CORRUPTION RISKS ACROSS THE COMMODITY TRADING VALUE CHAIN

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Role of commodity trading hubs in context

- A significant share of global commodity trading transactions in key hubs:
  - Global trade of metals/minerals: Switzerland (60%)
  - Global trade of oil: Switzerland (35%), London (25%), New York (20%), Singapore (15%) (Swiss Federal Council, 2013)
- Large share of this involves payments to governments. Note: NOCs control around 80% of global oil reserves (UNCTAD, 2020)
- Commodity trading is not specifically regulated in any of the home jurisdictions (often trading hubs) of buyers of publicly-owned commodities.
- Recent recognition of need for specific commodity trading regulations – global reporting standard (Switzerland, UK), and OECD Working Group on Bribery.

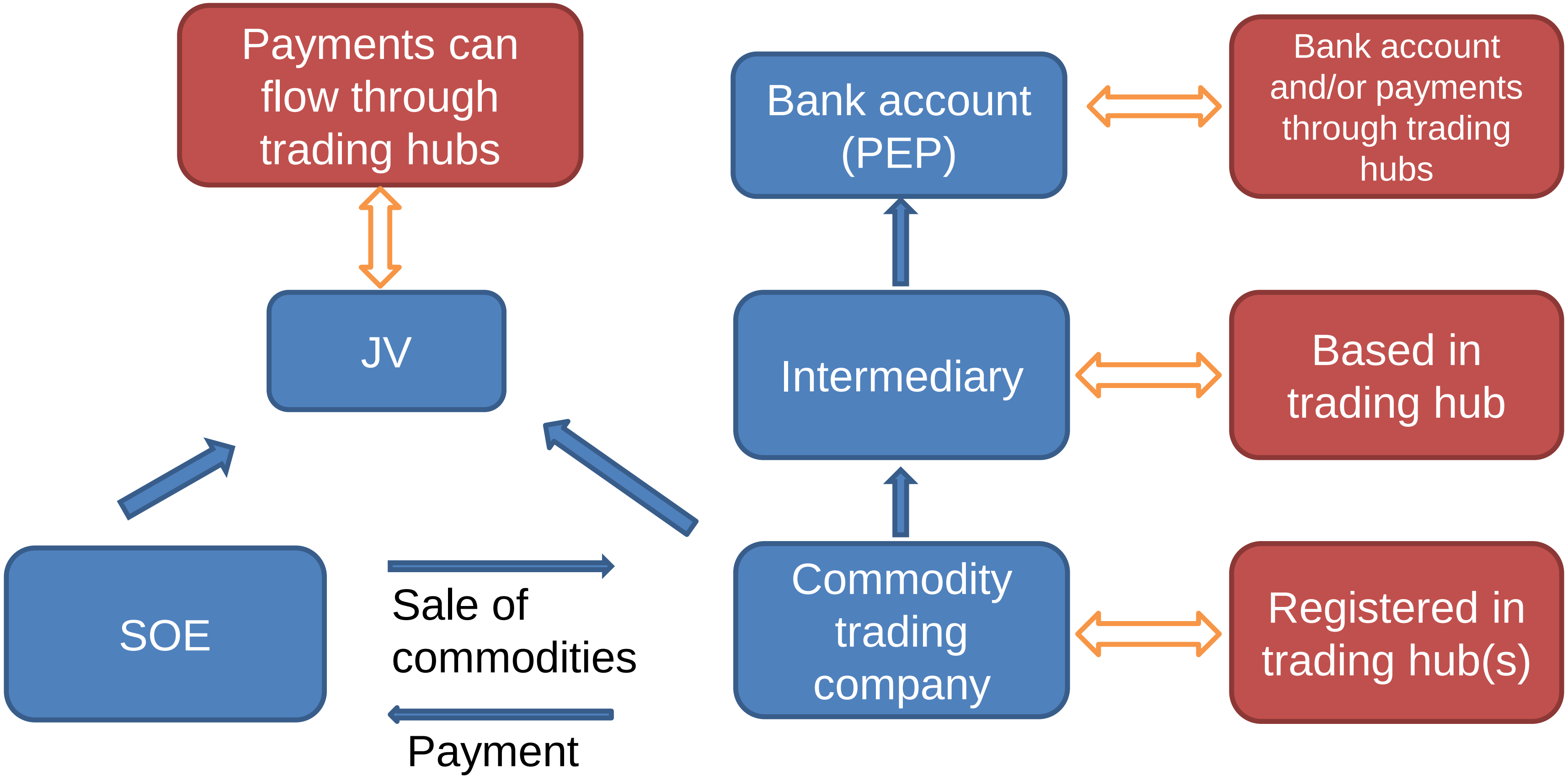
Exposure of trading hubs to corruption risks

