



Eighth Plenary Meeting of the Policy Dialogue on Natural Resource-based Development

Background Note for Session 5A: Commodity Trading Transparency

Context

Last year at the London Anti-Corruption Summit more than 12 countries committed to work together to enhance transparency in commodity trading, specifically in relation to company disclosure regarding payments to government for the sale of oil, gas and minerals. Commitments were made by the European Commission, Afghanistan, Australia, Georgia, Ghana, Italy, Japan, Mexico, Netherlands, Nigeria, Norway, Switzerland, and the UK.

The issue was highlighted because corruption is particularly acute in the trading of oil, gas and minerals, specifically the sale by governments and state owned enterprises of their share of production. The payments from these sales are huge (typically \$billions/year), remain largely opaque, and are vulnerable to abuse on a vast scale.

Session 5A builds on recent momentum and introduces a new international dialogue.

What will the international dialogue do, and who will be involved?

The international dialogue will expand, enhance and accelerate company reporting on oil, gas and minerals sales. Representatives from home governments of companies involved in commodity trading will explore approaches to improving transparency and countering corruption in commodity trading, including through the possible development of a common global reporting standard. The process will work with producer countries and other relevant stakeholders to build a common understanding and strengthen the evidence for transparency in this area.

The dialogue will be primarily government orientated, but participants will include trading companies, state owned enterprises, civil society, and government representatives from producer countries as well as from countries that are home to trading companies.

The emphasis will be on a consistent international approach across a significant proportion of the global commodity trading market. This will avoid competitiveness concerns that could otherwise arise if this were only implemented in a small number of countries. Harmonised requirements will also create a level playing for business.

Participants will,

- work closely with producer countries, industry, and civil society in varying combinations suitable to achieve progress
- exchange ideas and information on how to improve company disclosure, aiming for harmonisation across their respective jurisdictions and a high proportion of global commodity trading activity
- collectively build awareness of existing disclosure practices, including mandatory reporting rules for extractive activities as well as voluntary initiatives such as the Extractive Industries Transparency Initiative (EITI)
- strengthen the knowledge base on transparency and technical issues related to commodity trading to build a common understanding



- share approaches to cost-benefit analysis on disclosure from a home country perspective, so that the risks and benefits are better understood
- identify joint actions to deliver greater transparency in company reporting on oil, gas and minerals sales.

What is the definition of commodity trading transparency?

In the context of this international dialogue, the term ‘oil sales’ or ‘commodity trading’ refers to the physical trading of oil, gas and minerals, and specifically the ‘first trade’, i.e. the sale by governments or state owned enterprises of the state’s share of production.

How is this different from what the EITI is doing?

Extractive Industries Transparency Initiative (EITI) is a process led by individual producer countries. This dialogue on commodity trading transparency facilitates global progress from the perspective of country governments which are home to companies buying oil, gas and minerals from producer countries and companies operating therein. A combination of both EITI and home country action will enhance transparency on a global scale, resulting in more consistent approaches benefitting companies, governments and citizens.

What will happen after 16 June?

Between June and December, the OECD will identify relevant stakeholders in key countries, and seek further inputs from trading companies, civil society and producer countries, and carry out a mapping of existing initiatives and tools on commodity trading transparency and identify areas for further analysis to inform next steps. This will be done in advance of the first full international dialogue on commodity trading transparency which will take place during the next OECD Policy Dialogue plenary in December 2017. The dialogue will focus on company disclosures. It will complement the work of the EITI, and build on country commitments, voluntary disclosures, and new guidance and research from the OECD and others.

Where can I find further background information?

Read more about the importance of commodity trading transparency here:

<https://resourcegovernance.org/analysis-tools/publications/commodities-trading-transparency>

Read more about what these corruption risks look like in practice in this summary of 11 real-world situations where corruption or the perception of corruption arose around oil and gas sales:

<https://resourcegovernance.org/analysis-tools/publications/initial-evidence-corruption-risks-government-oil-and-gas-sales>

Read more about what the EITI is doing on commodity trading here:

<https://eiti.org/commodity-trading>

Read more about the approach taken by one of the world’s largest commodity traders here:

<http://www.trafigura.com/media/2513/transparency-and-commodities-trading-a-business-case.pdf>

Read more about OECD analysis on commodity trading here:

<http://www.oecd.org/dev/Corruption-in-the-extractive-value-chain.pdf>

Furthermore, the OECD Secretary General’s High-Level Advisory Group on Anti-Corruption and Integrity made a number of recommendations to the OECD at the recent integrity forum. Recommendation 15 notes that the OECD should “Develop transparency instruments to require commodity traders to disclose payments to governments and state-owned companies”. See here: <https://www.oecd.org/corruption/oecd-hlag-anti-corruption-and-integrity.htm>