action to address trading in conflict diamonds and led directly to the creation of the Kimberley Process in 2003, an intergovernmental scheme to prevent the trade in conflict diamonds.

Global Witness remains closely involved in the implementation and development of the Kimberley Process, for which 2006 was a critical year, heralding the occasion of the first three year review of the scheme. The review, which took place in November 2006, revealed significant loopholes in the Kimberley Process which are enabling the trade in conflict diamonds to persist. Global Witness has played a central role in ensuring that strong measures are adopted to close these loopholes, including promoting the need for increased government oversight of the diamond industry. This is ongoing work for Global Witness, as is participating in review visits to evaluate individual country's efforts to combat conflict diamonds, analysing trade statistics in key countries and playing an active role in various Kimberley Process working groups.

Global Witness continues to lobby the diamond industry to change the way it operates and to become more transparent and accountable. In time for Valentine's Day 2006, Global Witness and Amnesty International produced a joint guide on conflict diamonds for consumers. *Are you looking for the perfect diamond?* provides information about the trade in conflict diamonds and questions consumers should ask jewellery retailers to ensure that the diamonds they buy are conflict-free.

‘Global Witness were the real heroes of the conflict-diamond story’

Evening Standard, 2nd January 2007

The extraction of minerals in the DRC has helped fuel devastating conflict. Today, the mining sector is characterised by widespread corruption and fraud. Miners are ruthlessly exploited and work in extremely harsh conditions without protective clothing, equipment or training.



Young man carrying a sack of minerals, Katanga, DRC © Global Witness

In 2006 Global Witness testified at a hearing by the UK Parliament's International Development Committee regarding the activities of Afrimex, a British company which traded in coltan and cassiterite in eastern DRC throughout the conflict and made payments to the rebel group which controlled those territories - thus contributing to the continuing conflict. The hearing was televised and received widespread coverage. This initiative is part of a broader effort by Global Witness to end the impunity of companies who exploit natural resources with no regard for the consequences for the populations of the countries concerned. Global Witness is also asking the British government to investigate Afrimex's activities during the conflict in the DRC under the government's newly strengthened procedures for considering breaches of the OECD Guidelines for Multinational Enterprises.

THE DEMOCRATIC REPUBLIC OF CONGO (DRC)

Resources such as timber, diamonds, gold, coltan and cassiterite (tin ore) directly fuelled DRC's brutal war and contributed to grave human rights abuses by Congolese and foreign actors during the conflict.

A current focus of our work in the DRC is applying continued pressure on external and internal actors in the country's natural resource sector to reform the relevant industries, and particularly to review illegal or inequitable natural resource concessions and contracts. Via ongoing investigations, the publication of comprehensive evidence based reports and sustained, targeted advocacy we aim to ensure a continued international and national debate on the links between the exploitation of natural resources, corruption, entrenched poverty and conflict in the DRC.

In June 2006 Global Witness released a briefing document for policy makers centring on the exploitation of diamonds in the DRC. Entitled *Reforming the DRC Diamond Sector*, the briefing outlines the main challenges facing the reform of the DRC diamond sector and makes recommendations to the DRC government, international donors and the diamond industry. DRC's official diamond exports have significantly increased in recent years, largely due to the DRC's participation in the Kimberley Process. A strong set of controls to track all diamonds from mine to the point of export is not yet in place however and diamonds are still being smuggled in and out of the country.

In July 2006 we published *Digging in Corruption: Fraud, abuse and exploitation in Katanga's copper and cobalt mines*. Based on Global Witness investigations in Katanga and Zambia, the report documents entrenched patterns of illicit exports of minerals across the DRC-Zambia border, with Congolese officials either turning a blind eye to false or inaccurate export certificates, or actively colluding with trading companies to circumvent control procedures. Large quantities of minerals are leaving the country undeclared, representing a huge loss for the Congolese economy and a vast gain for a small number of powerful actors. Published in the run-up to DRC's elections, the report was launched at press conferences in Lubumbashi and Kinshasa and was covered extensively in local and international media.

‘If your company had not traded in some of these commodities, did it not occur to you that you might have been inhibiting the flow of funds to the rebel armies that were causing such mayhem and destruction, especially in the eastern Congo?’

The RT Hon Malcolm Bruce MP, UK Parliament's International Development Committee, to Mr. Ketan Kotecha, Afrimex (UK), 4 July 2006

Mittal Steel, the world's largest steel company, has moved one step closer to living up to its corporate social responsibility pledges by renegotiating its deeply unfair US\$900 million iron ore concession agreement with war-ravaged Liberia.

Mittal Steel Liberia Limited sign, Buchanan Port © Global Witness



For Liberia to sever its links with its conflict ridden past the country needs positive foreign investment. It is essential that companies operating in the natural resource sector do not act in such a way that will bring about inequitable development and increase the risk of a return to conflict. In October 2006 we published *Heavy Mittal: A State within a State*, outlining how a US\$900 million mining deal signed between Mittal Steel, the world's biggest steel company, and the transitional Government of Liberia was heavily weighted against the interests of the Liberian people and calling for it to be substantially renegotiated. The deal was signed just three months before Liberia's democratic elections and provides a case study of a well established pattern of behaviour displayed by transnational corporations around the world i.e. maximising profit by taking advantage of the international regulatory void which enables concessions and contracts that strongly favour the corporation over the host nation.