- Buyers may be part of wider corporate structure with multiple entities with holdings and subsidiaries registered across different jurisdictions – including key trading hubs.
- Range of exposure: commodity trading company may be headquartered in one trading hub but may have trading divisions and centre its financial activities in other trading hubs.
- **Independent commodity traders** are comprised of 100s, if not 1000s of subsidiaries. For example, analysis of one trader's corporate structure showed 200 subsidiaries across 43 jurisdictions (OECD DCD, 2020)

Exposure of trading hubs to corruption risks (continued)

- Not just independent commodity traders that operate across trading hubs:
  - **IOCs** – analysis of corporate structure showed 1,180 affiliate companies across 84 jurisdictions – including a significant number of subsidiaries in HK, Singapore, Neth, US, UK. (OpenOil)
  - **SOEs** – can also incorporate trading subsidiaries in trading hubs. May include joint ventures with commodity trading companies.
  - **Intermediaries** – may also be based in trading hubs

Exposure of trading hubs to commodity chain corruption risks



Corruption risks across the commodity trading value chain

Corruption risks	Shared responsibility to address corruption risks
Opacity of buyer selection	• Host governments & SOEs
Opacity of corporate structures of key actors involved in commodity trading	• Host governments & SOEs; • Commodity trading companies; • Trading hubs & home jurisdictions of commodity trading companies.
Lack of transparency of contractual terms	• Host governments & SOEs; • Commodity trading companies; • Trading hubs & home jurisdictions of commodity trading companies.
Lack of corporate due diligence	• Commodity trading companies; • Trading hubs & home jurisdictions of commodity trading companies

Corruption risk: Opacity of the selection of buyers

- The allocation process for selecting buyers of publicly-owned commodities is often opaque;
- The lack of an open and competitive public tender for the sale of commodities may lead to suboptimal allocation and overly favourable contractual terms for the buyer – for example, where a trading company offers little value added and acts as a mere intermediary between the government and a second-tier purchaser;
- The opacity and the lack of oversight in the sale of publicly-owned commodities can provide opportunities for PEPs to unduly influence the buyer selection process.
- The detection of these schemes can be challenging when intermediaries and offshore structures are placed between the buying company and the PEP being bribed.

Corruption risk: Opacity of corporate structures of key actors involved in commodity trading

- Most commodity trading companies create separate **subsidiaries** for their trading activities.
- **Corporate vehicles** can be used to introduce opacity into the ownership structure of an entity to facilitate corruption schemes.
- Corporate vehicles can be used by buyers and sellers to **conceal a beneficial owner** who stands to benefit unjustly from a particular transaction or an on-going corruption scheme. NRGI reviewed 100 oil, gas and mining corruption cases from 49 countries, and found that over half of these cases involved companies with hidden beneficial owners.
- Buyers may choose to engage the services of an **intermediary** to help facilitate a commodity sale transaction. An intermediary may be a legal or a natural person.

Corruption risk: Lack of transparency of the key terms of the transaction

- Corruption risks may arise in the jurisdictions where commodity trading companies are registered and where they carry out business.

- These risks may include a lack of requirements for payments disclosure by buyers (i.e. annual reporting on the price, volume, grade and date for each transaction), and the lack of harmonisation across national jurisdictions with regard to disclosure requirements, including information on commodity trading related payments and beneficial ownership. (OECD, 2016).

- The corruption risks associated with the use of **resource-backed loans** are exacerbated by opacity of the lending terms.

Corruption risk: Lack of /insufficient corporate due diligence

- The lack of or insufficient due diligence by trading companies, banks and their business partners makes the prevention and detection of corruption risk more difficult.

- This can give rise to illicit transactions involving PEPs or other intermediaries.

- Risks can be exacerbated where there is not a clear supply chain policy for identifying and managing risks.

Example – Corruption risks associated with JVs / PEPs

- **Parties/transaction**: Agreement for sale and purchase of commodities between a SOE and a commodity trading company (headquartered in a major trading hub).

- **Key facts**:
  - Set up a joint venture between the commodity trading company and a PEP;
  - JV structure was complex - numerous subsidiaries registered across different offshore financial centres and trading hubs;
  - JV paid out approx. USD 1 billion in dividends to its shareholders.

Example – Corruption risks associated with PEPs / intermediaries

- **Parties/transaction**: Resource-backed loan agreement for sale of commodities between a SOE and a commodity trading company (headquartered in a major trading hub).

- **Key facts**:
  - Intermediaries hired to negotiate the deal received tens of millions of dollars in commissions – transferred to bank accounts in major global trading hub;
  - One intermediary was also a PEP;
  - Commodity trading company secured USD 2.2 billion of commodities in exchange for 6 loans deals on USD 750 million in total.

Thank you

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