

**STATEMENT OF ALAN LARSON
CHAIRMAN OF THE BOARD
TRANSPARENCY INTERNATIONAL-USA**

SENATE FOREIGN RELATIONS COMMITTEE

JUNE 21, 2006

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Chairman of the Board of Transparency International-USA**

Before the Senate Foreign Relations Committee

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Chairman Lugar, Ranking Member Biden and distinguished Senators: I congratulate the Committee for organizing this hearing on the United Nations Convention Against Corruption (Convention).

My name is Alan Larson and I am testifying in my capacity as Chairman of the Board of Directors of the U.S. chapter of Transparency International. We appreciate the strong interest of this Committee and particularly your leadership, Mr. Chairman, in making the issue of corruption in development assistance, at the World Bank and more broadly, a priority. It has stimulated significant progress. We are honored by the interest you and Committee staff have shown in our views.

At present, I am also a Senior Advisor at the law firm of Covington & Burling and I serve as a Strategic Advisor and Director of the World Economic Forum. Formerly, I was a Career Ambassador in the Foreign Service of the United States, ending my government career in 2005, as Under Secretary of State for Economic, Business and Agricultural Affairs.

I mention these past and present affiliations because each of them contributes to my conviction that prompt Senate ratification of the Convention must be among the highest priorities. Prompt ratification will advance America's leadership in the world, contribute to our efforts to promote democracy and development, and will help level the playing field for American business. Delay, on the other hand, would damage each of these objectives.

Corruption damages core America values and interests.

Corruption is not simply an unpleasant fact of life that we must reluctantly accept. Corruption rather is a cancer that threatens core American values and interests.

Corruption despoils democracy. It is impossible to build and sustain representative institutions when corruption runs rampant. Promoting institutions with integrity and combating corruption is a central element of America's policy of empowering people and promoting democracy.

Corruption erodes development. In country after country, corruption in the institutions of the marketplace has either prevented economic growth, perpetuated poverty, or has so

distorted the distribution of the benefits of growth that public support for reform policies has been sapped.¹

Corruption produces an unpredictable and unfair business playing field. It is a barrier to the trade and investment of American companies.

For all these reasons and more, corruption must be tackled, not tolerated.

The United States has a strong record of leadership in the fight against corruption.

The United States, the Congress and this Committee have reason to be proud of the leadership of the United States in the fight against corruption. That leadership has been bipartisan and sustained across changes in the leadership of the Congress and across changes of administration.

The Congress enacted the Foreign Corrupt Practices Act (FCPA) in 1977, to address the issue of overseas bribery of public officials to gain or retain business. In this way, the United States sought to ensure that American companies would be part of the solution, not part of the problem.

In 1988, Congress encouraged the Executive Branch to negotiate, within the Organization for Economic Cooperation and Development (OECD), an arrangement that would commit other nations to disciplines similar to those in the FCPA.

The task required persistent efforts over a decade by administrations of both political parties, and by 1997, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Convention) had been negotiated. This Committee played a leading role in securing Senate ratification of the treaty and enactment of the necessary implementing legislation in 1998, and TI-USA was privileged to testify before this Committee when Senator Helms was Chairman. Widespread enforcement of the OECD Convention is still essential not only to level the playing field for U.S. business, but for the developed world so it has credibility when it urges governance reforms, such as those in the Convention, in the developing nations.

The United States has played a leadership role in the negotiation of other anti-corruption agreements, including the Inter-American Convention Against Corruption, which this Committee reviewed and the full Senate ratified in 2000. Since then, it has encouraged other initiatives to address corruption in development, in the World Bank, in our own Millennium Challenge Corporation and in initiatives of the Group of 8.

In addition, the Bush Administration rightly has stressed anti-corruption initiatives as central planks of efforts to promote democracy and to strengthen free societies.

Finally, the United States, throughout both the Clinton and Bush Administrations, has devoted considerable effort to the negotiation of an effective universal arrangement, the

¹ According to the World Bank, over \$1 trillion is lost to bribes annually. Embezzlement, fraud and other corrupt acts raise these costs by diverting resources from poverty alleviation programs and essential public services such as education, nutrition, and health care.

United Nations Convention against Corruption, which entered into force on December 14, 2005.

Prompt ratification of this Convention will sustain this record of leadership. Delays will damage the image of the United States. More specifically, delays in ratification will limit the leadership of the United States in the implementation of the Convention.

The United Nations Convention Against Corruption significantly strengthens the international framework against corruption.

The basic provisions of the Convention have been fully summarized by the Administration and Committee staff, and the Administration's October 27, 2005, transmittal package notes that no change in U.S. law is required to implement the Convention.

I would simply highlight a few provisions that, in my opinion, represent significant advances over the status quo. First and foremost, the Convention provides a global framework to combat a global phenomenon. Corruption has global dimensions, and the Convention's universal reach, comprising developed and developing nations, makes it possible to tackle problems that cannot be addressed through existing regional regimes.

