

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

30 November - 4 December 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

Twenty nine government delegations from Africa, Asia, Europe, Latin America and the Caribbean, as well as representatives from 7 partner international organisations and institutions, and 42 major firms, industry associations, civil society organisations, academia, law firms and think tanks, convened by videoconference on November 30 – December 4, 2020 for the Fifteenth Plenary Meeting of the Policy Dialogue on Natural Resource-based Development. International organisations and institutions represented included the Commonwealth Secretariat, the European Commission, the Extractive Industries Transparency Initiative (EITI), the International Energy Agency (IEA), the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), the Organization of the Petroleum Exporting Countries (OPEC), the United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC), and the United Nations University's World Institute for Development Economics Research (UNU-WIDER). 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. Prof. Petter Nore, Senior Consultant, Norwegian Agency for Development Cooperation (NORAD) moderated the discussion on the 2021-2022 Work Plan on 1 December. Mr Andrew Preston, chaired the Thematic Dialogue on Commodity Trading Transparency on 4 December.

The OECD Development Centre, acting as a neutral knowledge broker, contributed to framing the broad thematic areas and specific issues for discussion, as outlined in the background documents distributed to all participants in advance of the meeting. Besides the OECD Development Centre, the OECD Economics Directorate, the Environment Directorate (ENV), the Centre for Tax Policy and Administration (CTPA), the Directorate for Financial and Enterprise Affairs (DAF) and the Development Co-operation Directorate (DCD) were also represented.

The first virtual session held on 30 November 2020 provided a discussion on the new project on *the Future of Resource Taxation* of the Inter-Governmental Forum on Mining and Minerals and Sustainable Development (IGF) and the African Tax Administration (ATAF). The project aims to address challenges resulting from the rapid changes in the mining sector as well as international tax regimes for

resource-rich developing countries, by assessing alternative approaches to the existing resource taxation paradigm to maximise benefits from the sector.

The second virtual session held on 1 December 2020 provided the opportunity to discuss the changes made to the revised Work Plan for 2021/2022 on working towards an *Inclusive and Equitable Framework for a Just Low-Carbon Transition in Resource-Rich Developing Countries*. Participants provided further feedback on the proposed outputs as well as governance structure of the initiative.

During the third virtual session on 2 December 2020, the first part focused on the specific risks and challenges that resource-rich developing and emerging economies are facing in their transition to a low-carbon future. The session addressed the interplay between the different policy objectives such as achieving universal access to energy and security, technological innovation, economic development and emission reduction. The second part offered the opportunity to discuss the role of oil and gas companies in the low-carbon transition, with a focus on the potential for collaboration between national oil companies and international oil companies, to foster the low-carbon transition of national oil companies in emerging and developing economies

The fourth virtual session on 3 December 2020 considered reforms of inefficient fossil fuel subsidies that encourage wasteful consumption, in times of Covid-19. Participants discussed challenges and opportunities of fossil fuel subsidy reform, and drew lessons from national level experiences.

The fifth virtual session on 4 December 2020 provided an opportunity to advance the outputs of the Thematic Dialogue – through presentations on new commodity trading transparency policy tools, a discussion on the specific role that trading hubs can play to counter corruption and enhance transparency in commodity trading, and a discussion on the draft methodology for the development of the *On-line Mapping Tool of State-Owned Enterprises and their Subsidiaries*.

II. Summary of the Discussion and Conclusions

The Future of Resource Taxation (session of 30 November 2020)

Participants welcomed the project by the Inter-Governmental Forum on Mining Minerals, Metals and Sustainable Development (IGF) and the African Tax Administration Forum (ATAF) on The Future of Resource Taxation. Participating stakeholders noted the challenges posed by corporate income taxation as the prevailing fiscal tool in the mining sector, which lacks predictability and is more vulnerable to profit shifting given the global changes in the mining industry such as automation, developments in digital economy taxes, and the effect of COVID-19. The latter poses additional financial pressures as far as rebuilding public finances post-COVID is concerned.

Participants argued that the rapid changes in the mining sector as well as international tax regime call for a reorientation of the existing benefit-sharing paradigm. A new resource taxation approach, both in design and implementation could maximise the economic benefit of mining. Technological innovation could be leveraged for the strengthening of capacity and monitoring at the level of government administration. Participants noted how the technological transition in the mining sector could lead to greener and safer jobs but potentially also to fewer low skilled jobs, which could in turn result in lower payroll taxes or indirect tax revenues for the government. In addition, there is uncertainty around anticipated higher demand for minerals, given the changing landscape of low-carbon technologies. Recycling or the use of secondary materials through urban mining could become more systematic and widespread, while unforeseen potential changes in technology paths could pose uncertainties and risks for minerals-producing countries.

In view of the general optimism on growing demand for minerals of strategic importance for low-carbon technologies, participants observed that it might not be necessary, or even counter-productive, to introduce broad-based fiscal incentives. Governments will need a sound policy design and economic

modelling to understand whether smart incentives for investments in these minerals would be necessary and beneficial. As also recommended by the *Guiding Principles for Durable Extractive Contracts*, governments should refrain from chasing prices. Participants noted that they should rather seek to address governance challenges, inadequate laws and harmful tax incentives in order to develop simpler, more predictable approaches, to be better prepared for future disruptive changes in the sector. In order to respond to these challenges, the IGF and the ATAF will engage governments and other stakeholders to seek policy innovations and proposals during 2020-2021. The private sector is also encouraged to feed in their proposals in the process, for instance, on cross-border tax issues as multinational companies dominate the mining sector.