Since *Heavy Mittal* was published a revised and much improved contract agreed by Mittal and the new elected government has been drawn up. Significantly, whereas the old contract allowed Mittal to set the price of iron ore, thereby giving the company control over royalty rates and tax payable (and encouraging transfer pricing) the new contract is based on market prices. Furthermore, the new contract removes a five-year tax holiday for Mittal which could have been extended indefinitely under the old contract and Mittal loses the right to take control of Liberia's two major economic public assets, the port of Buchanan and the railway to Yekepa. We are now calling for Liberia's other major multinational investor, rubber giant Firestone, to follow suit as it renegotiates its 2005 rubber agreement with the Government of Liberia.

WEST AFRICA

The election of a new government has presented Liberia with a historic opportunity to pursue policies to bring about peace and prosperity. Throughout 2006 Global Witness has lobbied the new government, donors and civil society groups to further wide ranging reforms in the natural resource sector.

Global Witness welcomed the new Liberian government's decision to cancel all existing logging concessions in February 2006, a move designed to break the historical link between Liberia's forests and conflict and to ensure that they are managed for the benefit of the population as a whole. Given the links between some of the logging companies who had been awarded concessions by Liberia's transitional government and the recent conflict, as well as broader problems associated with concession systems, the significance of this decision cannot be overestimated.

In June 2006 the UN Security Council recognised the significant progress made by the Liberian government and voted not to renew sanctions on the Liberian timber industry. Evidence we and our local partners have collated however, demonstrates that the country's timber industry has not yet been sufficiently reformed to ensure that the government will be able to control the operations of timber companies. As such we called for the Government of Liberia to undertake a comprehensive assessment of its forests and to consider all available management systems; as opposed to proceeding on the unquestioning assumption that granting new export based industrial logging concessions is necessary to kick-start Liberia's economy. Our research over the past decade has shown that the industrial scale, export based logging concession model all too often brings little durable economic benefit to the countries where it has been employed. In countries such as Cambodia, Cameroon and Indonesia, as well as in Liberia itself, the concession system has been thoroughly discredited. Bad management, illegal logging and corruption have triumphed over economic theory, resulting in vast revenue loss, exacerbation of poverty, human rights abuses, environmental destruction and conflict.

Throughout 2006 we broadened our investigations into conflict resources in West Africa to expose how revenues from the cocoa trade have contributed to the funding of armed conflict in Côte d'Ivoire. These investigations resulted in a groundbreaking report entitled *Hot Chocolate: How cocoa fuelled the conflict in Côte d'Ivoire* and published by Global Witness in June 2007. The report highlights how opportunities for enrichment from cocoa undermined the resolution of the crisis in Côte d'Ivoire and will inform a sustained advocacy campaign calling for the chocolate industry to ensure that the products it sells are conflict free and to publish payments made to the Ivorian government and to Ivorian cocoa institutions.

**‘The President of the Republic of Liberia...
hereby declares all purported forest
concessions null and void’**

Government of Liberia: Executive Order No 1 Gol Forest Sector Reform



GUILTY

**Sentence: 8 years
in prison**

On 7 June 2006, arms dealer and timber trader Gus Kouwenhoven was found guilty of breaking a UN arms embargo and sentenced to eight years in prison. Kouwenhoven is the first person to be held accountable for such offences in relation to the trade in natural resources. According to the press release of the Office of the Public Prosecutor, the initial investigation was instigated because of the work of Global Witness and the UN Expert Panels on Liberia.

Throughout Charles Taylor's reign of terror in Liberia, Kouwenhoven's Oriental Timber Company (OTC) traded guns for timber rights, smuggling in weapons (and arranging their transfer to Sierra Leone where they were used by militias loyal to Taylor to commit atrocities against civilians) and shipping out tropical hardwoods. At the height of Liberia's civil war, which caused the deaths of close to 10% of the population, OTC was the largest single foreign investor in Liberia. As well as arms violations, Kouwenhoven is alleged to have co-perpetrated war crimes by giving assistance to different groups and persons who were generally known to be committing war crimes against civilians of Liberia and Guinea including looting, destruction of homes and property, rape, torture and murder. It is also alleged that he used his money to supply notorious war criminals with arms, clothing, food, finances, transport and medical care. In June 2006 Kouwenhoven was found not guilty of war crimes. The prosecutor has appealed this verdict.

In April 2006, the process of bringing Charles Taylor to justice finally began when he appeared in the Special Court for Sierra Leone. Taylor is accused of, amongst other things, using child soldiers and bearing responsibility for murder and rape. All the charges relate to the Sierra Leone civil war and Taylor's alleged support for the Revolutionary United Front (RUF) rebels.

‘... Suspicions fastened on the man (Gus Kouwenhoven) as a result of investigations by the United Nations and the British organisation Global Witness...’

Press release: Office of the Public Prosecutor, 21st March 2005

ENDING THE IMPUNITY OF INDIVIDUALS AND CORPORATIONS COMPLICIT IN NATURAL RESOURCE CORRUPTION

Whilst corrupt governments are often cited as a fundamental barrier to socio-economic development in the world's poorest countries, the complicity of 'outside' international elements, working hand in hand with corrupt ruling powers or militias to exploit natural resource riches, frequently goes unpunished.

