

FOURTEENTH PLENARY MEETING OF THE POLICY DIALOGUE ON NATURAL RESOURCE-BASED DEVELOPMENT

VIRTUAL FORMAT

24-26 June 2020

Summary Report

The meeting was conducted under Chatham House Rule: "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed." Recordings of the meeting were made for internal OECD use only.

I. Meeting objectives and structure

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), the 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, Economic Commission for Africa, and United Nations University's World Institute for Development Economics Research) 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.

The first virtual session (24 June, 2020) addressed Mining Tax Policy Responses to Covid-19, based on joint guidance by the OECD, the IGF, and ATAF.

The second virtual session (June 25, 2020) was a brainstorming session on the proposed work plan for 2021-2022 to reorient the Policy Dialogue towards assisting developing and emerging resource-based economies in designing sustainable low-carbon development pathways. The session framed the issues for consideration, sought feedback on the proposed work plan, solicited input from participants on the key areas of work for future consideration; and agreed on the delivery of a revised version of the work plan during the fall, in view of the 15th Plenary.

For the third virtual session (June 26, 2020), the first part focused on the role of trading hubs and commodity trading companies in addressing risks of corruption in commodity trading transactions. The discussion was based on preliminary results of research into corruption risks in the commodity trading value chain and mapping of reporting and transparency requirements in trading hubs. The second part offered the opportunity to share the final draft of the OECD Development Centre's final draft Guidance to support State-Owned Enterprises in selecting buyers of publicly owned oil, gas and minerals. The third part of the session addressed the issue of resource-backed loans, and associated opportunities and challenges related to governance, transparency, and disclosure.

II. Summary of the Discussion and Conclusions

New Work Stream on the Low-carbon Transition: Merging Work Stream 1 – Shared Value Creation and Local Development / Work Stream 2 – Revenue Management and Spending

Participants 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. Prof. Petter Nore, Senior Consultant, Norwegian Agency for Development Cooperation, Norway, delivered concluding remarks, as co-chair of the Policy Dialogue.

At the Fifth High-Level Meeting (HLM) held on 21 May 2019, the Members of the Governing Board invited the OECD Development Centre to “help design transformational development strategies aligned with the 2030 Agenda focusing on sustainable transition of natural resource-rich developing countries towards a low-carbon economy and better integration into global value chains”.

In response to this call, the OECD Development Centre will refocus the activities of the Policy Dialogue on Natural Resource-based Development towards scaling up work to support the low-carbon transition in resource-based economies. Since 2013, the Policy Dialogue on Natural Resource-based Development has offered an inter-governmental platform for peer learning and knowledge sharing where OECD and non-OECD mineral, oil and gas producing countries, all participating on equal footing, work together to craft collaborative and win-win solutions for natural resource governance and development, in consultation with extractive industries and civil society.

To date, the Policy Dialogue on Natural Resource-based Development has started looking into several aspects related to the low-carbon transition of extractive industries, albeit from different perspectives. One of the Steps of the Framework on Collaborative Strategies for In-Country Shared Value Creation published in 2016 focuses on innovation. Since then, 10 out of 18 validated examples in the on-line Compendium of Practices to the Framework have shown how technologies can help transition the fossil fuel and mining industries to a low-carbon future¹. In 2018, the OECD Development Centre published a report on cost-effective solutions for the integration of renewables into mining projects² and has just released a new report the role of sovereign funds in supporting the low-carbon transition³.

Moving forward, planned future work in 2021-2022 will be structured around four main components: a) a dialogue platform for trust-building, mutual learning and collaborative solutions; b) evidence-based analysis to build a common knowledge base to improve understanding of available technology and policy options and associated trade-offs; c) provision of guidance through the collective development of an Inclusive Framework to put resource-based economies on a sustainable low-carbon development pathway; d) the identification of pressure areas requiring enhanced

¹ <http://www.oecd.org/dev/policy-dialogue-on-natural-resource-compendium.htm> .

² Alova, G. (2018), "Integrating renewables in mining: Review of business models and policy implications", *OECD Development Policy Papers*, No. 14, OECD Publishing, Paris, <https://doi.org/10.1787/5bbcdeac-en>.

³ OECD (2020), *The Role of Sovereign and Strategic Investment Funds in the Low-carbon Transition*, OECD Development Policy Tools, OECD Publishing, Paris, <https://doi.org/10.1787/ddfd6a9f-en>.

international co-operation. This could eventually lead to the development of a set of actions and instruments to better align environment, climate, economic and social policy objectives, taking the BEPS Action Plan as a model.

