



## Economic crime in the extractive sector

The extractive sector has a number of inherent economic crime challenges due to the nature of the industry, complexity of operations and the high-risk geographies where they operate, which are often rife with political instability and international tensions. The sector itself is highly regulated and is subject to rapidly changing – and more demanding – legal requirements.

Considered by the International Monetary Fund to “stand out as a hotspot of potential corruption”, combined with growing concerns around climate change and scrutiny of unethical practices, there is ever-increasing pressure on extractive companies – and their Boards – to manage their exposure to economic crime risk. Balanced against a need to control cost, companies are looking to proactively harness data and use technology to identify and mitigate against these threats.

### Why the sector is at particular risk of economic crime



Geographically diverse industry



Complex supply chains



Complex, cross-border distribution channels



High level of involvement with government officials



Increase use of sectoral sanctions

### Specific economic crime challenges



#### Bribery and Corruption

Frequent interaction with government officials often in countries with political instabilities, and/or where corruption practices are high.



#### Performance Pressure

Managing local contracts on-time to avoid financial penalties, whilst operating within the economic crime compliance framework.



#### Fraud

High occurrence of fraud such as the manipulation of accounts, false accounting of inventory reserves and misrepresentation of assets or product quality.



#### Sanctions

Sectoral sanctions targeting specific extractive and wider energy products and services.

## Emerging sector challenges

As the extractive industry continues to evolve as a result of disruption, extensive M&A in the sector and growth of EnTech, so too does the economic crime landscape and actions companies need to take in order to survive. Stronger legislation continues to be introduced across the globe, such as France's Sapin II, which tackles corruption and provide proscriptive compliance requirements; the EU's 6th Anti-Money Laundering Directive setting out predicate offences for money laundering; and, there is an expectation that the UK Government will introduce a new corporate criminal offence of 'failure to prevent' economic crime to build on the corporate criminal offences which already exist for the facilitation of tax evasion and failure to prevent bribery through the Bribery Act 2010.

Political changes continue to drive the use and enforcement of crippling sanctions measures and are compounded by the diverging attitudes of the US and EU towards Iran and the Joint Comprehensive Plan of Action ("JCPOA"). The increased focus on the ethical conduct of businesses across a broader spectrum of economic crime, coupled with increasing public scrutiny and expectation that companies can demonstrate that they operate with the utmost of integrity throughout their business, pose serious challenges for those running complex, globally diverse extractives businesses.

## Helping our clients take action

### Integrity Due Diligence

A European headquartered natural resources client sought our help to support their supply chain integrity initiatives. We conducted an in-depth Integrity Due Diligence on a large volume of third party suppliers and distributors, including the former Soviet Union, South America and Africa to support supply chain integrity initiatives. Through this work, our client was able to make informed decisions when engaging with third parties and built a thorough pre-engagement vetting process to identify potential red flags.

### Risk Assessment

We worked with a major global manufacturer to perform a corruption, sanctions and export controls risk assessment in several countries around the world to identify economic crime risk areas. We subsequently outlined a series of mitigating controls for our client and liaised directly with the Board to implement robust and effective corrective actions to minimise these risks.

### Corruption Investigation

We conducted a corruption investigation for a multi-national oilfield services provider in response to various allegations made by a whistle-blower. We further supported investigations and submissions to the government regarding a regulatory enforcement action. As a result of our work, our client was able to respond to the regulators' requests in a timely, comprehensive and insightful manner and mitigate the issues. disciplinary decisions concerning certain employees.



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