

# ONR Briefing Note

## OECD Natural Resources Policy Dialogue: 10th Plenary Meeting

The Commonwealth Secretariat, through its Ocean and Natural Resources Advisory Section, collaborates with international organisations, specialist think-tanks, and regional agencies to foster knowledge-sharing and to develop and promote international best practices and standards. The **OECD Natural Resources Policy Dialogue** (PD) is one such collaborative effort. It provides a platform for producer countries, private sector, development agencies, think-tanks and civil society to craft innovative collaborative solutions and share best practices in order to address the complex multidimensional challenges

*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.

of the extractives industry's contribution to the **Sustainable Development Goals**. The PD is framed around four Work Streams (1) shared value creation, (2) getting better deals, (3) revenue management and spending, and (4) tackling base erosion and profit shifting and corruption.

This Briefing Note aims to provide a summary of the key issues discussed across the four work streams during the 10th Plenary Session held on 25th -26th June 2018 in Paris.

Please refer to the previous **Briefing Note for more information on the 9th Plenary** [and more context].

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

Discussions at this session focused on Framework Step 4: How innovation in the extractives sector can lead to new products and services, while also reducing the environmental impact of operations. Three new case studies were presented for discussion and inclusion in the **on-line compendium of practices**, which operationalises the "Collaborative Strategies for In-Country Shared Value Creation"

- **Australia/BHP Billiton:** "Adapting operations to meet changing demand for minerals driven by the uptake of low-emission technologies"
- **Australia/Rio Tinto:** "How can automation contribute to energy efficiency and reduced environmental impact in iron ore mining operations?"
- **South Africa:** "How can host countries benefit from increased demand for minerals driven by the low-emission transition?"

If a Commonwealth Member Country wishes to submit a case study for consideration and inclusion in the Compendium please contact: [n.ogeer@commonwealth.int](mailto:n.ogeer@commonwealth.int) or [a.fisho@commonwealth.int](mailto:a.fisho@commonwealth.int)

## Work Stream 2: Revenue Management and Spending

Exploratory discussions were held on how the extractives sector can contribute to financing the low-emission energy transition – a theme that emerged from the 9<sup>th</sup> Plenary. Possible mechanisms that were presented on how to channel revenue generated from the extractive sector into renewables were Strategic Investment Funds, Investment Strategies of Sovereign Wealth Funds, State-owned Enterprises, Carbon pricing mechanisms and reforming energy subsidies. A proposed work plan was presented at the plenary (2019-2020: research, 2021-2022 Develop guidance), however, there was a lack of consensus amongst participants as to the fit of these discussions with the objectives of the thematic area.

## 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. A revised draft of the Guiding Principles was published on the OECD website for public consultation between January and March this year. ONR had prepared and circulated a Briefing Note on the Guiding Principles to support the engagement of Member countries in the consultation process. ONR subsequently consolidated the feedback received and forwarded same along with ONR’s comments to the OECD and the comments were incorporated in the revised version which was discussed at the plenary.

A closed session meeting was organised to progress discussions on Principles VII and VIII. Given the time constraints, participants were only able to address the preamble and Principle VII and there was a suggestion for a dedicated workshop to discuss the remaining items ahead of the next Plenary. OECD Development Centre will advise on next steps.

## Work Stream 4: Tackling Base Erosion and Profit Shifting and Corruption (Domestic Resource Mobilisation)

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 covered the following two areas:

### i. Thematic Dialogue on Commodity Trading Transparency

Commodity trading is a growing issue, with increasing demand for transparency around the revenues derived from the sales of commodities by publicly-owned entities. Nigeria, Ghana and Zimbabwe shared procedures used for selection of buyers for State-owned products and the EITI led discussions on the existing model template for disclosure of payments. Vitol, Public Eye and the OECD also presented on different types of sales arrangements and the risk management systems that trading companies utilise to address corruption and rent diversion.

Key areas raised from the dialogue were:

- The need for wider participation particularly by trading companies their “home-countries” and developed producer countries.
- EITI remains voluntary, a global effort is needed to enable mandatory reporting. The PD should pursue this as well.
- Removing or limiting discretionary powers of the Minister was critical in strengthening buyer-selection procedures.
- Publication of the processes and procedures used by State Owned Enterprises would assist in bolstering confidence and competition.
- Efforts appear disproportionately skewed towards crude. Attention also needs to be placed on gas and minerals.
- Adoption of an appropriate mechanism for pricing of commodities by SOEs will minimise arbitrage and effectively address corruption issues.

- Streamlining of information required from trading companies to incentivise compliance.
- Recognition of the need to protect commercially sensitive information.

## ii. BEPS in Mining

Three reports were presented “*Limiting the Impact of Excessive Interest Deductions*”, “*Policy Options for Monitoring the Value of Mineral Exports*” and “*The Hidden Cost of Tax Incentives in Mining*”. The last of which was in draft consultation phase until July 6<sup>th</sup> and for which the Commonwealth Secretariat provided comments.

In addition, discussions were centred on:

- How can fiscal stability provisions be designed to ensure governments can respond to BEPS issues without incurring penalties as part of a balanced approach?
- Are unfunded government equity stakes unintentionally increasing company use of debt?
- The impact of tax treaties on the mining sector.

## 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 program 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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