The dialogue platform will identify and discuss realistic technology and policy options and any associated trade-offs to support an inclusive and just transition to a shock-proof sustainable global low-carbon economy. The Dialogue will offer a safe space for trustworthy interactions among different constituencies and address key issues for consideration by developing and emerging economies. These include the efficiency-equity trade-off in policy design and the political feasibility of low-carbon development models, in particular for oil dependent economies. Another crucial issue is how to bridge the technological divide between advanced and emerging and developing economies, given the knowledge intensity of new green technologies that may give industrialised countries a first mover advantage in the low-carbon transition and their appropriate pace of deployment in developing contexts. The low-carbon transition poses an additional challenge for developing countries, the so called decarbonisation divide, given the risk that cleaner air in the Global North comes at the expense of huge environmental, health and social costs in the Global South at opposite ends of the supply chain: upstream, at sites of extraction of critical minerals and metals, such as cobalt and copper; and downstream, at scrapyards and facilities handling waste streams. Optimal policy design should further account for the political economy of reforms, impacts on energy access and affordability, income distribution and employment, given the prevalence of informal activities and lack of or not sufficiently developed social security systems in emerging and developing countries.

The evidence-based analysis would focus on how to incentivise the decarbonisation of extractive industries, de-risk investments, and overcome political economy and market barriers to scaling low-carbon solutions. This includes: (i) mapping technological solutions for the low-carbon energy transition to assess their environmental footprint, technical feasibility, and maturity, speed of adoption in different markets, potential for deployment at scale, energy system implications and cost-effectiveness. Path dependencies due to vested interests will be considered as a critical factor influencing the choice of technological solutions; (ii) enabling policies and instruments to incentivise extractive industry decarbonisation. Such policies and instruments include energy efficiency, carbon pricing, phasing-out fossil fuel subsidies, vintage differentiated environmental regulations, innovation, research and development support policies, government procurement, labelling, disclosure and reporting requirements from the supply chain, and possible trading mechanism for CO₂ storage; (iii) filling the investment and financing gap, including through revenue recycling, state-owned enterprises' investment strategies, and development finance. While important lessons on revenue recycling could be drawn from the experience of advanced economies, tailored approaches regarding spending options may be required to compensate for the potential regressive impacts of energy taxation in emerging and developing countries' contexts.

It is expected that the evidence-based analysis will inform and support the development of an *Inclusive Framework on a Just Low-carbon Transition*. The Framework is intended to provide a blueprint for action and policy guidance to assist policy makers in designing comprehensive strategies to advance the low-carbon transition in developing and emerging resource-based economies, while accounting for potential adverse impacts on workers and communities. The objective is to offer a combination of policies, instruments and mechanisms that simultaneously delivers innovation and investment in low-carbon solutions, foster reform acceptance, and address associated social, economic and cross-border impacts. This work is not intended to reinvent the wheel, but build on available analysis, knowledge and expertise within and outside the OECD. The added value of this exercise would be to bring together different bits and pieces of policy advice and analysis, currently scattered across different domains, into a coherent and systematic framework.

International co-operation and co-ordinated action would be required to steer and accelerate structural change and technological transitions in energy-intensive economies, simultaneously achieve climate, economic and social objectives, and avoid the risk of carbon leakage with the relocation of high-carbon activities in less stringent jurisdictions. It is expected that the analytical work and the guidance framework will lead to the identification of pressure areas where enhanced international co-operation would be necessary. Inspired by the OECD BEPS project and building on OECD work on green growth, this work may eventually lead to the collective development of a set of actions, providing an internationally co-ordinated approach to the low-carbon transition that may satisfactorily respond to outstanding issues regarding the cross-border impacts of low-carbon solutions. Concrete examples for consideration participants to

consider include agreeing on appropriate level for global carbon pricing and development of standards for low-carbon metals.

While providing valuable feedback and input, participants noted that the engagement of oil and minerals producers in global climate mitigation efforts has been limited so far. Participants noted that the Paris Agreement does not mention fossil fuel producers, despite the risk of carbon leakage and the importance of the action or inaction of these countries to the collective effort of decarbonising the global economy. While much emphasis is given to greening electricity, a large share of industrial demand for energy is still served by oil, gas, and coal, in sectors that do not use electricity as a source of energy. This includes the mining and metals sectors, which are among the largest contributors to global emissions.