Low-carbon transition in resource-rich developing countries

Revised Work plan 2021-2022 (Session of 1 December 2020)

Discussing the future work of the Policy Dialogue, the Secretariat had the opportunity to present the revised version of the Work Plan for 2021/2022, on working towards an Inclusive and Equitable Framework for a Just Low-Carbon Transition in Resource-Rich Developing Countries. The Secretariat recalled that on 29 May 2020, the 56 Members of the Governing Board of the OECD Development Centre adopted a Policy Statement on “COVID-19 and developing countries: Policies and partnerships to respond, reset and rebuild better”.¹ In that context, they called upon the Development Centre to leverage the Policy Dialogue on Natural Resource-based Development to identify policy options and trade-offs to promote a green recovery that advances the transition to a sustainable low-carbon economy. Building on the Policy Statement, the Co-Chairs’ summary of the 6th High-Level Meeting (HLM) of the Governing Board of the OECD Development Centre held on 6 October 2020 highlighted the promotion of a virtuous cycle of environment and growth for a sustainable transition to a low-carbon future amongst the priority actions for a new deal for development.

The Secretariat explained how the comments submitted by stakeholders were addressed and reflected in the revised draft. The session provided the opportunity to seek additional feedback on the proposed outputs, as well as on the governance structure of the initiative. Participants welcomed the revisions made to the initial draft, which now puts, among others, a stronger emphasis on (i) energy efficiency technologies and low-hanging fruits to decarbonise the extractive sector; (ii) policy design to attract capital investment for technology deployment at scale; (iii) adoption of a value chain approach to show the carbon footprint of mining and oil and gas at different steps of the value chain and technology options assessed against principles of circular economy; (iv) elaboration on the implications of Covid 19 for the low carbon transition; (v) options for enhancing energy efficiency, including putting methane to productive use; and (vi) inclusion of the socio-economic implications of the low-carbon transition as a cross-cutting dimension.

Participants underscored the effective catalytic role played by the Policy Dialogue on Natural Resource-based Development since 2013, in bringing together governments, industry, international organisations, experts and civil society for peer-learning, knowledge-sharing, and facilitating shared approaches to collaborative solutions. They highlighted the usefulness of developing and disseminating best practice cases, which could serve as useful guiding examples for in-country work. Participants emphasised further the need to link the initiative to post-COVID recovery efforts, to address potential challenges in mobilising finance, and unforeseen structural changes along the extractive value chains further downstream. They encouraged the Policy Dialogue to build on this integrated, multi-

¹ Governing Board of the OECD Development Centre, Policy Statement on: “COVID-19 and developing countries: Policies and partnerships to respond, reset and rebuild better”, adopted on 29 May 2020, available at https://read.oecd-ilibrary.org/view/?ref=133_133648-emwpa3wfd0&title=COVID-19-and-developing-countries-Policies-and-partnerships-to-respond-reset-and-rebuild-better .

disciplinary and multi-stakeholder approach, while coordinating closely with existing related initiatives. In particular, participants highlighted the importance of involving the private sector, including mining companies, international oil companies as well as national oil companies in the implementation of the work plan.

Low-carbon transition strategies: Which paths are available to resource-rich developing and emerging economies? (Session of 2 December 2020)

The session was held in two parts, the first focusing on the heterogeneity of low-carbon transition pathways in resource-rich emerging and developing countries, trade-offs and development priorities, the second part on the role of oil and gas companies in these countries' transition.

Participants had the opportunity to hear different country-specific perspectives on low-carbon development pathways from Vietnam, a country with a mixed profile, as it both produces and imports energy fuel resources, Nigeria, a major oil and gas producing country, and Guinea, an important mining country in Sub-Saharan Africa.

As reported by the IEA, the energy demand in developing countries will continuously increase, as well as the use of natural gas and renewables to meet the increasing demand in both the Stated Policies Scenario (STEPS) and Sustainable Development Scenario (SDS). In Southeast Asia, coal is set to retain a strong position in the electricity mix. The availability of coal in the region, and its lower cost compared to alternative fuels, has made coal the preferred option to meet rising power demand. In addition to coal, other fossil fuels, especially natural gas, will also continue to play an important role until 2040. Similarly, in Africa, the use of coal is expected to go up together with every other source of energy due to population growth, growing need to provide access to energy also in remote areas, industrialisation and urbanisation. In order to follow a more sustainable transition pathway, more investments will be required in renewables and most importantly in energy efficiency. Further investments are needed to expand and upgrade existing electricity networks, including mini-grids, to increase the low-carbon electricity generation capacity. In Africa, in particular, better regional cooperation and integration of power networks will be key in unlocking the full potential of hydropower. Mobilising private sector investment remains, however, a difficult task due to the diversity of different actors and the difficulty of aligning various interests. Particularly in the mining sector, there are uncertainties regarding investment decisions due to the cyclical nature of the international mining industry. This creates a challenge for host governments to synchronise their investment decisions on low-carbon energy sources with industry projects.