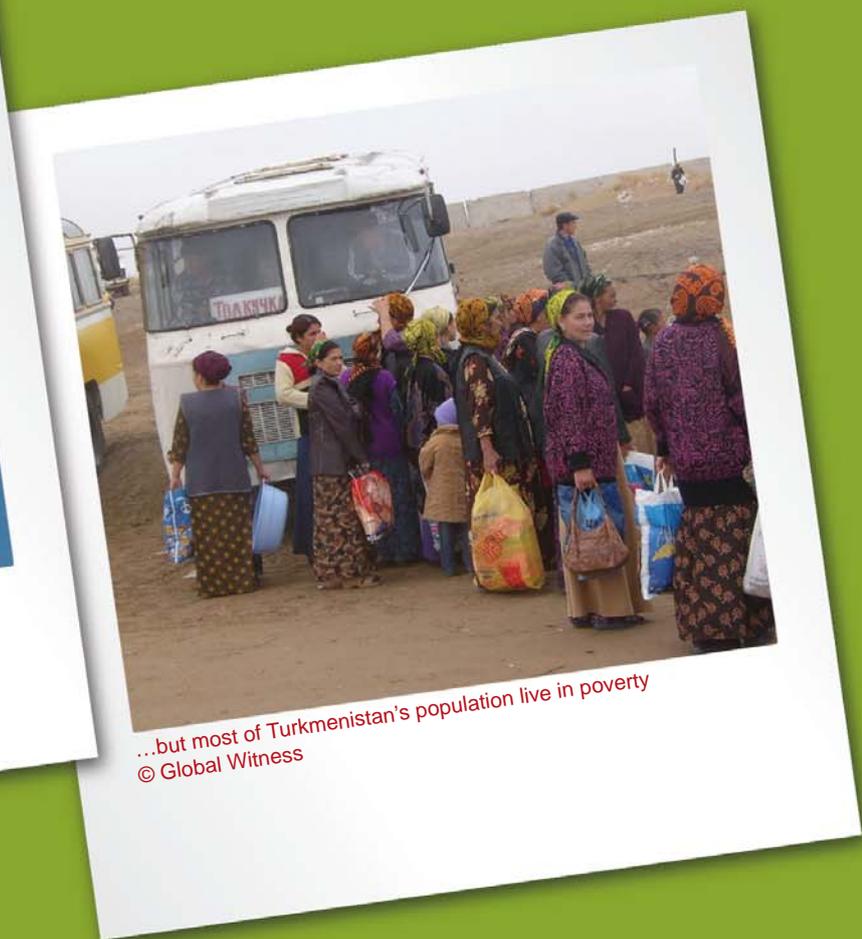
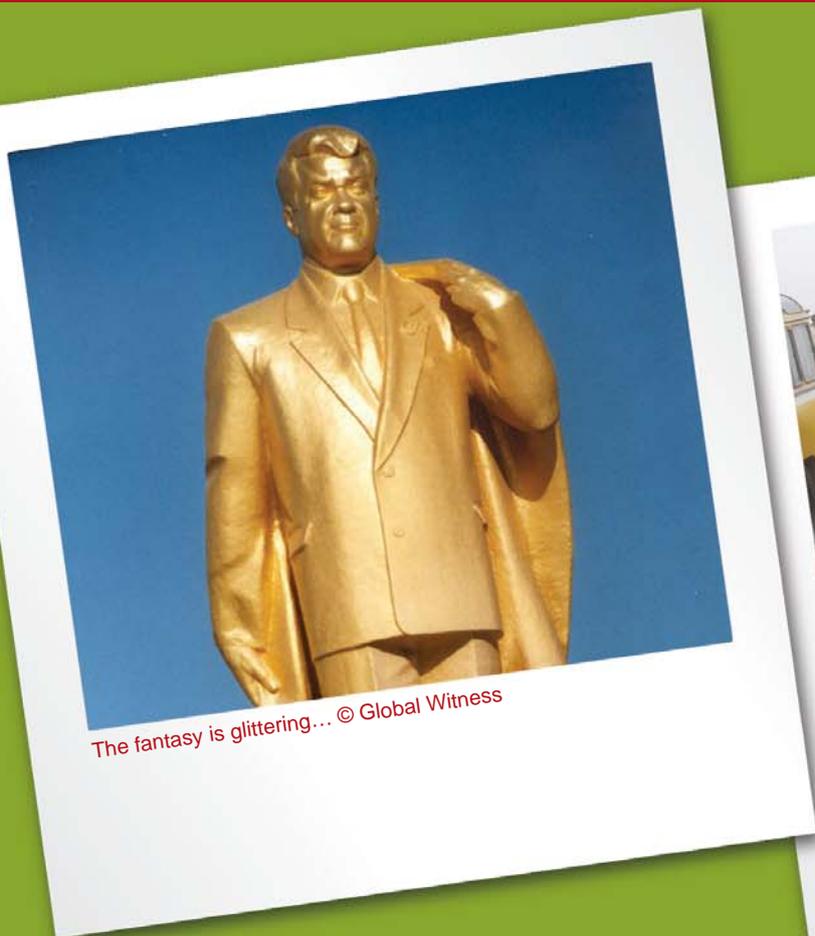
As such, Global Witness investigates and systematically exposes those individuals (including government members) and business entities that encourage and maintain debilitating natural resource linked corruption and violent conflict. In doing so we seek to address the structures and culture that enable natural resource linked corruption to persist and work towards the creation of a transparent justice system which will hold transgressors accountable for their crimes.

Whilst it is apparent that the leaders of many resource rich countries divert resource revenues away from the public purse into systems of patronage to line their own pockets, or to fund military adventurism, it is equally clear that numerous international companies are willing to do business with them. We believe therefore that the accepted global understanding of corruption must shift from something that happens in certain 'corrupt' countries to something that occurs when a whole host of different actors collude. For example, there is as yet very little public awareness of the real role played by banks and other financial institutions in hiding the proceeds of corruption and facilitating predatory natural resource deals. We think that, in order to break the links between natural resources, conflict and corruption once and for all, real changes need to occur within the global financial architecture. For as long as financial institutions can profit from the proceeds of state looting and unaccountable extraction ventures, entrenched corruption and poverty will prevail in many natural resource rich countries.