Participants highlighted the importance of fully addressing the effects of Covid-19 as part of the new work programme, since the pandemic may affect the pace of the structural changes required to sustain the low-carbon transition. Participants suggested that the fall in oil demand resulting from the Covid-19 crisis could be a “preview” of future decreases in demand associated with the low-carbon transition. The pandemic has highlighted policy challenges faced by oil-producing countries. This includes a sharp decline in oil and gas exporters’ export revenues, which, if further exacerbated by the low-carbon transition, could reduce these countries’ ability to achieve not only climate, and environmental, but also development and growth objectives.

Participants emphasised the risk that developing countries could be left out of the technologies that support and drive the low-carbon transition. Participants recognised that technology might become the “new oil” – a principal generator of export revenues to which developing countries may get little access. This may include technologies related to carbon capture and storage (CCS), to low-carbon industrial production technologies, and to hydrogen-related technologies. Nonetheless, participants observed that, subject to technology transfer solutions, there could also be opportunities for developing countries. For example, as hydrogen is expected to become a widely traded commodity, developing countries rich in renewable energy resources could potentially become exporters of clean hydrogen, and follow a low-carbon industrialisation path based on clean energy and low-emission technologies. Participants observed that the establishment of a global market for clean hydrogen would require extensive international collaboration, as well as targeted policy measures. At the same time, participants warned against excessively relying on advanced technology solutions, as experience shows that these may become a tactic for delaying climate action.

Participants emphasised the importance of exploring low-tech options for decarbonisation that may be more readily accessible to developing countries than some of the frontline technologies deployed in advanced countries. They proposed to integrate industry 4.0, as well as energy efficiency and circular economy aspects into the proposed work plan, since these areas may include low-hanging fruit and opportunities for technological domestication and adaptation. Participants emphasized the need for enhancing circularity for material-intensive activities, as well as petrochemical innovation and suggested including modern bioenergy and biofuels for future consideration.

Participants emphasized the importance of supporting a low-carbon transition that takes account of equity objectives between countries and within countries. At the country level, this referred to the importance of balancing the objectives of the low-carbon transition with developing countries’ goals of continued economic growth. For resource-rich developing countries, such balancing may include the decarbonisation of the extractive sector, which would provide these countries with more time to adjust to the low-carbon economy. At the societal level, within each country, it will be important to address the social implications of the low-carbon transition, especially with regard to the global goal of ensuring energy access for underserved communities. Furthermore, participants observed that fossil fuel subsidies reform and carbon pricing policies, while essential to mitigate climate change, should be designed to limit the potential adverse impacts on underserved and disadvantaged communities, and should be compatible with expanded energy access for low-income communities. Development finance could play a role in this regard.

Participants emphasised that the low-carbon transition will create both winners and losers. Winners are likely to emerge among the countries that manage to diversify their economies to low—carbon energy sources and implement

low-carbon industrialisation. For the losers, i.e. countries unable to adapt, participants emphasised the risk of geopolitical instability, and even failed states, as oil export revenues decline in some major oil producing regions. Winners during the transition may include countries with low-cost reserves, that succeed in maintaining political stability and reduce the emissions intensity of their hydrocarbons sectors. This could extend the life of hydrocarbons and give countries more time to restructure their economies.

Furthermore, participants observed that demand-side policies, hitherto dominant in the global climate agenda, may not be sufficient to curb global emissions of greenhouse gases. A “race to the bottom” amongst oil producing countries to gain market shares by cutting prices can lead to oversupply, which in turn translates into low fossil fuel prices, reducing the competitiveness of renewable energy sources. Policies to curtail supply may thus become necessary. Participants suggested that supply-side policies could be based on a global carbon budget derived from the goals of the Paris agreement, with annual global fossil fuel production capped to conform to this carbon budget. Production quotas for fossil fuels might then be traded, similarly for example to the way fishing quotas are now.

Finally, participants stressed the importance of policy coherence between extractive, environmental and climate policies, and between the ministries and government agencies responsible for these respective policies. Participants asked the Policy Dialogue to follow countries’ commitments under Nationally Determined Contributions, and their coherence across different policy areas. Participants emphasised that the energy transitions also needs to be consistent with biodiversity conservation, and other environmental objectives. Another suggestion was to evaluate regional approaches for adjusting to the low-carbon transition, in order to highlight the context-specific approaches and pathways in the collective energy transition effort.