Vietnam is a net importer of coal, oil, and gas. Due to some difficulties in developing new coal mines, domestic coal production is not enough to meet growing demand of thermal power plants. Coal remains one of the primary energy sources for the domestic market. Vietnam turned from a net coal export country into net import country in 2016. With the rising energy demand and industry sector development, particularly the cement and power industry, demand for coal has increased. In the Vietnamese case, coal will remain the main source of energy – even until 2030. In 2030, coal supply is expected to contribute 41.1% to primary energy supply, followed by oil, biomass, natural gas, nuclear and renewables. Industry is expected to account for around 40% of energy demand, while residential demand is likely to be around 36%. Under the current Nationally Determined Contribution Plan, Vietnam commits to an emission reduction of 9%, which could reach 27% if international support is provided. Trying to achieve a high emission reduction target without international support will come at a cost of decrease in Vietnam's GDP.

Discussing the case of Guinea, participants highlighted the importance of coherent policies and engagement with the private sector to accelerate the low-carbon transition. Guinea has suitable geographic conditions for hydropower generation, but it has not yet exploited hydropower potential to its full advantage. The country's mining sector mostly relies on diesel-power generation, reflecting the sector's need to ensure affordable, reliable energy at a competitive price. The government has nevertheless introduced a clean energy programme, supported by further investments, with the aim to increase the use of hydropower from around 50% to 80% by the end of next year. Participants concluded that in order to bring the mining sector on board, technical obstacles need to be addressed together with the need to balance short-term interests with long-term sustainability goals.

In the Nigerian context, participants highlighted the importance of natural gas is at the heart of national energy policy and it is considered as a transitional fuel to shift away from oil dependence towards larger deployment of renewables, as the primary policy objective remains to ensure universal access to clean energy and economic development. Besides achieving more widespread energy access, natural gas is also expected to create some mid- and downstream, value added economic activities around power generation, agro-business, petrochemicals and fertilizers with further gains for economic growth and job creation. Fiscal incentives, in this context, such as government funds, tax or royalty exemptions are expected to boost investor confidence and encourage investments in natural gas production and power infrastructure investments. Participants also noted that the development of gas infrastructure can also help put associated gas to productive use, enhancing efficiency of oil and gas operations.

Participants emphasised the heterogeneity of the different pathways in developing countries. They noted that the discussion around phasing out coal, in particular, needs to go hand in hand with considerations related grid stability, system reliability and energy security. Due consideration should be given to implications for the labour market, existing infrastructure, financing mechanisms and legal frameworks. One of the major challenges is to identify the right policy design that can also protect the poor and vulnerable in the transition. Often the composition of the domestic resources and reserves as well as existing path dependencies play a central role in making political decisions together with cost assumptions on technological alternatives. Nonetheless, there are opportunities to plan an exit strategy from coal by 2040 for developing countries, in which, for instance, thermal coal mining can be replaced with other forms of energy production. Technology cost developments show that alternatives to coal are becoming more cost-competitive, which make existing lock-ins less cost-efficient. Participating stakeholders also highlighted that while renewables play a crucial role in the low-carbon transition, a wide-range of technologies will be needed, such as CCS or hydrogen, some of which have not been commercialised or fully developed yet. Finally, they concluded that the international community move from a competitive burden sharing to a more cooperative, inclusive approach is a step in the right direction, acknowledging that every country, at its own pace and depending on its specific context, can and should contribute to global low-carbon transition efforts, with the active involvement of the private sector.

Turning to the role of oil and gas companies in the low-carbon transition, participants discussed the collaboration between national oil companies (NOCs) and international oil companies (IOCs), and how these partnerships can support NOCs in aligning with low-carbon objectives and with their country's intended nationally determined contributions under the Paris Agreement. Participants emphasized the rapid change of the energy sector, and the fact that oil & gas companies need to adjust to new realities to retain their competitiveness. Participants observed that, whereas several European majors have started investing significantly in renewable energy and low-carbon technology, most NOCs are at an earlier stage of the transition. Some NOCs have issued long terms plans on the energy transition, and some have set ambitious goals of becoming net carbon neutral by 2050, but relatively few have

communicated a strategic vision of what they may look like in 20-30 years, and how they will achieve such a vision.

Participants emphasised that, for NOCs to remain competitive and retain access to capital, governments and NOCs need to formulate a sustainable future for the NOCs and for their national economies. Such future scenarios will vary from country to country, and between NOCs, depending on their scale and access to resources, their competencies, and on their importance to the broader economy. Some NOCs may choose to remain focused on oil & gas, while reducing emissions from operations. The point was made that these companies should focus on producing low-cost and low-emissions reserves, invest in low-carbon R&D, and increase transparency. Other NOCs may chose to diversify more broadly across low-carbon energy solutions, and become national energy companies.

Participants argued that, to meet sustainable and low-carbon energy demand, effective cooperation between IOCs and NOCs is necessary. IOCs can often leverage on experience of working in the countries that are leading the energy transition, and can thereby bring global experience to partnerships with NOCs that do not have the same level of international exposure.

Participants observed that governments need to set energy policy and goals, and agree a clear mandate for the role of their NOC in their country's energy transition. Participants emphasized that government policy support is critical for NOCs to be able to transition efficiently to operating in a low-carbon world, and argued that NOCs and their governments need to work together to set measurable and meaningful CO2 reduction targets. NOC management boards need to incorporate energy trends into their strategies, and clearly communicate their stance on the energy transition.