‘ Global money flows are almost entirely unregulated,..... The efforts of groups like Global Witness.....are preliminary attempts to prod the world’s politicians into building up international financial architecture to match, and tame, the enormous forces of financial globalization... It is essential to fix the disconnects in our increasingly interconnected world ’

Poisoned Wells: The Dirty Politics of African Oil, Nicholas Shaxson, March 2007

The late president of Turkmenistan, Saparmurat Niyazov, appears to have used his country's gas revenues to fund a bizarre personality cult replete with golden statues and lavish palaces rather than for the benefit of the population as a whole.



In April 2006, Global Witness published *It's a Gas: Funny Business in the Turkmen – Ukraine Gas Trade*, revealing how Turkmenistan's maniacal President Niyazov appeared to be keeping US\$3 billion of the country's gas revenues offshore and out of the state budget in accounts at Germany's Deutsche Bank. The European Union is forging a long-term strategy on how to source and use energy but this strategy won't be credible unless it promotes transparency and good governance in countries which supply Europe's energy. As such, we took part in a successful civil society campaign to stop the European Union from awarding favourable trade terms to Niyazov's regime. Since his death in December 2006 we have worked to ensure that Turkmenistan's gas money is not misappropriated but used transparently for the benefit of the people.

It's a Gas also exposed how the Turkmen-Ukraine gas trade (a vital supply route for natural gas to the European Union) is dominated by mysterious business interests, such as transit company RosUkrEnergo. The identity of RosUkrEnergo's major Ukrainian shareholder was not known for nearly two years, causing great controversy in Ukraine because of the central importance of the gas trade to the country's economy. It was only after we drew attention to the association of Dmytro Firtash, a shadowy Ukrainian businessman, through *It's a Gas* that it was revealed that he was in fact the major Ukrainian investor in RosUkrEnergo. RosUkrEnergo is under investigation by the US authorities for possible links to organised crime, which the company has denied.

INCREASING TRANSPARENCY IN OIL, GAS AND MINING

Global Witness works for greater transparency in the management of oil, gas and mining wealth, so as to minimise the risk of corruption and ensure that citizens of resource rich countries have the information they need to hold their governments to account. We do this through in-depth investigations and high-level advocacy.

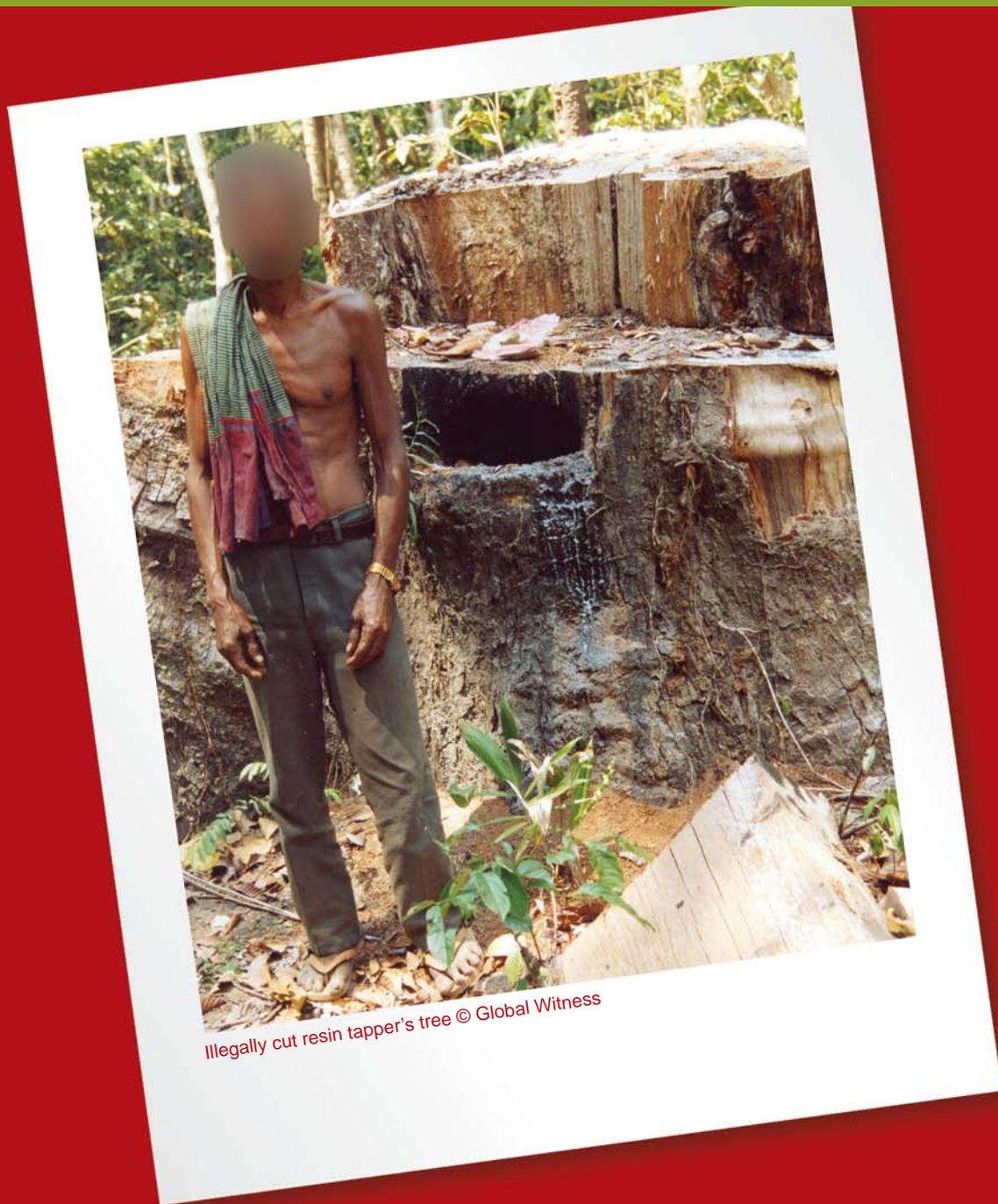
A major theme of our work in 2006 has been the strengthening of international efforts to promote revenue transparency, notably the Extractive Industries Transparency Initiative (EITI) which Global Witness has been closely involved with since its launch in 2003. Through our seat on the EITI Board, Global Witness has played a key role in negotiations with governments and oil, gas and mining companies to create, for the first time, a reasonably objective mechanism for validating whether countries (and indirectly, companies) are doing all they should to implement EITI. This is a major campaign success and should distinguish governments that are genuinely working towards revenue transparency from those who are free riding on the good name of EITI without actually implementing it.