Work Stream 4 – Domestic Resource Mobilisation (tackling BEPS, corruption and commodity trading transparency)

IGF/OECD BEPS in Mining Programme: Mining Tax Policy Responses to COVID-19

As part of the *IGF-OECD joint programme on BEPS in mining*, IGF, ATAF and the OECD Centre for Tax Policy presented the fiscal and tax policy responses of mining countries to Covid-19. IGF and ATAF referred to the sector-specific guidance on tax responses for mining countries they have published in order to provide governments with a framework to deal with potential tax relief requests from the sector. Globally, the mining sector has proven resilient to the stresses of the pandemic, and only a few countries have introduced modifications to their mineral tax regimes in response to the Covid pandemic. Except for a few examples of targeted mining tax relief, governments have preferred economy-wide support measures. In such contexts, mining has benefitted from economy-wide measures, which include for instance wage subsidies.

Participants noted that, in spite of the general resilience of the sector, the pandemic has had a significant impact. Mining companies have responded to market uncertainty and restricted access to finance by reducing capital expenditure by 17% - expected to recover as the pandemic ends. The pandemic’s impact has not been uniform across countries. In many countries, containment measures with full or partial lockdowns have restricted mining operations, leading to significant production cuts and supply disruptions. Other countries have classified mining as an essential activity, and mine workers essential workers. This has permitted mining operations in these countries to continue production, and to keep paying taxes and royalties accordingly.

Following the economic recession resulting from the Covid-19 pandemic, mineral demand and prices have generally declined. In particular, prices for base metals have gone down. However, contrary to base metals, demand for precious metals has gone up, and the gold sector has seen increased investment. Participants noted that the Covid-19 crisis has accelerated some existing trends and structural issues of the mining sector. During this period, it has been even more challenging for small-scale minerals producers to access international markets.

As global consumption has been affected by the pandemic, governments' tax income from consumption tax / VAT has fallen significantly. Together with increased government expenditures to mitigate the effects of Covid-19, this has led to the depletion of public financial resources in several mineral-rich countries. Some governments are therefore seeking to reform their current tax regimes in order to collect higher taxes from their mining sector. 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 noted 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.

Finally, participants concluded that government responses to Covid-19 have been rapid, but unilateral. Yet, in order to support a long-term sustainable recovery, multilateral cooperation will be inevitable, particularly for developing countries.

Thematic Dialogue on Commodity Trading Transparency

The Thematic Dialogue on Commodity Trading Transparency took place in three parts on Friday 26 June and provided an opportunity to consider the risks of corruption in commodity trading transactions, to review and discuss the draft final Guidance to support State-Owned Enterprises in selecting buyers of publicly owned oil, gas and minerals, and to consider the issues that can arise in resource-backed lending. Mr. Andrew Preston, Head of the Joint Anti-Corruption Unit, Home Office, United Kingdom, in his capacity as co-chair of the Thematic Dialogue, provided closing remarks.

Commodity trading presents specific and heightened risks of corruption due to the large amount of money involved in commodity sales transactions and the sophisticated mechanisms used to channel corrupt payments. Improving transparency and accountability in commodity trading is a typical global collective challenge that requires actions by home and host governments, commodity trading hubs and companies, supported by civil society organisations acting as watchdogs.

Part one, on *The role of trading hubs and commodity trading companies in addressing risks of corruption in commodity trading transactions*, provided an opportunity for participants to share knowledge and improve mutual understanding around existing anti-corruption and company reporting obligations applicable in key trading hub jurisdictions, including any specific requirements for commodity trading. The session was also intended to explore where corruption risks occur along the commodity trading value chain, the degree of exposure of trading hubs to corruption risks, and the role that they can play in countering corruption and enhancing transparency.

Participants considered the specific regulations that are in place across key non-OECD trading hubs: China, Hong Kong, Russia, Singapore and the United Arab Emirates (Dubai), and noted that while the financial aspects of commodity trading are often regulated, the physical trade of those commodities is not.

Participants noted how China has become a dominant force in commodity trading over the past two decades, given its significant demand for oil, gas and minerals. In particular, Chinese state-owned enterprises (SOEs) have expanded

their trading activities to most global hubs, with international subsidiaries adopting local best practice in accounting and controls for their trading activity. China has been focusing on facilitating business within local markets and continued rapid development with reference pricing points developing at key ports for metals, minerals and anticipated for LNG.