Participants argued that that NOCs should aim for best in class ESG transparency, and climate-related disclosure. Currently, lack of information means that rating agencies rate many NOCs lowly. Lenders and investors increasingly use rating agencies to evaluate investment opportunities. NOCs could therefore face higher funding costs, and risk losing out on access to capital unless, their disclosure practices improve.

Participants observed that methane emissions are at the root of one fourth of global warming, and that curbing of methane emissions is crucial for natural gas to remain part of the global energy supply. Some oil companies have achieved significant results in this area over the last decade, but much remains to be done. Technology is available for emissions monitoring, including satellite monitoring, drone-based monitoring, and ground based infrared cameras. Nonetheless, NOCs do not necessarily have access to this technology, or the capabilities to deploy it efficiently. IOC participants observed that they share leading practice with NOC members of the Oil and Gas Climate Initiative, and with members of the UN-backed Oil and Gas Methane Partnership. Participants observed that reduction of methane emissions is among the most cost efficient ways to reduce GHG emissions from the oil & gas sector, and could make an important contribution to countries' abilities to achieve their INDCs. However, as a starting point, NOCS need to strengthen their GHG accounting.

Technology transfer from IOCs to NOCs will in emerging and developing countries be critical for NOCs' ability to keep up with low-carbon technological development. This includes technology for carbon capture and storage (CCS), hydrogen, reduction of methane and CO2 venting, and reduction of natural gas flaring. Participants observed that IOCs could be positively inclined to share low-carbon intellectual property with NOCs for free, or on a cost recovery basis rather than profit. Participants noted that collaboration between IOCs and NOCs can help in pushing governments to adopt international best practices and standards for emissions reductions, and that the joint voice of IOC and NOC can support instruments and mechanisms that give a price to carbon. Participants stated that there needs to be greater international cooperation on the implementation costs of low-carbon technologies. Participants emphasised that the NOCs of emerging and developing countries cannot achieve low-carbon objectives alone, since they do not have technology nor the funds required.

Participants observed that cross-industry collaboration is ongoing to scale CCS to commercial stage, notably through the Northern Lights projects in the North Sea, where CO₂ from a cement plant and a waste power generator in Norway will be transported by ship to a port terminal from where it will be pumped by pipeline to seabed geological reservoirs. This kind of collaboration helps to perfect technologies for CO₂ collection, treatment, liquefaction, transportation, and injection. Another industrial scale project captured CO₂ from a gas power plant in France, for reinjection in a depleted geological reservoir Southern France. Open source code simulation tools now exist to improve the selection, management, and safety of CCS geological storage sites. Participants argued that a carbon price is needed for CCS to become commercial.

Participants observed that low-carbon transition is not only a moral obligation, but is also the most cost-effective solution, as most renewable energy is now more affordable than fossil fuels and that governments and NOCs need to design fiscal systems that provide incentives for low-carbon energy development and deployment of technology. Fiscal systems have been very important in encouraging the energy transition in many parts of the world, as demonstrated for example in Norway by carbon taxes on upstream oil & gas production. These taxes have incentivised cleaner operations by powering of offshore facilities from on-shore grid hydropower, minimisation of flaring, and efficient use of resources. In the US, investment tax credits have attracted investment in offshore wind. In Europe, guaranteed power prices are critical to attracting capital to offshore wind sector. This influx of capital has led to a scaling of capacity as well as technology efficiency improvements.

Participants observed that, since hydrocarbons are internationally traded but locally regulated, differences in regulations across countries are an important constraint for the collaboration of NOCs and IOCs towards low-carbon objectives. Furthermore, that governments need to provide incentives for companies to segregate low carbon resources from other resources. To avoid that local regulations undermine the competitiveness of low-carbon resources, overarching mechanisms need to recognise the carbon intensity of different hydrocarbons.

At the company level, participating IOCs and NOCs shared the actual or aspirational commitment to emissions measurement and reporting. Similarly, companies shared a commitment to further reduction of flaring and venting. However, companies differed significantly in the share of renewables that they plan for their future portfolio, versus remaining mainly hydrocarbon producers while focusing on low-carbon resources and technology. Participants emphasised that companies could go faster on their low-carbon transition path, where governments provide the right incentives. Participants referred to the EU low-carbon policies as facilitating higher low-carbon emissions objectives within the EU than elsewhere, and emphasized the need for a price on CO₂ globally.

Reforming inefficient fossil fuel subsidies that encourage wasteful consumption in times of Covid-19 (session of 3 December 2020)

As part of the discussion around policy coherence and the need for incentives to transition to a low-carbon future, participants discussed key experiences, challenges, and approaches of reforming inefficient fossil fuel subsidies (FFS) that encourage wasteful consumption. Participants observed that inefficient fossil fuel subsidies (FFS) that encourage wasteful consumption remain a large part of GDP in many countries. These subsidies can be as high as 2 to 10 per cent, and in some countries reach 15 per cent and above. After declining for several years, FFS in the 50 countries covered by the OECD FFS database rose by about 10% from 2018 to 2019, to USD 178 billion, driven by support for fossil fuel production, primarily in OECD countries. Combined OECD and IEA, covering 77 countries, provide a somewhat different picture. Here there was a reduction in FFS of 18% between 2018 and 2019, but this decline was mostly due to the mechanical effects of a fall in fossil fuel prices and demand, leading to a drop in FFS for consumption.

