



FIFTEENTH PLENARY MEETING OF THE POLICY DIALOGUE ON NATURAL RESOURCE-BASED DEVELOPMENT (30 November – 4 December 2020, Virtual Format)

KEY OUTCOMES

On 30 November – 4 December 2020, 29 government delegations from Africa, Asia, Europe, Latin America and the Caribbean and North America, 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 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 welcoming 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.

Low-carbon Transition in resource-rich developing countries

Representatives from developing and emerging economies had the opportunity to start sharing perspectives and experience on the specific risks and opportunities of the low-carbon transition. Participants stressed the important role that oil, gas and, to some extent, coal will continue to play in the quest for an optimal energy mix by developing countries. Developing country representatives highlighted, in particular, the importance of natural gas as a bridge fuel to renewable energy, as their priority is to ensure universal access to affordable energy and economic development. Participants emphasised the importance of coherent policies to support the low-carbon transition and the crucial role that public-private collaboration should play to improve energy efficiency and close the gap with a more sustainable development trajectory. They have also highlighted the importance of international support in achieving further emission reductions. Existing partnerships between national oil companies (NOCs) and international oil companies (IOCs) can help align interests with low-carbon objectives and identify areas for pre-competitive collaboration. To reduce emissions and remain competitive, oil and gas companies are likely to focus on low-cost and low-emissions reserves, invest in low-carbon R&D, and increase transparency. In parallel, many NOCs may need to increase climate-related disclosures, or face increased lower credit ratings and higher cost of capital. In developing countries, technology transfer from IOCs to NOCs will be critical and could be done on a cost recovery basis rather than profit. Governments should set clear energy policy and climate goals for their NOCs, while providing incentives towards more sustainable outcomes, as exemplified by carbon taxes on upstream oil & gas production in Norway, and investment tax credits in the United States.

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 the meaning of inefficiency depends on the objectives against which FFS are assessed: revenue, environmental, or economic objectives. FFS have been putting heavy strains on countries' fiscal systems. In Ecuador, FFS reached 7% of GDP in 2012, and still amounted to 2% of GDP ahead of the latest rounds of reforms this year. In Indonesia, the government reduced FFS from about 17% of the government budget to about 5% between 2014 to 2015, and FFS currently remains at the level of about 5%. With additional fiscal strains arising from the pandemic, subsidies that were already fiscally unsustainable became even more so. The pandemic could nonetheless provide an opportunity for FFS reform. When reforming FFS, participants recommended identifying support measures, assessing them against policy objectives, and consider alternatives that are more efficient, less distortive, and more sustainable. In both Ecuador and Indonesia, FFS were regressive, and not targeted to the poor, but have now been partly replaced by cash transfers, support to electricity and LPG access for the poorest, and for SMEs in the informal sector. Amongst the most regressive types of FFS is non-targeted subsidies for gasoline and diesel, which disproportionately benefits the wealthier tiers of the population that use more of these fuels, and reduces fiscal space for addressing poverty. Participants observed that careful management of political economy aspects was core to successful FFS reform.

When discussing the work plan for 2021-2022, participants underscored the effective catalytic role played by Policy Dialogue on Natural Resource-based Development since 2013 in bringing together governments, industry, international organisations, experts and civil society for peer-learning and knowledge-sharing and facilitating shared approaches to collaborative solutions. They encouraged the Policy Dialogue to build on this integrated, multi-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 planned work for the coming years.

Domestic Resource Mobilisation (tackling BEPS, corruption and commodity trading transparency)

Thematic Dialogue on Commodity Trading Transparency

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*, and noted the value added by the OECD Development Centre in effectively complementing the EITI's recommended disclosures 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. Participants further welcomed the recently finalised *EITI Reporting Guidelines for companies buying oil, gas and minerals from governments*, and noted how this guidance could contribute to the increase of commodity trading companies disclosing their payments to governments. As unveiled by settlements of corruption cases under the Foreign Corrupt Practices Act, participants noted how corruption risks across the commodity trading value chain present a very current challenge for resource-rich developing countries, especially in light of ongoing debt and fiscal issues associated with COVID-19, as even a minor embezzlement can have a fiscal impact due to the scale of many commodity trading transactions. Participants noted 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. When discussing the draft methodology for the development of the *On-line Mapping Tool of State-Owned Enterprises and their Subsidiaries*, 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. 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 importance of engaging with producer countries and trading hubs to disseminate the new policy tools and guidance, and to understand their incentives and drivers in order to drive the transparency agenda forward.

The Future of Resource Taxation

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 rapid changes in the mining sector as well as international tax regime call for redefining the existing benefit-sharing paradigm, optimising existing approaches. 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. 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 subsidies 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.