Hong Kong has a well-developed stock exchange and an experienced regulator, the Hong Kong Monetary Authority. The Trade and Industry Department regulates and controls the trade in strategic commodities, monitoring closely imports and exports. Hong Kong's financial and commodities firms tend to have adopted the best practices in reporting and company accounting. Regulators and authorities focus on maintaining a strong wealth management and capital markets business environment, with limited focus on regulation of physical commodities traders unless importing/ exporting to/from Hong Kong. Trade finance is a major source of business for the Hong Kong banking sector.

Russia is a significant producer of commodities, including oil, gas, iron ore and diamonds but has been regarded as being vulnerable to corruption and money laundering. The Russian government is taking steps to change this perception, through internal reform, international cooperation and the development of capital markets.

The Central Bank of Russia is the principal actor in the Russian economy. It is a powerful institution that regulates all financial markets participants, and that also owns shares in subsidiaries, including the largest investment bank in Russia and the Moscow Exchange. The Central Bank is mandated to ensure that recommendations of the Financial Action Task Force (FATF) are implemented across the board by all Russian companies, and to develop best practice.

Participants noted how SOEs are in habit of reporting to various Russian government ministries on their imports and exports, so there is strong record keeping around production, the import and export of commodities. However, for commodity trading itself, there is no transparency around the trades, although the Central Bank is developing a legal framework for transactional information.

The only transparency around physical commodity trading in Russia takes place on the Moscow Exchange where manual reporting is required on all transactions. Participants noted how Russian companies have developed trading subsidiaries that are now located in other trading hubs such as London, Singapore and Switzerland in order to access capital and expertise.

Singapore has been developing itself as an international trading hub since 1983 and the Singaporean government has implemented a number of commodity trading initiatives, including to encourage traders to choose Singapore as their global base of operations. For example, 260 companies currently are participating in the Global Trader Programme (GTP).

Participants noted the strong role of the Monetary Authority of Singapore (MAS) in overseeing the financial side of commodity trading, such as financial services and any non-bank financial derivatives. This brings the MAS into contact with many large commodity trading companies and international oil companies as they tend to have large derivatives hedging activities. These companies are in touch with MAS regularly about the specific commodity they are trading and the geographic location where their trades take place. For example, if an oil trader opened a new desk to start trading metals, the MAS should be made aware of this. The MAS are introducing reporting for all financial swaps, futures and options but this is more from a financial stability objective. Physically settled commodities are excluded from the swap reporting specifically, as are any non-bank financial institutions that have less than USD 5 billion of exposure to derivatives contracts.

Participants noted that physical commodity trading itself is not regulated in Singapore. There is no requirement for physical commodity transactions to be reported specifically, but companies around the edges of commodity transactions are regulated – for example, brokers, banks, exchanges, platforms.

Dubai has been gathering momentum in commodity markets. Significantly, in 2002, the DMCC began its operations. DMCC is a free trade zone and specifically focuses on commodities – oil, LNG, base metals, diamonds, and gold. DMCC set up an exchange (DGCX) and has its own clearing house. There is also a second exchange – the Dubai Mercantile Exchange (DME) – which is regulated by a different body through the Financial Services Act and is an arm of the CME. The DME aspires to meet the level of transparency as set out in the CFTC in the USA. Participants noted how the DMCC and the DME are regulated by different entities but are both mandated by the Government of Dubai. The DME has a benchmark pricing contract – the DME Oman Contract and is part owned by a number of large international oil

companies. The focus of the DME is to have the liquidity needed to provide good hedging capacity for the Gulf region. Both exchanges are developing rapidly, have a focus on KYC/AML.

The DMCC has significant regulatory powers– it can close a company’s operations if it is not comfortable with any aspects of the business conduct, with a focus on AML, UBO, and transparency. It is unclear how frequently companies are reviewed but DMCC do prosecute firms that bring DMCC into disrepute.

The DME is overseen by the Ministry of Finance and has close to 150 top tier market participants. The DME benchmarks itself to requirements of other regulators, notably the MAS and CFTC. However, participants noted that the DME require reporting on trades but the frequency and use of that reporting is currently unclear..