Participants observed that, as the Covid-19 pandemic places additional stress on government balance sheets, the pandemic could also provide an opportunity to phase out FFS. In the context of the steep fall in demand for oil, the IEA predicts a fall in fossil fuel consumer subsidies by about 40% from 2019, driven by reduced demand and fuel prices. Producer subsidies, on the other hand, could increase. With oil & gas producers experiencing downward pressure on profits, due to low prices and fall in demand, there is increased pressure on governments to support them. Judging from preliminary information from the OECD's tracking of Covid-19 recovery packages, the balance between green and non-green recovery programs may not favour green ones in some countries.

Participants discussed the OECD's tool to help countries reform their FFS, the OECD Fossil Fuel Support Inventory Database. The OECD has also developed a companion framework to help countries pursue reform in a systematic and evidence-based manner, across the many different forms of FFS present across the economy – at the extraction stage, the energy generation stage, the industrial stage, and the residential stage. The G20 Peer review process has relied on this inventory approach, and the UN SDG process has also used this approach. The OECD framework consists of four stages, where governments first need to i) inventory support measures, document these measures' objectives, and estimate their budgetary costs; ii) measure the relative distortedness of support measures, and rank support measures by their effect on fossil fuel production, investment, consumption, and CO2 emissions; iii) identify distributional consequences - winners and losers of the FFS reform processes, including industries that need to be scaled back, resource-rich regions, professional groups suffering job losses, and new skills in demand; and iv) evaluate alternative policies to accompany the reform, including compensation to vulnerable households.

Participants discussed the challenges and achievements of Ecuador and Indonesia in implementing FFS reforms. The two countries have somewhat different motivations for their respective reforms. In Ecuador, a net oil exporter, FFS that reached more than 7% of GDP in 2012 have been a significant drain on fiscal resources, surpassing spending on education and social protection respectively. Environmental distortions and fuel smuggling were other concerns. After three rounds of FFS reforms since 2018, FFS are not at about now 2% of GDP, and are expected to decrease further. In Indonesia, a net oil & gas importer since 2012, FFS have strained not only fiscal resources, but also the trade balance. FFS are also a disincentive to higher investment in renewable energy, which is an objective of Indonesia's government. In Indonesia, FFS were introduced in 1977, and fiscal impact from FFS peaked in 2014 when FFS reached 17% of the government budget. The government brought this down to about 5% in 2015, and FFS currently remain at about this level. Government expenditure on FFS was for several years bigger than spending for large budget items such as infrastructure and health, respectively. The savings from FFS reform were largely reallocated to infrastructure spending, which saw a large increase since 2015. Indonesia's experience with FFS reforms shows that initial increase in inflation immediately after reforms stabilized after 1-2 years.

Participants discussed the regressive nature of FFS. In Ecuador, more than half of fossil fuels are consumed by the richest households, who have therefore been the beneficiaries of the lion's share of FFS. In Indonesia, the energy law specifies government obligations to provide energy support to the poor. However, FFS are not necessarily well targeted at the poor, and subsidized diesel and LPG are openly distributed without targeting. The richest, who consume more fossil fuels, therefore receive more subsidies than the poor. To be able to strengthen social assistance programs, Indonesia needs to reform its FFS.

Participants observed that the Covid-19 pandemic has brought an increase in unemployment and poverty, and therefore questions about energy support for vulnerable households. In Ecuador, the unemployment rate has grown to 13%, and there has been increase of 7 % in poverty since the start of the pandemic. In Indonesia, small households that rely on income from the informal sector are losing revenue during the pandemic, and cannot pay electricity bills. The government of Indonesia will therefore provide expanded support for electricity for lowest income households, with a tariff discount

of up to 100% for the poorest tier, and 50% discount for the next tier up on the income scale. There is also support for SME electricity bills, mostly going to SMEs in the informal sector. In general, electricity support has mostly benefitted targeted households, whereas compensation to business has in the past been regressive. The increase in electricity support, combined with reduced FFS due to lower oil prices and demand, mean that Indonesia's total energy support has remained relatively stable throughout the pandemic. For the future, the government of Indonesia wants to reform regressive LPG subsidies, replacing these with targeted support for the poor. Biometric identification and e-vouchers are expected to be helpful in that regard. Nonetheless, energy reform measures are controversial, and the reform is still pending parliamentary approval. Some FFS are expected to remain, as a measure to relieve poverty, but will be better targeted.

Participants recognised that Ecuador's three stages of FFS reform since 2018 provides a rich experience on what works and doesn't. In January 2018, for its first round of reforms, Ecuador implemented small price adjustments for low octane-gasoline, and price liberalisation of high-octane gasoline. This reform was well accepted, socially and politically. The second round of reforms, in October 2019, showed what can go wrong in this type of reforms. The attempted reform implemented price liberalisation of low-octane gasoline and for diesel. There had been little social dialogue ahead of reform, limited communication, and compensatory measures did not achieve the required credibility. The measures were dropped after a social and political crisis that caused losses to the Ecuadorean economy. Ahead of the third round of FFS reforms, in May 2020, the Covid-19 pandemic had caused a steep reduction of oil export revenues, and therefore increased fiscal strain. The government decided to take advantage of the reduced gap between national and international oil prices to introduce FFS reform. After an initial reduction in prices, future upward adjustment will be subject to a smoothing mechanism, limiting increases to a maximum of 5% each month.

