



# THE ROLE OF COMMODITY TRADING HUBS IN COUNTERING CORRUPTION AND ENHANCING TRANSPARENCY

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## *Red flags of corruption risks of cross-cutting relevance across the commodity trading value chain*



- Unclear opaque ownership and governance structures of commodity trading companies;
- A lack of transparency over the beneficial ownership of key actors;
- The existence of opaque joint ventures between SOEs and commodity trading companies;
- Excessive complexity in a corporate vehicle structure;
- The existence of PEPs in a commodity sales transaction;
- The use of intermediaries to facilitate a transactions; and
- A lack of due diligence by commodity trading companies on their business partners.



# *Red flags of corruption risks in the buyer selection process*

## **Red flags of corruption risks in the buyer selection process:**

The lack of an open and competitive public tender for the sale of commodities;

A lack of clear objective criteria to select buyers, and/or discretion in the decision-making process;

A lack of public information about the selection process (timing, identity of bidders, criteria for selection, details of contract etc.);

Employees of the buyer are former employees of the seller (or vice versa);

The buyer is providing goods or services to the SOE or government that are unrelated to the commodity sale transaction.

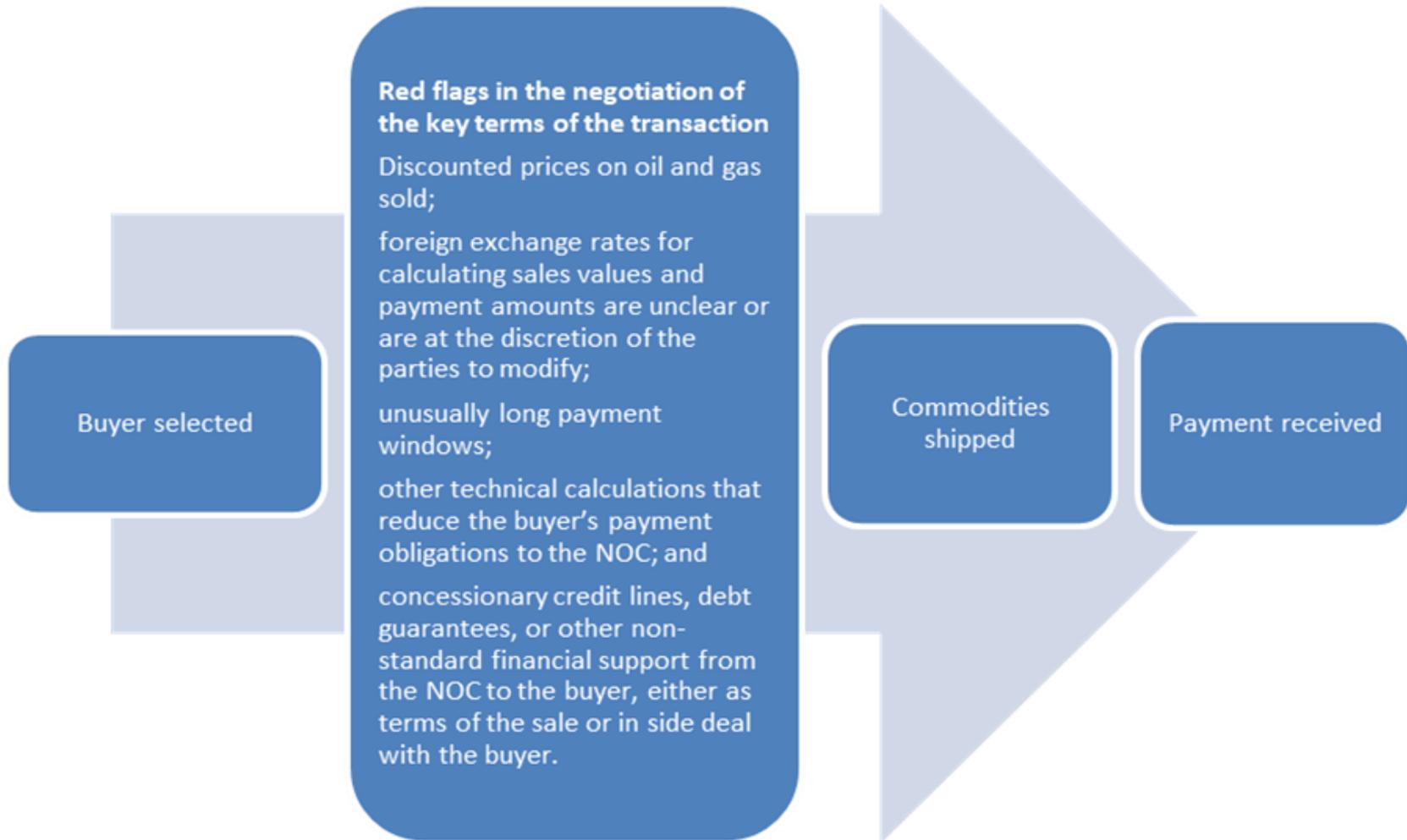
Contract signed

Commodities shipped

Payment received

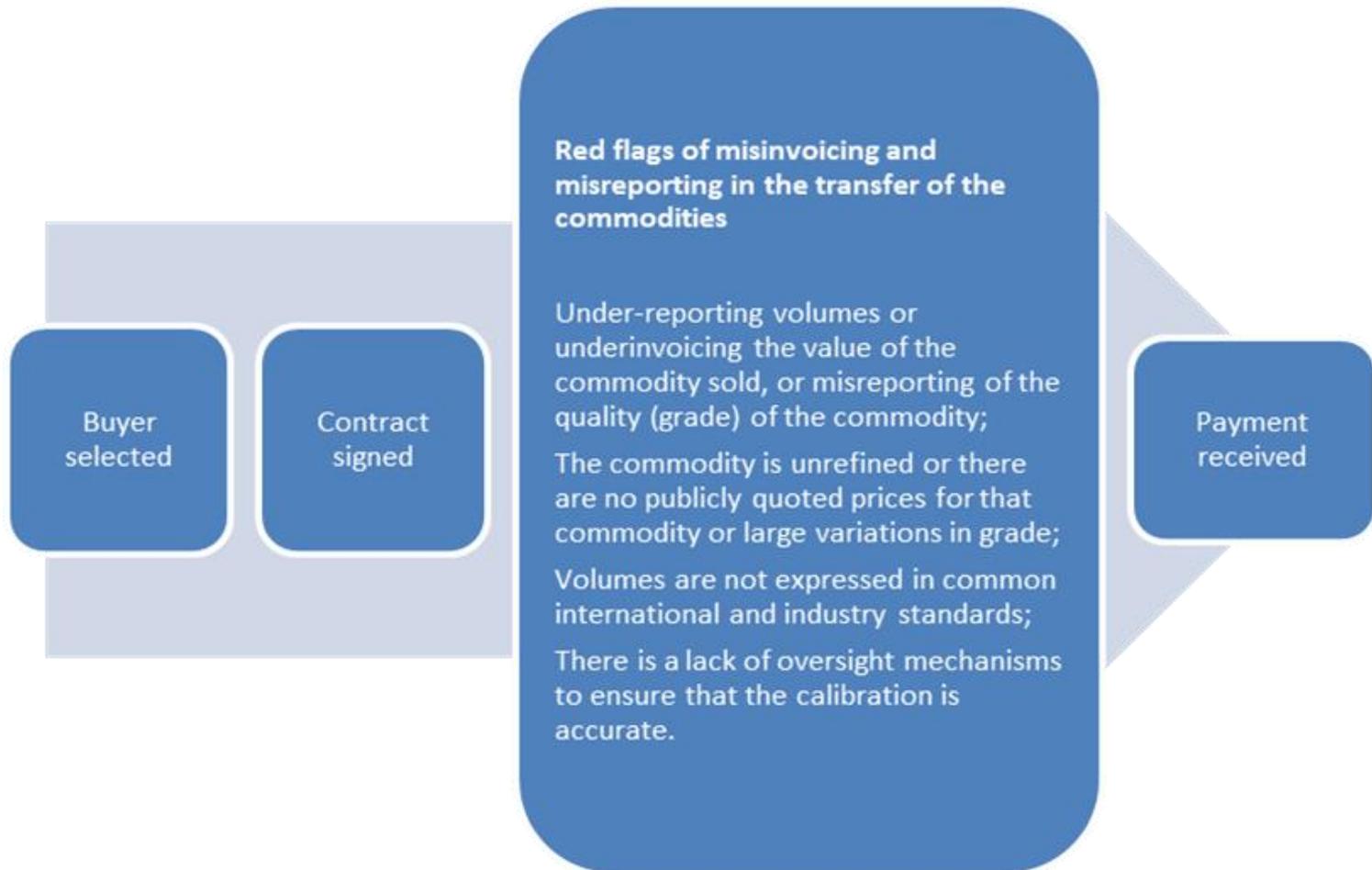


# *Red flags of corruption risks in the terms of the agreement*





## *Red flags of corruption risks in the transfer of the commodities*





## *Red flags of corruption risks in the collection of the payment*

Buyer selected

Contract signed

Commodities shipped

### **Red flags of corruption risks in the collection of the payment**

Lack of oversight or transparency over revenue flows;