An indication of quite how much deviation can exist between a government professing a commitment to the principles of the EITI and actually delivering on them is evident in the case of the Republic of Congo, which in 2006 subjected two pro-transparency activists to a long drawn out campaign of harassment. Global Witness and others worked hard in 2006 to bring to an end the sham prosecution of the coordinators of the Congolese branch of the Publish What You Pay (PWYP) coalition, who were arrested in April 2006 on trumped-up charges of misappropriating funds. In December 2006 the two men were given a suspended sentence of 12 months, which they are currently contesting as there is still no evidence of any wrong doing. The attacks on the two men came at a crucial moment in an ongoing national and international campaign for more accountable and transparent management of the Republic of Congo's oil sector and were clearly an attempt to stifle public debate on the management of oil wealth in a country where 70% of people live below the poverty line.

‘ Global Witness promises to snap continuously at EITI’s heels to make sure it stays strong, credible, tight, and relevant, and is not subverted by companies and corrupt rulers ’

Poisoned Wells: The Dirty Politics of African Oil, Nicholas Shaxson, March 2007

Resin tapper standing in front of one of his trees which has been cut illegally by loggers. His face has been obscured due to the Cambodian government's frequent use of intimidation against those it perceives to be its opponents.



‘ One could hardly overemphasize the negative effects of logging on a natural habitat of world class value and most importantly on very poor and vulnerable rural communities and indigenous peoples ’

Report by the World Bank Inspection Panel on the Bank's *Cambodia: Forest Concession and Control Pilot Project*, March 2007

ENDING ILLEGAL AND UNSUSTAINABLE LOGGING

Cambodia

Global Witness first began working to combat illegal and unsustainable logging in Cambodia in 1995 and quickly realised our initial objective of stopping the timber exports that were financing the war efforts of both sides in the Cambodian civil war.

12 years of further campaigning have resulted in the expulsion of several destructive logging companies and the pioneering of Independent Forest Monitoring (IFM) in Cambodia.

In July 2006 the World Bank announced a new commitment to improving forest management in Cambodia. This followed the release of an investigative report conducted by the Inspection Panel, the World Bank's internal ombudsman, into a Bank forest project implemented in Cambodia from 2000. The detailed report that the Inspection Panel produced was structured around points raised in a 2005 Global Witness submission to the Bank about the project (to support a complaint lodged by local people). It accepted almost all the arguments laid out by Global Witness and our local partners, notably in its conclusion that in delivering the project in the way it did the Bank had breached six of its own internal safeguard policies, had helped to legitimise predatory logging companies and had failed to reduce poverty.

Such findings from within the Bank itself mark a significant success for Global Witness as we have been working since the late 1990s to change its approach to forest management in Cambodia; specifically in attempting to dissuade it from supporting the interests of logging companies over forest dependent communities. In response to the report, the Bank's management has produced a remedial action plan containing an assurance that future Bank forest projects in Cambodia will include consultation with people affected, support granting of land and resource rights to local communities and adopt community-based forest management approaches.

With the World Bank remaining the main international donor working on the forest sector in Cambodia, bringing its thinking in line with that of NGOs representing forest dependant people represents a huge step forwards. The Bank's new plan of action lays down some sound principles for its future engagement in Cambodia's forest sector. It gives no guarantees however as to what, if anything, the Bank will actually do or when it might do it. We will therefore continue to undertake campaigning activities to persuade the Bank to put these principles in action in Cambodia, as well as campaigning for it to rethink its approach to forests globally and cease its support for industrial logging.

China has clamped down on illegal logging in northern Burma by closing its border to the timber trade and ordering Chinese workers to leave the country. This unprecedented move follows a decade of rapacious logging by Chinese logging companies in Burma and represents a major breakthrough for all those working to halt the predatory exploitation of Burma's forests.



Illegally logged Burmese timber heading for China © Global Witness

ENDING ILLEGAL AND UNSUSTAINABLE LOGGING

Burma

For years, timber revenue and the political support gained from granting logging concessions have helped to maintain Burma's highly oppressive military regime's grip on power. Furthermore, the explosive increase in the unsustainable exploitation of timber in certain parts of the country is linked to increased criminality, human rights abuses and escalated rates of HIV/AIDS.

Throughout 2006 Global Witness delivered targeted advocacy calling for more funding support for grassroots initiatives in Burma working to halt illegal logging and facilitated a number of workshops to further cooperation between Burmese NGOs and EU donors.