Ahead of the third round of reforms, based on the experience from the unsuccessful second round of reforms, the government of Ecuador had undertaken significant social and political work. This included negotiations with indigenous groups, and with the transport sector. At the end of 2020, after 6 months, the measures appear to have been well accepted, and fuel prices are gradually increasing under the smoothing mechanism. Poor households have received compensation for the economic contraction. As a result of the negotiations, the transport sector received some exonerations from tariffs and duties.

Participants observed that FFS reform has historically been a delicate process, complicated by the diffuse nature of benefits, and aversion to potential economic loss. In this context, best fit has to be balanced against best practice; government authority against popular acceptance; technical soundness against political feasibility and capacity to implement the reforms. Reforms need to be accompanied by an analysis of distributional effects, and by adequate economic and environmental incentives. There has to be transparency in price adjustments, in compensation measures, and in communication. FFS need to be economically, socially, and environmentally sustainable.

Participants discussed definitional issues around the concept of "inefficient fossil fuel subsidies that encourage wasteful consumption." Participants argued that the concept of inefficiency is open to interpretation, since it could refer to revenue, environmental objectives, or economic objectives. Participants observed that production subsidies are much harder to define than consumption subsidies. Production FFS, which may include accelerated depreciation regimes, investment credits, and tax holidays that apply only to fossil fuel sector, do not have a common definition across countries.

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

Thematic Dialogue on Commodity Trading Transparency

Day 5 of the Fifteenth Plenary Meeting was chaired by Mr. Andrew Preston, Head of the Joint Anti-Corruption Unit, Home Office, United Kingdom and provided an opportunity to advance the outputs of the Thematic Dialogue – through presentations on new commodity trading transparency policy tools, a discussion on the specific role that trading hubs can play to counter corruption and enhance transparency in commodity trading, and a discussion on the draft methodology for the development of the *On-line Mapping Tool of State-Owned Enterprises and their Subsidiaries*.

Part 1 provided an opportunity for the OECD Development Centre and the EITI International Secretariat to present recently published commodity trading transparency guidance tools.

Participants strongly welcomed the publication of the OECD Development Policy Tool *How to Select Buyers of Oil, Gas and Minerals: Guidance for State-Owned Enterprises*. The guidance is a key output of the Thematic Dialogue on Commodity Trading Transparency – a multi-stakeholder platform established in response to the call received from the 2016 Anti-Corruption Summit and in line with the high-level mandate received from the Governing Board of the OECD Development Centre on 3 October 2017. The SOE Guidance was developed through an iterative process, involving SOEs, from both EITI and non-EITI countries, as well as other stakeholders from governments, the private sector and civil society.

Participants noted the value added by the OECD Development Centre by setting out practical guidance on the steps that SOEs should take and the mechanisms they should use to sell publicly-owned commodities in order to reduce discretion, close opportunities for favouritism and corruption, and ultimately lead to increased revenues for improved development outcomes. The SOE Guidance is based on the review of existing selection and procurement processes, and the SOE Guidance provides recommendations for countering key corruption challenges at each step of the buyer selection process, and identifies examples of best practices.

Participants noted how the Guidance is example of the positive cooperation between the OECD Development Centre and the EITI, resulting in the mutual recognition of respective work, maximisation of synergies and avoidance of duplication of efforts, as the SOE Guidance complements the work of the EITI on recommended disclosures of buyer selection procedures by SOEs, and can be used by SOEs to ensure disclosures are consistent with 2019 EITI Standard.

Participants noted the important changes from the draft of the SOE Guidance that was discussed at the Fourteenth Plenary Meeting in June 2020. In particular, new subsections on role of the SOE Board, auditing requirements conflicts of interest in the buyer selection team, and additional selection criteria on integrity; and strengthened sections on local content, reducing corruption risk in direct negotiations and undertaking due diligence on potential buyers.

Participants noted the practical value and real world consequences of the SOE Guidance and reflected on how civil society organisations were already using the SOE Guidance in their work with NOCs at the country level. For example, sections of the draft of the SOE Guidance on how SOEs should ensure they have a mandate to sell publicly-owned commodities were recently cited during engagement between a civil society organisation and a SOE in Uganda.

Participants welcomed the ideas for the dissemination of the Guidance in order to maximise uptake by SOEs and use by other interested parties, including holding a DEV Talk, invitations to key stakeholders to pen blogs, and the development of a summary version of the Guidance that highlights the key messages from each section.

Participants further welcomed the recently finalised *EITI Reporting Guidelines for companies buying oil, gas and minerals from governments* that were developed in close coordination with the EITI Commodity Trading Working Group, as well as being informed by discussions of the Thematic Dialogue on Commodity Trading Transparency. Participants recalled some of the key commodity trading milestones over the past decades that had provided the momentum for the development of the EITI Reporting Guidelines. In December 2011, Iraq was the first EITI country to publish data on crude oil sales from its SOE to buyers through the EITI process. In November 2014, Trafigura became the

first commodity trading company to publish data related to its purchases. In 2016, the EITI established a targeted effort to improve commodity trading transparency in 8 countries which led to increased engagement with state institutions. And in 2019, the International Monetary Fund (IMF) recognised need for transparency in payments to governments for the purchase of commodities in its Fiscal Transparency Code, and in June 2019, the 2019 EITI Standard was launched which sets out improved requirements for first trade disclosures.

