FOURTEENTH PLENARY MEETING OF THE POLICY DIALOGUE ON NATURAL RESOURCE-BASED DEVELOPMENT (24 June – 26 June 2020, Virtual Format)

KEY OUTCOMES

Under the co-chairmanship of **Norway** and the **United Kingdom**, 34 government delegations from Africa, Asia, Europe, Latin America and the Caribbean, as well as representatives from 17 partner international organisations and institutions, and 56 major firms, industry associations, civil society organisations, academia, law firms and think tanks, convened by videoconference on 24-26 June 2020 for the Fourteenth Plenary Meeting of the Policy Dialogue on Natural Resource-based Development. International organisations and institutions represented included the African Union Commission, African Development Bank, the African Tax Administration Forum (ATAF), the Commonwealth Secretariat, the European Commission, the Extractive Industries Transparency Initiative (EITI), Inter-American Development Bank, the International Energy Agency (IEA), the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), the International Labour Organization (ILO), the Organization of the Petroleum Exporting Countries (OPEC), the United Nations (Department of Economic and Social Affairs Financing and Economic Commission for Africa), and the World Bank. H.E. Manuel Escudero, Ambassador and Permanent Representative of the Kingdom of Spain to the OECD, and Chair of the Governing Board of the OECD Development Centre delivered opening remarks.

Proposed new Work Stream on the Low-Carbon Transition

Participants strongly welcomed the proposed draft work plan for 2021-2022 to assist developing and emerging economies heavily reliant on oil, gas and minerals to decarbonise their extractive industries in order to transition to a low-carbon economy. While much of the effort so far has gone into decarbonising electricity, four-fifths of total final energy demand by end users today is for carbon-containing fuels. Participants noted that the engagement of oil, gas and minerals producers in global climate action have been limited so far. In the face of the oil price collapse after the COVID-19 outbreak and the uncertainty regarding future energy scenarios, participants felt a sense of urgency to tackle the increased vulnerability of resource-based exporting countries, with declining revenues adding pressure to already constrained public budgets and posing a serious threat to their financial and political stability. The point was made that less revenues might translate into less available resources to finance the low-carbon transition. Looking at the current situation as a plausible preview of what a peak and decline in oil demand might look like in 20 years, participants considered the proposed work stream as a timely opportunity to anticipate who future winners and losers might be and assist resource-dependent economies to adequately prepare for the decline in demand of high carbon fuels. While acknowledging that technology is becoming the new oil, with several industrialised countries heavily investing in hydrogen and carbon capture and storage, participants recognised the need to offer realistic options to developing countries that should not take away opportunities for growth nor impede any efforts to improve efficiency gains and higher value and more climate-friendly oil and gas products. Participants emphasised the importance of exploring ways to accelerate technology transfer to developing and emerging economies and explore options for the domestication and adaptation of technological solutions to specific contexts. Recalling the global goal to ensure access to affordable, reliable and modern energy for all by 2030, participants noted that the work plan would also benefit from putting more emphasis on the social implications of low-carbon policies, and account for any impacts on workers and underserved communities. At the same time, a clear articulation of the benefits and the opportunities arising from the low-carbon transition would help gain social acceptance for any reform efforts and build the much needed trust in public institutions. Finally, participants highlighted the importance of policy coherence to better align energy, extractives and climate policies and in that perspective encouraged the Development Centre to consider tracking progress on the implementation of the commitments under Nationally Determined Contributions. Regional approaches to adjust to the low-carbon transition may also be useful to articulate the context-specific pathways in the collective energy transition effort.

Domestic Resource Mobilisation (tackling corruption in commodity trading and BEPS in mining)

Thematic Dialogue on Commodity Trading Transparency

Participants welcomed the opportunity to learn about the existing anti-corruption and company reporting obligations in key non-OECD trading jurisdictions, and noted the absence of specific regulations for the physical trade of commodities across those jurisdictions. Participants considered the different corruption risks that can arise along the commodity trading value chain and noted that while there is a shared responsibility for all parties to contribute toward addressing these risks, there is a specific opportunity for trading hubs to play a larger role in countering corruption and enhancing transparency, while noting the importance of articulating the incentives for them to come on board. Participants acknowledged the global trend toward introducing more transparency in commodity trading and noted recent steps taken by the EITI in developing reporting guidelines and recognition by Switzerland and the United Kingdom of the need for a global reporting standard. Participants welcomed the final draft *Guidance to support state-*

owned enterprises in selecting buyers of publicly owned oil, gas and minerals as a useful tool for host governments and SOEs to design transparent and competitive processes for selecting buyers that can reduce opportunities for corruption and public rent diversion. Participants noted some important distinctions between the sale of minerals and oil & gas, and recommended that clear governance and auditing provisions should be reflected in the Guidance. Participants noted the increasing reliance on resource-backed loans as a mechanism for developing countries to monetise their natural resources. While acknowledging resource-backed loans are a legitimate instrument to access credit, participants noted that these loans also come with considerable risks of over-borrowing, with more than one lender potentially claiming for same future revenue streams from natural resource exports. As they are frequently non-transparent, and off the government budget, these types of loans also raise corruption risks as they sometimes come with very onerous terms, and are not contracted on a competitive basis. Participants emphasised that all parties to these transactions -- governments but also banks and trading companies – have a shared responsibility to provide greater transparency around the terms of resource-backed loans, as reflected in the recommended disclosures in the forthcoming EITI Guidelines on Resource-backed Loans.

Fiscal policy responses of mining countries to Covid-19

As part of the IGF-OECD joint programme on BEPS in mining, IGF, the OECD Centre for Tax Policy and ATAF presented the fiscal and tax policy responses of mining countries to Covid-19. Globally, the mining sector has proven resilient thus far to the impact of the pandemic, albeit the difficulties for artisanal and small scale miners to access the market. The pandemic impact on mining companies has varied within the sector. With the exception of gold, the demand and price for base metals has fallen, but copper and iron ore have bounced back already. While following the pandemic a few governments have introduced tax reliefs specific to the mining sector, the overwhelming preference was for economy-wide measures. It was observed how uncertainty, confinement measures and difficulty in access finance explain the fall in capital expenditure in exploration, rather than a change in the economic fundamentals. Investment is expected to recover as shutdowns end. Governments should carefully consider the need to grant tax reliefs specific to the mining sector in the face of the crisis. Where necessary, it was recommended crafting measures that cushion the impact, support recovery and are aligned with long-term policy objectives. Targeted measures should focus on sectors that need more help, like small and medium enterprises. Options for consideration may include deferring the payment of mineral royalties and accelerated VAT refund to improve business cash flow rather than introducing waivers or extending loss carry-back. Such measures should be temporary and linked to strict conditions with sunset clauses and opportunities for review to suspend support when no longer required. Governments were advised against introducing tax incentives, such as tax holidays, capital gain tax relief or repealing environmental taxes. Together with increased government expenditures to mitigate the effects of Covid-19, the tax income from consumption tax / VAT has fallen significantly, putting additional pressure on the already constrained public budgets of several mineral-rich countries, characterised by a significant debt exposure. It was observed that in this situation some governments may consider to reform their current tax regimes in order to achieve a more balanced public return from their mining sector. In that respect, it was note that the IGF and ATAF are launching a program of work on The Future of Resource Taxation. In this respect, it was recalled that Guiding Principle VIII of the Guiding Principles for Durable Extractive Contracts provides useful guidance on how to craft balanced responsive solutions that generate revenue, while continuing to incentivise investment. Finally, participants stressed the importance of multilateral cooperation to support a sustainable recovery – particularly for developing countries.