We also worked to ensure that our October 2005 report *A Choice for China*, exposing the devastating impact of the illegal Burma-China timber trade on northern Burma's frontier forests, was disseminated to key policy makers and covered in major international media outlets.

The impact of the report became clear in January 2006 when a public admission was made by the Burmese Forest Minister that the cross-border timber trade was a 'big problem' - after years of denial that any illegal border trade was taking place. Global Witness field investigations confirmed that the local northern commander had cracked down on illegal logging and the border trade to China - when asked what had prompted this, people often quoted the international pressure generated by *A Choice for China*.

The biggest indicator of the success of *A Choice for China* came in March 2006, when the Chinese government closed the border to log imports from northern Burma. Questions still remain however over China's long-term plans to keep the ban in place and as such Global Witness will continue to monitor the situation throughout 2007.

IFM is the use of an independent third party that, by agreement with state authorities, provides an assessment of legal compliance, and observation of and guidance on official forest law enforcement systems.

Independent Forest Monitoring in action in Cameroon © Global Witness



INDEPENDENT FOREST MONITORING (IFM)

Independent Forest Monitoring (IFM) has been pioneered by Global Witness to provide objective and credible information around forest exploitation and to create a political space that fosters transparency, accountability and participation in forest governance.

Links between the logging industry and abuses of human rights are widely documented and illegal logging, through the unregulated destruction of forest areas in a rush for quick profits, increases the vulnerability of local communities, subverting democracy and sustainable development. In Honduras, eight environmental activists fighting illegal and unsustainable logging by commercial timber companies in their community forests (50% of timber in Honduras is illegally harvested) have been killed since 1995, including two murders in 2006.

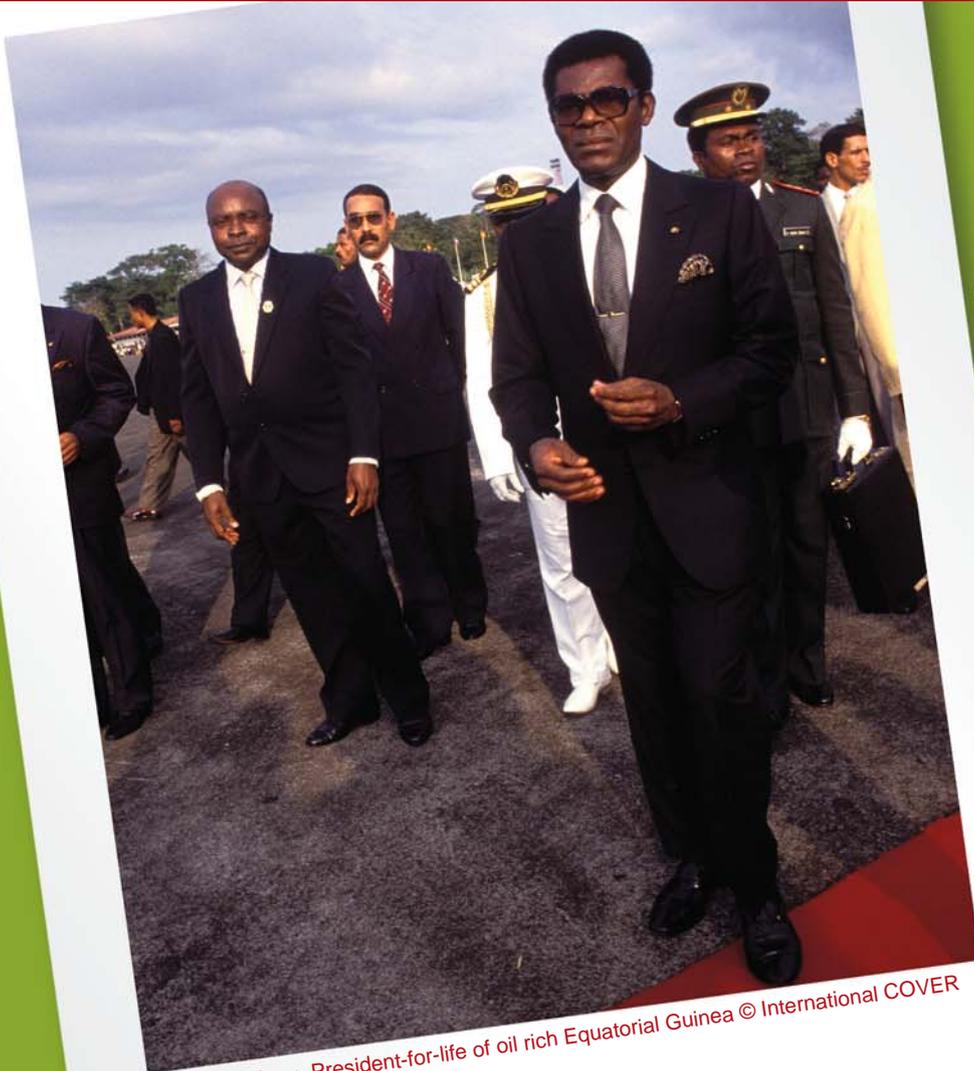
Global Witness seeks to facilitate the institutionalisation of IFM in at least one new country each year, a core part of which is ensuring the broad and meaningful participation of civil society in forest regulation. In 2006 Global Witness continued to support the delivery of a pilot IFM project which started in Honduras in 2005, at the invitation of the Honduran Commission for Human Rights, or CONADEH. We have supported CONADEH to gradually take a lead on the project and in April 2006 an agreement between CONADEH and the Honduran Forest Authority was signed to continue the project. In March we delivered the first Regional Workshop on Independent Forest Monitoring (IFM) in Honduras, attended by 40 participants from six Central American countries. Shortly after the workshop, Global Witness received an official invitation from INAFOR, the National Forestry Institute in Nicaragua, to implement a pilot IFM project in the country and in August 2006 we signed a one year agreement with them. So far two local consultants have been trained and four mission reports have been completed. Further missions, as well as a progress report on this first phase of the project, will be published by March 2007.