The EITI Reporting Guidelines are for use by companies buying oil, gas and minerals from governments to inform their disclosures on payments to governments in their own company reports. They aim to ensure the consistent disclosure of payments to the state or state-owned enterprises where oil, gas or minerals are being sold on behalf of the state, where EITI requirements are applicable and relevant, or where there is commitment to transparency in commodity sales. The EITI Reporting Guidelines include a standardised template to allow for data to be disclosed that can easily be compared. The key disclosures elements in the template include: who is buying the product; who is selling the product; what product is being purchased; and what does the buyer pay to the seller.

Participants noted how presently, only three commodity trading companies disclose information in respect of their payments to governments, and how the EITI Reporting Guidelines could contribute to the increase of these disclosures, as there is a business case for increased transparency by commodity trading companies. Disclosures by trading companies allow them to demonstrate their financial contributions to the economies of the developing countries that they purchase commodities from; transparency may facilitate access to capital from financial institutions as environmental, social and governance (ESG) criteria are now part of lending requirements; and disclosures can encourage complementary disclosures by SOEs and the state. In order to facilitate the uptake of these guidelines, the EITI is undertaking outreach to international oil companies, commodity trading companies, financial institutions and trading hubs.

Part 2 provided an opportunity for participants to map corruption risks along the commodity trading value chain, and to discuss options that trading hubs may consider to counter corruption and enhance transparency in the commodity trading sector. Participants recalled that physical commodity trading is not regulated specifically in any of the home jurisdictions of companies active on the “first sales market”, and that commodity trading presents specific and heightened risks of corruption and that opportunities for corruption may be increased in jurisdictions with poor governance and limited state accountability measures.

Participants noted how corruption risks across the commodity trading value chain present a very current challenge for resource-rich developing countries and noted that even a minor embezzlement can have a fiscal impact due to the scale of many commodity trading transactions. Participants noted a very recent deferred prosecution agreement between the United States Department of Justice and a major commodity trading company to settle a number of corruption cases under the Foreign Corrupt Practices Act (FCPA) in relation to bribes paid to officials in three different resource-rich countries. The commodity trading company agreed to pay the Department of Justice a total of USD 135 million to cover a number of bribery cases, which were ongoing until July 2020.

Participants noted that trading hubs have exposure to corruption risks across the value chain and that there is an opportunity for trading hubs and other actors to demonstrate leadership by playing a larger role in countering corruption and enhancing transparency in commodity trading.

Participants considered some of the policy options available to trading hubs to improve transparency and reduce corruption risks in commodity trading. Developing a global standard on payment disclosure can improve the usability of information through consistent reporting across jurisdictions but would need to be developed with input from all key trading hubs and home jurisdictions of commodity trading companies, in order to be global in its reach and applicability. The EITI Reporting Guidelines are an important first step toward closing the transparency gap surrounding payments to governments for the purchase of oil, gas and minerals, and have the potential to be a stepping-stone toward a global standard on transparency.

Trading hubs may choose to introduce regulatory requirements on a unilateral basis to require commodity trading companies to disclose information in respect of payments to governments but this would not have the benefit of creating a level playing field between hubs unless a common reference is used. Free zones, commodity exchanges and industry associations taking steps to encourage the disclosure of payments to government, by setting requirements applicable to those that are listed/members, or that trade on an exchange. Host governments and SOEs can introduce their own transparency measures to require payments disclosures for commodity trading – for example by adopting disclosure policies or by including specific clauses in commodity sales contracts to require commodity trading companies to disclose information in respect of their payments to governments.

Participants reflected on a recent initiative by the European Commission to drive global action around methane emission reductions to see if any lessons learned could be applicable to commodity trading. The European Commission encouraged companies representing 30% of global oil, gas and coal production to comply with reporting standards without introducing any legislation for this purpose. The European Commission merely signalled their support for an international reporting standard (in this case the International Methane Oil and Gas Partnership 2.0 Standard) and the membership partnership went from 20 to 60 international oil and gas and coal companies. This demonstrates the international regulatory weight of the European Union as in order to be compliant in the European Union these companies felt that it is easier to be compliant everywhere.

The top four countries that buy internationally traded methane account for over 80% of the global market. Consequently, if one or two of these key jurisdictions adopt a certain standard, this can have a huge impact on the other trading hubs. In order to increase transparency in international methane emissions, the European Commission chose to privilege transparency over performance. Countries that have a bad record on methane emissions, could still access the EU market if they made their data on methane emissions public. The countries that chose not to disclose their data would pay a dissuasive price for market access.

Participants reflected on how the types of transparency that the Thematic Dialogue has encouraged can be used to facilitate good governance in commodity trading, in particular for long-term sales agreements that are not usually disclosed and are tied to larger financial agreements. This led civil society and media groups to question, especially in light of debt sustainability issues, whether this form of transaction impedes the optimum value that host countries could receive for the sale of its oil wealth. It was observed that the disclosure of these long-term sales agreements could help address some of these concerns that civil society groups have with whether these agreements distort the true value of oil producing countries.

