

# ONR Briefing Note

## OECD Natural Resources Policy Dialogue: 11th Plenary Meeting

The Commonwealth Secretariat, through its Ocean and Natural Resources Advisory Section provides technical support to its member states in the sustainable development and effective management of natural resources and broader energy sector reform. In providing this assistance, the Secretariat actively collaborates with international organisations, specialist think-tanks, and regional agencies operating in the extractives and broader energy sector space.

The **OECD Policy Dialogue on Natural Resource-based Development** (PD-NR) is one such collaborative effort. The PD-NR provides a platform

for producer countries, private sector, development agencies, think-tanks and civil society to share knowledge and craft innovative collaborative solutions in order to address the complex multidimensional challenges of the extractives industry's contribution to the **Sustainable Development Goals**.

The PD-NR is framed around four work streams: (1) shared value creation and local development, (2) revenue management and spending, (3) getting better deals and (4) Domestic Resource Mobilisation (tackling BEPS, corruption and commodity trading transparency).

This Briefing Note provides a summary of the key issues discussed across the four work streams during the 11th Plenary Session held in Paris on 12 – 14 December 2018.

*Please refer to previous Briefing Notes for more information on the **9th Plenary** and the **10th Plenary**.*

### Work Stream 1: In-Country Shared Value Creation

Discussions focused on Framework Step 4: exploring how to retain more in-country value and use extractive value chains to develop new products or services. The session explored how resource-rich countries can access and upgrade extractive value chains as well as the net benefits that accrue domestically, using data from the OECD/WTO Trade in Value Added (TiVA) database. The session also discussed factors influencing the ability of developing countries to participate in extractive value chains, enabling them to move from low to high-value activities and develop new sectors.

This **presentation** from the OECD Trade and Agriculture Directorate identified services as constituting a significant portion of value-added activities in most sectors including the extractives and noted that as most of these services are

*The Framework on Collaborative Strategies for In-Country Shared Value Creation* presents a guide on how host governments, extractive industries and civil society can work together in a structured and systematic way to enable in-country shared value creation.

**STEP 1.** Adopt a comprehensive, long-term vision and implementation strategy to build competitive and diversified economies and create in-country shared value from natural resources.

**STEP 2.** Build an empirical basis to inform decision making through an inclusive participatory process.

**STEP 3.** Unlock opportunities for in-country shared value creation: local workforce and supplier development and shared infrastructure (power, water and transport).

**STEP 4.** Support and contribute to innovation leading to new products and services.

**STEP 5.** Establish effective and transparent monitoring and evaluation systems and regularly review the collaborative strategy.

provided domestically, demand for services in minerals-rich countries may represent a strong link with the wider economy.

Two new examples were proposed for addition in the **on-line compendium of practices**, which operationalises the “*Collaborative Strategies for In-Country Shared Value Creation*”:

- Kazakhstani example on how to upgrade technological services for the upstream value chain;
- Brazilian example on producing iron ore without using water.

There was also an engaging presentation from CORFO (Chile’s Development Corporation) setting out Chile’s aspirations for diversifying the economy, deepening value added activities within the mining sector and lowering export vulnerability.

If a Commonwealth member country wishes to submit a case study for consideration and inclusion in the Compendium please contact: n.ogeer@commonwealth.int or a.fisho@commonwealth.int

## Work Stream 2: Revenue Management and Spending

Participants in this session reviewed a consolidated report prepared by the OECD Development Centre, on effective revenue management and spending. The report “...*rationalises the analysis developed for the Policy Dialogue’s Work Stream 2 between 2015-2018, and builds on the lessons learned from knowledge sharing and peer-learning exercise in previous Plenary sessions in relation to the management and mobilisation of natural resource revenues to support the 2030 Agenda for Sustainable Development.*” The report discusses key principles of the management of natural resource revenues and mechanisms for the mobilisation of natural resource revenues for sustainable development and concludes with recommended policy responses to key identified revenue management and spending challenges. Country specific examples highlighting the implementation of some of these mechanisms are also discussed within the **report**.

## Work Stream 3: Getting Better Deals

Developed under the auspices of Work Stream 3, the “*Guiding Principles for Durable Extractive Contracts*” sets out principles that host governments and investors can use as a common reference to build mutual trust during contract negotiations, and structure extractive contracts for the long term.

To progress the delivery of this product, a dedicated workshop was organised for an expert working group just prior to the 11th Plenary to review and revise Guiding Principles VII and VIII. ONR participated in this workshop along with participants from other international organisations, private sector and industry and representatives from two Commonwealth member states. The expert working group completed the review of the two Principles VII and VIII which were redrafted accordingly and presented in plenary with little comment. The OECD Development Centre will re-convene the Working Group at the 12th Plenary with a view to finalising the Guiding Principles which will thereafter be presented to the OECD Governing Board for adoption and disseminated for public use. ONR will continue to update member states on the progress of this document.