2006 also saw Global Witness deliver workshops on IFM in Indonesia, Peru and Liberia. In Peru, the event resulted in Global Witness and a multi-sectorial commission signing a letter of intent committing to future collaboration around the design and implementation of a future IFM project. In Indonesia, Global Witness conducted a training workshop for 15 civil society activist members of KAIL, an anti-illegal logging consortium. Similar training in Liberia, attended by 26 representatives from local groups, introduced participants to the concept of civil society oversight of the forest sector.

‘The methodology is very useful for any country, as it results in a report that detects bad actions and provides recommendations to correct them.’

Participant in Global Witness Independent Forest Monitoring (IFM) training workshop – Honduras

Condoleezza Rice has called Teodoro Obiang, the 'President-for-life' of Equatorial Guinea, 'a good friend'. Equatorial Guinea is one of the 10 most corrupt nations on earth. It is also the third largest oil producer in Sub-Saharan Africa.



Teodoro Obiang, President-for-life of oil rich Equatorial Guinea © International COVER

6 There is an excellent report that Global Witness has just produced... that really lays out, I think in very clear and concise termsthe link between transparency, governance, and U.S. energy security 9

Karin Lissakers, Director, Revenue Watch Institute, and former US Executive Director of the International Monetary Fund

US POLICY ADVOCACY: ENSURING NATURAL RESOURCE GOVERNANCE PLAYS A KEY ROLE IN FOREIGN POLICY

Based in Washington, DC, Global Witness' US office works to influence US government and international financial institutions' policies on natural resource governance issues.

Global Witness reached new plateaus in policy advocacy in the US in 2006, focusing on making real impacts on US government and international financial institutions' policies on conflict diamonds and oil revenue transparency. We made key contributions to strengthen a US Government Accountability Office (GAO) report that raised current weaknesses in US implementation of the Kimberley Process (which we had exposed in 2004). The impacts of the GAO report have been significant, in that chief US government agencies have already agreed to make the various recommended changes and are facing pressure to support international efforts to strengthen Kimberley Process controls.

2006 also saw us reach a number of successes in our campaign to increase high-level US government support for oil revenue transparency. We helped secure an unprecedented US\$1 million contribution in the US budget to support the Extractive Industries Transparency Initiative (EITI), with a further US\$1.5 million proposed for 2007.

Further imprints of our advocacy include the US government's new high-level representation on the EITI Board, its active involvement in the EITI validation process, and its revitalised diplomatic support for EITI, including unprecedented White House level diplomatic initiatives on EITI to China, Kazakhstan, and several African countries. We led a campaign to ensure that the new US Ambassador to Equatorial Guinea focuses policy attention on oil revenue transparency and governance issues, and worked to ensure the wide coverage of oil revenue transparency in Africa in the US media.

We also helped introduce a bi-partisan resolution on transparency in the US House of Representatives, including a first-time call for mandatory disclosure of oil revenue payments, as well as securing provisions in legislation to require the US Treasury to pressure the international financial institutions on resource revenue and contract transparency.

Finally, we worked successfully to incorporate concrete transparency and natural resource governance provisions into the Congressional Bill on the Democratic Republic of Congo (DRC), which was passed in December 2006 and spearheaded a campaign to increase high-level US government support for transparency campaigners from around the globe.

GLOBAL WITNESS' FUNDING

The majority of Global Witness' funding comes from grants made to us by foundations, governments and non governmental organisations.

Income:

From December 2005 to November 2006 approximately 50% of our income came in the form of grants from trusts and foundations such as the Sigrid Rausing Trust in the UK and the Ford Foundation in the US. 16% came from grants from statutory sources such as the Dutch, Irish, Swedish and UK governments. 10% came from grants from non governmental organisations such as Oxfam in the UK, Trocaire in Ireland and Novib and Hivos in the Netherlands. A further 24% of our income came from donations made by individuals, including one legacy gift.

We only accept grants on the basis that we are free to use funds in a way that does not compromise our values, objectives, priorities or the independence of our campaigning voice.

The majority of grants we currently receive are for fixed periods with no guarantee of renewal. We recognise, therefore, the need to significantly broaden our support base in order to provide a more secure funding platform to sustain our continuing campaign work. To this end we are launching a new drive to attract more gifts from individuals, particularly regular gifts. We are also seeking support to establish a working reserves base and new programmes fund to help us plan, develop new initiatives and react quickly to critical new or changing campaigning needs.

Expenditure:

We are highly efficient and spend 90% of our funds on our campaigns to break the links between the exploitation of natural resources, conflict, corruption, human rights abuses and the destruction of the environment. We spend around 8% of our funds on raising money, 1% on management and 1% on administrative costs.

The summarised financial statements opposite contain information from Global Witness Limited and The Global Witness Trust audited accounts for the period 1st December 2005 - 30th November 2006. The accounts can be viewed in full at: www.globalwitness.org/accounts

‘I was one of Global Witness' first supporters because I believed they were tackling issues that no one else was tackling. Ten years later I am still supporting them because they consistently succeed. With a modest budget they are literally changing the way the world's decision-makers think, they have actually taken the money out of wars, they are changing the world’

Dame Anita Roddick, Founder, The Bodyshop

FINANCIAL BREAKDOWN

Global Witness Limited is a non-profit company limited by guarantee and incorporated in England (Company No. 2871809). The activities of Global Witness Limited involve campaigning and political lobbying and as such it is not eligible for charitable status.