For example, foreign bribery by significant emerging exporters, such as China, is not covered by the OECD Convention, but is covered under this Convention. This will help reduce the competitive disadvantage faced by U.S. companies, which have long operated under more stringent rules than their foreign competitors.

In addition to prohibiting foreign bribery, the Convention prohibits domestic bribery of public officials and recommends measures to prevent bribery in the private sector and to enhance auditing and accounting standards. It requires parties to criminalize bribe solicitation, which is an important concern for businesses dealing with extortion.

It provides for preventive measures to raise levels of integrity in public service, including laws that prevent conflicts of interest and promote asset disclosure, and it requires specific steps to enhance procurement transparency – an area rife with corruption.

It expands mutual legal assistance on a global scale, requiring the widest possible cooperation in investigations, gathering and transferring evidence and extradition. As a leading prosecutor of transnational crime, the United States stands to benefit greatly from this enhanced international cooperation.

Finally, the Convention breaks new ground by providing for the recovery of funds deposited in foreign banks by corrupt officials. The asset recovery provisions are of prime importance to many developing nations whose wealth has been plundered and they are intended to create a disincentive for future illicit acts.

Monitoring is essential to effective implementation and enforcement.

The potential of this Convention is substantial, but we have learned from experience with other anti-corruption conventions that an effective monitoring system is essential to secure timely, effective and consistent implementation and enforcement.

This is particularly true for this Convention, which involves numerous and diverse parties with different legal systems and levels of capacity. It requires governments to pass numerous laws, create agencies and take other actions. Monitoring will help identify problems, facilitate guidance and assistance and promote reform.

It will also provide important external impetus for action, particularly in countries lacking in political will.

For companies doing business in multiple jurisdictions, monitoring will promote consistent implementation. It will also provide a forum where governments, the private sector and others can raise concerns or bring complaints about actions inconsistent with the spirit and letter of the Convention.

Given the importance of monitoring, TI convened experts with extensive experience to develop recommendations for an effective process. Last week, it presented its report to the U.N. Office of Drugs and Crime, which is expected to manage the process.² We respectfully request that the Committee enter this report into the record.

To ensure sustained attention to the important issue of monitoring, the Committee may want to request that the Administration report back annually on progress in creating the monitoring mechanism. The Senate provided for such a report in its ratification of the Inter-American Convention.

Prompt U.S. ratification is necessary to continued U.S. leadership.

The Convention provides for a Conference of States Parties to promote and review Convention implementation, including by establishing an appropriate monitoring mechanism.

The Conference of States Parties will discuss this issue when it meets this December in Amman, Jordan. United States leadership at this event will be vital to ensure that an effective and transparent monitoring mechanism is put in place. Our ability to influence the process will be significantly diminished if the U.S. has not ratified the Convention beforehand.

The Convention enjoys broad support and is part of a rising tide of attention to the issue of corruption.

² TI's report on convention monitoring is entitled "Report of TI Study on Follow-up Process for UN Convention Against Corruption."

The Convention enjoys strong support from business interests in the U.S. and abroad, as well as from a wide array of non-profit and international public organizations working to promote rule of law, good governance and democracy. The Committee will hear from representatives of some of these groups today and in written testimony.

The Convention enjoys broad support from reformers in other countries who are struggling to promote democracy, transparency, accountability and economic development. TI chapters in over 90 countries firmly believe this agreement has great potential and, therefore, played a key role throughout the negotiations. Many TI national chapters are actively engaged in efforts to promote ratification and implementation by their governments.

TI-USA enjoys the support of numerous leading U.S. multinationals who share the view that this Convention has great potential. We worked closely with the Administration to craft Convention provisions and, more recently, a transmittal package that would maximize these benefits and address concerns.

Through my work with TI and the World Economic Forum, I am aware of a growing number of international companies throughout the world who are seeking to form partnerships against corruption.

Through my work at Covington & Burling, I am aware that corporations are very interested in strengthening their compliance programs. The Convention will help create an environment in which they can operate according to these programs.

Through my work with other countries, I am aware that many governments consider corruption to be a central issue. Clearly, the fact that 140 countries signed and 53 ratified the Convention reflects a global consensus that corruption must be addressed.

Even in the United States, the public has become increasingly concerned about failures of corporate governance and instances of public corruption.

For all these reasons, prompt Senate ratification of the Convention will position the United States where our citizens and companies expect it to be and where the citizens and companies of other countries count on us to be.

Concluding Remarks

Mr. Chairman, I have had the honor to testify before this Committee on many occasions as the representative of administrations of both parties. I am pleased that today, in my first appearance as a private citizen, I am able to testify in support of a cause that has been championed by both parties. It is a cause on which I labored while in government and on which the organization I now represent has an unparalleled record of leadership.