Participants welcomed this overview and highlighted that transactions with state entities are of a public interest and therefore terms need to be transparent and open to public scrutiny. Participants reflected on the multiple ongoing investigations into commodity trader’s interactions with SOEs, investigating corruption and fraud – highlighting the urgency and timeliness of addressing this matter. 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 noted that there are a number of effective and impactful disclosure laws around the world for upstream payments (exploration and extraction), requiring oil, gas and minerals companies to disclose payments made to governments (taxes, fees and royalties), and reflected on how commodity trading transactions between trading companies and SOEs can be included into such an existing framework. Participants referred to a recent Swiss law that delegated authority to the Federal Council, the executive arm of the government, to apply its new transparency law to commodities trading and purchases from governments, as part of an international framework – which sends an important signal to commodities trading hubs. The United Kingdom has committed to establishing a common reporting standard on payments for governments, and the US Securities and Exchange Commission has acknowledged the significance of these payments and is currently drafting its final rules on this. The European Commission is also reviewing its own payment transparency regime for the purchase of oil, gas and mineral resources. Finally, the EITI is currently drafting a buyer guidance for companies buying oil, gas and minerals from state entities, which is close to finalisation.

Part two, on *Guidance to support state-owned enterprises in selecting buyers of publicly owned oil, gas and minerals*, provided an opportunity to review and discuss the final draft *Guidance to support State-Owned Enterprises (SOEs) in selecting buyers of publicly owned oil, gas and minerals*, prepared by the OECD Development Centre in consultation with the OECD Development Centre’s SOE Working Group. Participants welcomed the final draft *Guidance* as useful tool for host governments and SOEs design transparent and competitive processes for selecting buyers that can reduce opportunities for corruption and public rent diversion. The *Guidance* is structured around three key phases of buyer selection process: the institutional arrangements, design of selection process for SOEs and the actual selection process. SOEs alongside host governments need to ensure that the governance structure in which they operate is robust and allows them to operate independently as well as in a transparent manner. SOEs should determine objective criteria and a standardised framework for buyer selection, preferably through a competitive bidding process, and make information publicly available with an online submission process to avoid informal, direct interaction between individuals and bidders. Participants acknowledged that the draft *Guidance* draws on global best practises and addresses the key issues in the buyer selection process. 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*.

Part three, on *Emerging issues with the use of resource-backed loans (RBL)*, took place in the context of the Policy Dialogue’s ongoing collaboration with the EITI, which has included guidance on RBLs in its forthcoming reporting guidelines for companies buying oil, gas and minerals from governments. With the onset of the Covid-19 crisis, and the associated decline of oil prices, countries that have become heavily indebted by RBL may have difficulties accessing financing to respond to the crisis, and/or run the risk of reaching unsustainable debt levels. Furthermore, as oil revenues have declined, more barrels of oil are needed to repay such loan to private creditors, be it commodity traders or banks, thereby creating a higher cost of repayment of their debt and diminishing the remaining available revenues of these

countries. This, in turn, is also very likely to negatively impact their ability to devote the necessary resources to effectively fight the Covid-19 crisis.

Resource-backed loans have become common over the last few decades. These loans are now offered not only by banks but also by commodity trading companies and Chinese state-owned enterprises. They represent at least \$ 164 billion according to the NRG1. Whereas RBL offers countries opportunities for access to finance, these loans also come with considerable risks, sometimes very onerous terms, and are not contracted on a competitive basis. Furthermore, RBLs are frequently non-transparent to citizens, and off the government budget. Sometimes these loans are non-transparent even to the government of the borrowing country, if contracted by a state-owned enterprise unbeknownst to the government. The extent of RBLs may also be unknown to commercial lenders. There could be risks to lenders that more than one lender could be claimant to the same future revenue streams from natural resource exports. Countries could also find themselves cut off from multilateral finance. Finally, there is the risk that RBLs curtail countries' ability to respond to climate change. Oil-backed loans lock countries into oil production for years to come, and may jeopardise efforts to diversify away from fossil fuel production and comply with climate-related commitments.

Participants emphasised the importance of transparency not only on the government side, including SOEs, but also by lenders in RBL arrangements. The forthcoming EITI Guidelines stipulate that all parties involved in RBL transactions – governments but also banks and trading companies – should as a minimum disclose to the public domain the, the identity of the parties involved, the value of the loan, and the volume and value of the resources pledged. They should also disclose the interest rate, fees and repayment terms. Furthermore, participants underscored the importance of keeping Parliament informed about RBLs, and applying principles for debt transparency.