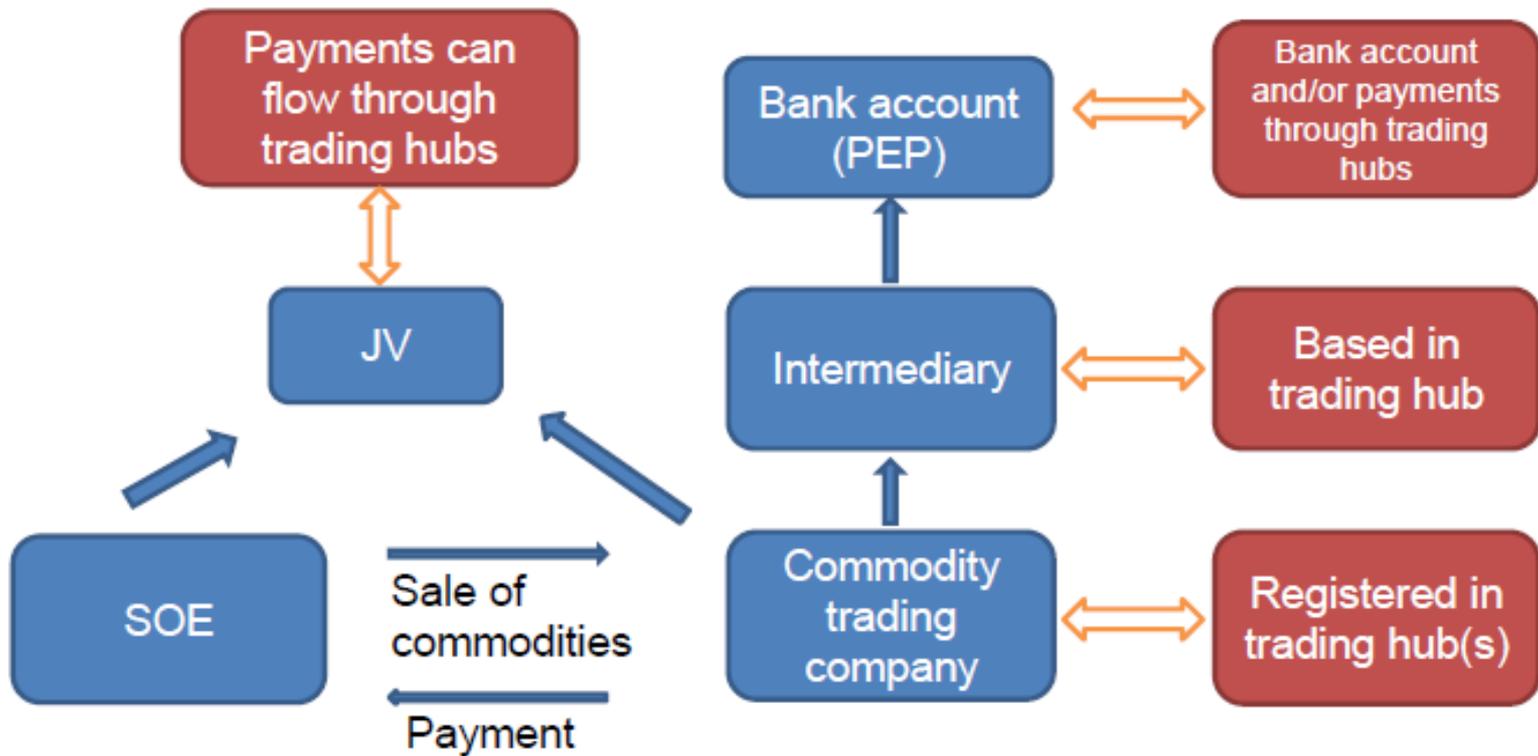
Foreign exchange rate mechanism is not specified or is unclear (or the date from which the currency conversion is calculated is not set out);

Bank account details refer to accounts controlled by the SOE, rather than by the central bank or other central government entity, or bank accounts details are not clearly set out in the contract (e.g. reference to “nominated bank account”);

The payment date is delayed or is unclear.



## Exposure of trading hubs to corruption risks across the commodity trading value chain





## ***A global standard for the disclosure of payments by commodity trading companies***

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- A global standard can ensure consistent reporting across jurisdictions, which can improve the usability of the information disclosed;
- A global approach to payment disclosure by commodity trading companies has been recognised by Switzerland, the UK and the EU but the support of other key trading hubs would need to be secured;
- *EITI Reporting Guidelines for companies buying oil, gas and minerals from governments* as a basis for a globally scalable standard?



## *Adoption of regulatory requirements by home governments on commodity trading transparency*

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- Trading hubs could introduce regulatory requirements, requiring commodity trading companies to disclose information in respect of payments to governments on a unilateral basis.
- In the absence of a common standard, a unilateral approach can lead to suboptimal outcomes, and will not create a level playing field between hubs.
- Existing legislation for the disclosure of payments to governments for exploration/production provides a precedent (EU Accounting and Transparency Directives, Dodd Frank Act Section 1504, etc.), and provided companies with legal protection to disclose.
- However, different regulatory requirements across different jurisdictions can result in disclosure of information that is not fully comparable.



## ***Self-regulatory approaches: the role of trading centres, commodity exchanges and industry associations***

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- Hybrid approach – where companies that wish to be listed or able to trade in specific centres would be required to comply with disclosure and reporting requirements.
- Precedents for implementing international standards seen in the adopted of the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* by the DMCC, LME, LBMA and the AWDC.
- Alignment with a global standard would be necessary to ensure consistency of reporting across jurisdictions and comparability of data.



## *Setting out expectations: options for host governments and SOEs*

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- Adoption of disclosure policy by host governments and SOEs can set clear expectations on transparency of payments and reassure companies to avoid potential conflicting requirements;
- Inclusion of disclosure obligations in commodity sales contracts to ensure consistency and comparability of information and to avoid bilateral negotiations.



*Thank you*

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