Participants also noted the importance of increased transparency in commodity trading in light of ongoing debt and fiscal issues associated with the COVID-19 pandemic and the effects that this can have on the economies of resource-rich developing countries. For example, in Ghana two similar sized cargoes of crude oil sold by GNPC dropped from USD 125 million in April 2012 to USD 12 million in April 2020 following the oil price crash. The scale of this revenue drop, coupled with the COVID-19 pandemic has exacerbated the debt sustainability challenges that Ghana had experienced prior to the pandemic. These challenges can have knock-on effects to the fiscal position of the government and its debt position. For example, if a government chooses to draw down on its sovereign wealth fund to plug its budgetary gaps, this can lead to the government's debt rating being downgraded, and therefore raising the government's debt service costs.

Furthermore, there is risk that countries with poor credit profiles will turn to resource-back loans as they act as a form of collectivised loan that is easier to acquire under these circumstances. Participants recommended that the Thematic Dialogue consider the increased governance and corruption risks that can arise in the use of resource-back loans.

Participants noted how the purpose of this Thematic Dialogue on Commodity Trading Transparency is not just to encourage and foster transparency for payments to governments but to also articulate complementary interventions for home countries, SOEs and other key actors as each actor in the

commodity trading value chain has a role to play to advance the agenda. In this regard, Part 3 provided an opportunity for participants to consider the draft methodology for the development of the *OECD On-line Mapping Tool of State-Owned Enterprises and their Subsidiaries*. The rationale for the development of the OECD On-line Mapping Tool of SOEs is to assist buyers in identifying if a seller is a SOE or a subsidiary of a SOE. Buying companies have indicated that it is often a challenge to determine the ownership of entities that sell oil, gas and minerals. The OECD On-line Mapping Tool of SOEs is designed to be used by commodity traders to facilitate their due diligence efforts and establish whether an entity they are trading with is state-owned or not.

The development of the SOE Mapping Tool will be carried out by the OECD Development Centre in close cooperation with the Corporate Governance and Corporate Finance Division (CGCF) of the Directorate for Financial and Enterprise Affairs (DAF). Participants acknowledged the in-house expertise in the OECD of the CGCF Division who have previously developed *OECD Guidelines on Corporate Governance of State-Owned Enterprises* – which contain a definition of SOEs that will be used in the development of the SOE Mapping Tool.

The OECD intends to combine data extrapolated from databases to which the OECD has access, and information from the OECD Working Party on State Ownership and Privatisation Practices (including the Working Party's regional partners in Asia and Latin America) relevant Members of the OECD Development Centre, as well as EITI countries and those participating in the Policy Dialogue on Natural Resource-based Development, and publicly available information (SOE annual reports, stock-exchange filings etc).

Participants welcomed the proposed pilot phase of the SOE Mapping Tool to map SOEs and their subsidiaries in 10 countries, and noted how the development of this tool could address the issue that commodity trading companies face when identifying if a seller is a SOE or a subsidiary of a SOE, and how this tool could build on the work that has been done by the EITI to produce a list of SOEs that sell in kind oil and gas.

Participants recommended that the scope of the tool extend to cover all subsidiaries of selected SOEs in order to increase the utility of the tool by a wider number of potential end-users. For accountability reasons, it is important for the public in resource rich countries that have an SOE to know what the subsidiaries of that SOE are, and this SOE Mapping Tool could be used by citizens in host countries to improve transparency and accountability around SOE governance. Furthermore, participants noted the practical difficulties in generating a getting a list of subsidiaries that undertake one kind of economic activity (selling commodities) as these specific subsidiaries may change day to day.

Participants noted the scarcity of data that exists for SOEs in comparison to the data available for public and private companies, and recalled a recent study by the OECD Development Cooperation Directorate (DCD) to map the entities involved in commodity trading where the data related to NOCs was extremely poor. NOCs often consist of only a small number of legal persons and some NOCs do not publish consolidate accounts.

Participants noted the alternative data sources that could be used to find data on SOEs alongside conventional corporate databases. For example, the CGCF Division rely on four separate data sources when undertaking SOE country reviews: self-reporting by SOEs; reporting by state institutions; information from national academic, business and NGO communities; and electronic data sources. In addition, participants noted many global initiatives to produce beneficial ownership registers – including in the United Kingdom and the EU 4th Anti-Money Laundering Directive. The EITI has also launched a beneficial ownership declaration form in anticipation of the publication of beneficial ownership registers by EITI member countries.

Participants highlighted how the generation of commodity trading data is a key factor in addressing the challenges that resource-rich developing countries face but urged that data must be accessible in an open-source and user-friendly format in order to make meaningful contributions to improved development outcomes.

Participants noted the recent announcement of the Government of the United Kingdom to reduce Official Development Assistance from 0.7% to 0.5% due to the effect of COVID-19 on the UK economy, as well as the merger between DFID and the FCO into the new FCDO.

Participants recognised the practical tools that have been developed by the OECD Development Centre and the EITI through this dialogue and the consequential need to disseminate them so that the relevant people who make decisions related to commodity sales are aware of them. Participants also noted the importance of further engaging with trading hubs to understand their incentives and drivers in order to drive the transparency agenda forward.