## Work Stream 4: Domestic Resource Mobilisation (tackling Base Erosion and Profit Shifting, corruption and commodity trading transparency)

This work stream reflects the global commitment to counter corruption and address tax base erosion issues faced by many developing countries in raising revenue from their natural resource sectors. Sessions at the 11th Plenary covered the following two areas:

### i. Thematic Dialogue on Commodity Trading Transparency

At the 10th Plenary, participants acknowledged that the risks of corruption in the selection of buyers of publicly-owned commodities is significant due to the large volume of commodities and amount of money involved. It was agreed that the establishment of rigorous and robust processes

Category 1: Physical commodity trade	Category 2: Financial flows
a. Quality (grade, API etc.)	a. Identity of the seller
b. Quantity/volumes (e.g. bbl., tonnes)	b. Identity of the buyer
c. Selling price (e.g. per bbl.)	c. Beneficial ownership of the buyer
d. Invoice/shipment/contract number	d. Involvement of politically exposed person (PEPs)
e. Date of sale	e. Conflicts of interest
f. Contract type (spot, long-term, swap etc.)	f. Group corporate structure
g. Incoterms	g. Fees, charges, credits
h. Loading / shipment date	h. Invoice amount
i. Load port, terminal or depot	i. Foreign exchange rate (if applicable)
j. Vessel name (if applicable)	j. Payment account
k. Destination	k. Payment due date/receipt date

and criteria for the selection of buyers may help to reduce any political pressure to use discretion (whether in terms of pricing or arbitrariness of selection) in the selection of buyers. Additionally, companies active in trading acknowledged the importance of transparency of trade-related payment and the need for disclosure practices around oil sales while highlighting the importance of an assessment of the critical need for such information and the assurance that it would indeed translate into effective demand for accountability by end-users.

Subsequently, the OECD Development Centre, in close coordination with the EITI Secretariat and the EITI Working Group on Commodity Trading Transparency, convened a dedicated sub-group of state-owned enterprises (SOEs) to collect and share information on existing practices. The SOEs agreed to contribute to a stock-taking exercise and the subsequent comparative analysis as well as support the production of a guidance document. The result of a preliminary stock-take based on responses to a questionnaire distributed to several SOEs was shared by the OECD Development Centre. Areas covered in the questionnaire include:

- Ownership of the commodities (SOE or Government)
- Types of arrangements (spot, term sales, swaps, government to government, resource backed financing)
- Methods for buyer selection (competitive or direct negotiations)

- Competitiveness of the buyer selection
- Transparency of the selection process (disclosure of criteria, identity of buyer and terms of contract)
- Selection of marketers/agents
- Due diligence and conflict of interest (disclosure requirements)
- Pricing (published policy or formula for price setting)

Regarding disclosure by trading companies, participants considered the type of information necessary and useful to be disclosed in order to create an effective accountability demand in resource-rich countries. The proposed types of information are grouped into two categories as set out in the table above.

## ii. BEPS in Mining

Two new guidance documents on tax incentives, debt finance, and valuing mineral exports were presented at the Plenary by the joint BEPS in Mining programme of the OECD's Centre for Tax Policy and Administration (CTPA) and the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF). - **"Tax Incentives in Mining: Minimising Risks to Revenue"** and **"Monitoring the Value of Mineral Exports"**

In addition, there was a demonstration of a financial model designed by CTPA/IGF to help countries understand the impact of tax incentives on revenue from the mining sector.

## Book Launch

The plenary also presented an opportunity for the launch of a new book by Tony Adison and Alan Roe entitled *Extractive Industries; The Management of Resources as a Driver of Sustainable Development*. The book "...provides a comprehensive contribution to what must be done in this sector to deliver development, protect often fragile environments from damage, enhance the rights of affected communities, and support climate change action. It argues that more attention must be given to the development role of extractive industries, and looks to the future to explain how action on climate change will profoundly shape the sector's prospects." The book is available as a free access title and can be downloaded [here](#).

## IGF-OECD 'BEPS in Mining Program'

BEPS are a particular risk to resource-rich developing countries given their reliance on corporate income tax and the lack of sector specific expertise. Building on the OECD/G20-led actions on BEPS, the programme aims to produce practical policy and administrative tools to counter BEPS in the mining sector. The following have been identified as high-priority areas

- Excessive interest deductions\*
- Abusive transfer pricing\*
- Undervaluation of mineral exports\*
- Harmful tax incentives\*
- Tax stabilization and investment treaties\*
- International tax treaties
- Metals streaming
- Abusive hedging arrangements
- Indirect transfer of mining assets
- Inadequate ring-fencing

\*Work has begun on these topics.



The Commonwealth

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