The Global Witness Trust is a UK registered charity (Charity No. 1071946). As a charity it is able to receive tax efficient gifts, such as Gift Aid.

GLOBAL WITNESS LIMITED		GLOBAL WITNESS TRUST	
INCOME	£	INCOME	£
Grants from Global Witness Trust*	902,644	Grants from governments	103,158
Grants from governments	359,428	Grants from trusts and foundations	656,648
Grants from trusts and foundations	892,130	Grants from non governmental organisations	77,665
Grants from non governmental organisations	202,990	Legacy income	363,660
Other income	218,858	Other income	5,610
Bank interest	6,458	Bank interest	805
TOTAL INCOME	2,582,508	TOTAL INCOME	1,207,546
EXPENDITURE	£	EXPENDITURE	£
Forests	412,003	Forests	216,878
Making governments and companies transparent	478,608	Making governments and companies transparent	50,409
Conflict resources	473,287	Conflict resources	226,811
Independent Forest Monitoring (IFM)	302,642	Independent Forest Monitoring (IFM)	60,409
Democratic Republic of Congo	267,627	Democratic Republic of Congo	49,948
Ending the impunity of individuals and corporations	339,389	Ending the impunity of individuals and corporations	93,189
Systems and communications	41,788	Systems and communications upgrades	40,000
Fundraising	188,340	Unrestricted funding to Global Witness Limited	100,000
Governance costs	25,092	Governance costs	5,561
TOTAL EXPENDITURE	2,528,776	TOTAL EXPENDITURE	843,205

* Includes brought forward income from 2004/2005

OUR FUNDERS

Global Witness would like to express our deep thanks to all those who supported us in 2006.

GLOBAL WITNESS LTD

Dutch Ministry of Foreign Affairs
Ford Foundation
Global Opportunities Fund
J.G Joffe Charitable Trust
Humanist Institute for Co-operation
with Developing Countries (Hivos)
LexisNexis
Management Systems International
National Endowment for Democracy
Open Society Institute
Oxfam GB
Oxfam Novib
Swedish International Development
Agency (Sida)
UK Department for International
Development (DFID)

GLOBAL WITNESS TRUST

Ajahma Charitable Trust
Concern Worldwide
The Diana, Princess of Wales Memorial Fund
The Doen Foundation
Irish Aid
The Roddick Foundation
The Rufford Maurice Laing Foundation
The Sigrid Rausing Trust
The Staples Trust
Trócaire

We would also like to thank all our individual and anonymous donors who are not listed here.

‘ My support of Global Witness is based on their track record of success in addressing issues relating to human right abuses, conflict and resources. Their perseverance and dedication have brought issues like conflict diamonds and illegal logging to public attention and initiated effective action from policymakers ’

Sigrid Rausing, The Sigrid Rausing Trust

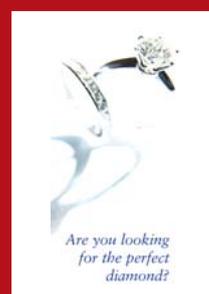
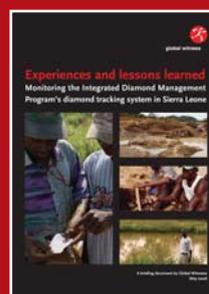
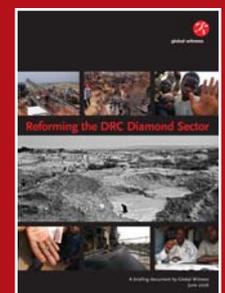
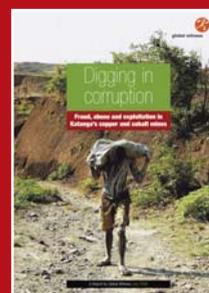
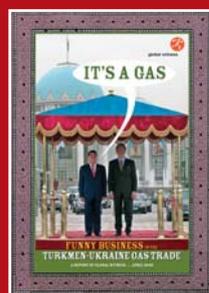
Collectively we are known as Global Witness, but the organisation's work and finances are split into distinct entities.

Global Witness Limited is a non-profit company limited by guarantee and incorporated in England (Company No. 2871809). Global Witness Limited exposes and breaks the links between the exploitation of natural resources and the funding of conflict, corruption and human rights abuses. Global Witness Limited carries out investigations in countries devastated by conflict, corruption and poverty and our findings from these investigations are used to brief governments, intergovernmental organisations, civil society and the media. Global Witness Limited is recognised as the equivalent of a US public charity as described in section 509(a)(1) of the US Internal Revenue Service Code 1986.

The Global Witness Trust is a UK registered charity (Charity No.1071946). The Trust promotes research into the impact that environmental damage or change has on the human rights of inhabitants. The Trust is legally independent of Global Witness Limited and is governed by a voluntary board.

The Global Witness Foundation is an independent Californian non-profit public benefit corporation which is tax exempt under Section 501(c)(3) of the US Internal Revenue Code. The Foundation supports research and investigations into causes and effects of the exploitation of natural resources by public and private entities throughout the world, specifically where such exploitation is used to fund conflict, human rights abuses and corruption. The Foundation is legally independent of Global Witness Limited and is governed by a voluntary board.

Global Witness has offices in London and Washington, D.C.





global witness

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