



# ADDRESSING INFORMATION GAPS ON PRICES OF MINERAL PRODUCTS

METHODOLOGY FOR IMPROVING KNOWLEDGE OF MINING INDUSTRY TRANSFORMATION CHAINS AND IDENTIFYING MINERAL PRODUCTS

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**Please note:** This document is a draft for consultation. It does not reflect the views of the OECD or its member states, and is not for reference.

Feedback and comments on the draft can be sent to <u>dan.devlin@oecd.org</u>, by 18 December 2015.

#### Background to the Issue

The production and sale of commodities drive the economies of many developing countries, contributing to income growth, foreign exchange earnings and employment. Commodities also generate government revenue, which can in turn be used to boost living standards.

In the mining sector, corporate income taxes and royalties frequently use mineral product sales as a key component of the tax base, but like other sectors, there are base erosion and profit shifting (BEPS) risks that may reduce the revenue available to developing countries. One key BEPS risk is profit shifting via the pricing of mineral products in transactions between related parties. This issue is of significant concern to many including mineral exporting countries, the G20 and civil society. For developing countries, these risks are elevated particularly where revenue authorities are still building their sector-specific expertise and ability to detect and mitigate transfer pricing. A key issue is ensuring these authorities have the information they need to review transaction terms, coupled with the capability to apply that information effectively.

The objective of this work is to improve the industry knowledge and understanding of revenue authorities, whilst noting the diversity of mineral products, their markets and uses means the specific facts and circumstances of each transaction limit the scope for approaches that can be applied to all mineral products.

# A Systematic Process to Assist Developing Countries Address Information Gaps for Mineral Product Prices

The OECD has developed a systematic process to assist revenue authorities to build their understanding of mining products and pricing practices.

The process has 6 steps, beginning with understanding the profile and structure of the domestic mining industry, the mines in operation and what they are producing. Once the mining sector has been mapped, this allows administrators to identify key mineral products which can then be examined. Naturally, different revenue authorities are at different stages of expertise with mining practices and mineral product markets, which will affect the amount of time needed for each step. Revenue authorities can then use this information to inform their transfer pricing analysis.

As mineral product knowledge becomes increasing sophisticated, information asymmetries should narrow and revenue authorities should be able to use market pricing information more effectively. In addition, it should help to narrow areas of dispute with taxpayers based on misunderstandings of common industry practices.

## Box 1: A Process for Understanding a Mineral Product Transaction

#### **Understanding a Mineral Product Transaction**

Review how minerals are transformed from ore to traded products.



Identify points on the transformation chain where products are produced and traded.



Understand how those products are priced and the key factors affecting prices.



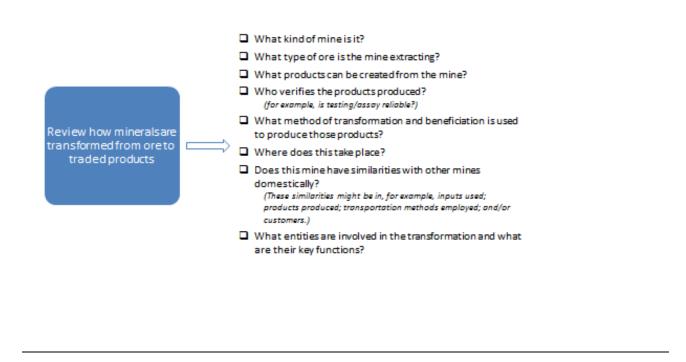
Identify available data that could be used to review the transaction, and identify where there are information gaps.



Devise approaches or methodologies to address those information gaps.



Apply the information to the particular transaction.



## **Step 2: Example Guidance Questions**

Identify points on the transformation chain where products are produced and traded.

Who will they be exported?

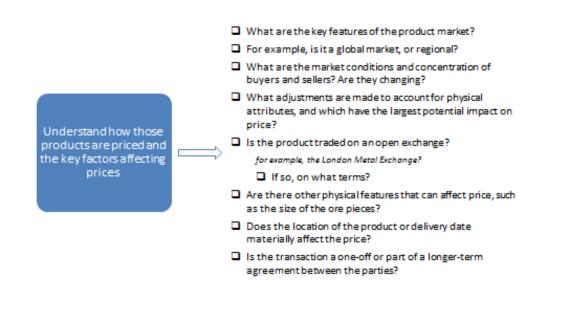
Who will the mining company sell the product to?

In particular, are they a related party?

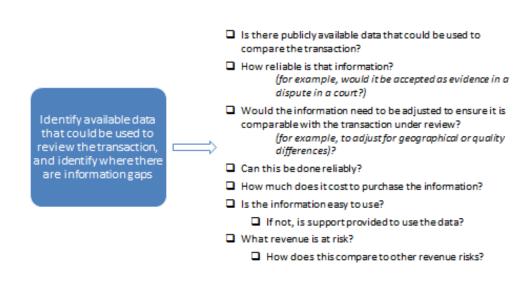
If so, where are they located?

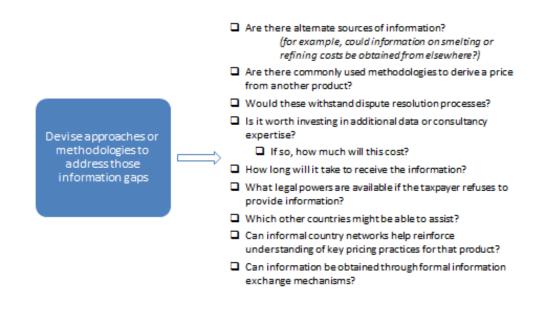
Is this product routinely sold to independent parties (i.e., at arm's length?)

What product quantities are being produced per



#### **Step 4: Example Guidance Questions**





#### **Step 6: Example Guidance Questions**

