INAUGURAL MEETING OF THE POLICY DIALOGUE ON NATURAL RESOURCE-BASED DEVELOPMENT

18-19 DECEMBER 2013

Summary Report

The meeting was conducted under Chatham House Rule: "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed."

I. Meeting objectives and structure

The Inaugural Meeting of the Policy Dialogue on Natural Resource-based Development was held at OECD Headquarters on 18 and 19 December 2013. It gathered participants from 24 OECD and partner countries: Australia, Bolivia, Brazil, Chile, Colombia, Democratic Republic of Congo, Dominican Republic, European Union, France, Germany, Indonesia, Kazakhstan, Liberia, Mexico, Mongolia, Morocco, Nigeria, Norway, Peru, Russian Federation, South Africa, Switzerland, United Kingdom, United States. The International Monetary Fund, the World Bank and the World Economic Forum attended the meeting as members of the Expert Advisory Board, set up to promote effective collaboration, avoid duplication of work and fill the implementation gap.

Participating countries were first convened to lay the foundations of this initiative and forge together its building blocks, through the collective selection of specific issues for future work in 2014-2015.

The meeting departed from the traditional conference format distinguishing between speakers and audience. Every participant played a role as both a knowledge holder and knowledge recipient and actively engaged in a thought-provoking, frank and constructive discussion to determine the future orientations of this initiative and identify areas where the OECD can make a difference. The OECD Development Centre, acting as a neutral knowledge broker, contributed to framing the broad thematic areas and specific issues for discussion, as outlined in the scoping paper distributed to all participants in advance of the meeting. The Centre for Tax Policy and Administration/ Development Co-operation Directorate, the Environment Directorate, the Legal Directorate, the Public Governance and Territorial Development, the Trade and Agriculture Directorate were also represented and shared the knowledge and experience of the OECD throughout the discussion.

The meeting was structured around four sessions: the first session provided an overview of the Policy Dialogue initiative and sought preliminary feedback from participating countries on the four proposed thematic areas for consideration. The second session featured a multi-stakeholder consultation which provided the opportunity to bring in additional perspectives from the private sector, civil society, think tanks, institutions and foundations with specific expertise in the field. The third session allowed for a more in-depth discussion focused on the selection of areas for future work in 2014-2015 and associated outputs. The fourth session was dedicated to a discussion on institutional arrangements and next steps.

II. Summary of the Discussion and Conclusions

DAY 1 - 18 December

Morning session: Overview of the Policy Dialogue on Natural Resource-based Development and initial feedback from Participating Countries

Deputy-Secretary General Rintaro TAMAKI delivered a welcome address on behalf of the OECD. The opening session was chaired by H.E. Ambassador Hans-Juergen HEIMSOETH, Chair of the Governing Board. The opening session offered the opportunity to explain the key features of the Policy Dialogue on Natural Resource-based Development and seek preliminary feedback from participating countries on the proposed broad thematic areas for future work.

The Policy Dialogue is a new OECD horizontal initiative, led by the OECD Development Centre. This initiative is part of the OECD response to tackling development challenges in the evolving global context. The OECD is both contributing and adapting to the rapid structural changes that are reshaping the global economy. These structural changes have important implications for the way the OECD engages with non-member countries and promotes worldwide development. In an increasingly interconnected global economy, new approaches and solutions are needed to jointly address common challenges and identify complementarities and opportunities for collaboration. Against this backdrop, the OECD Council at Ministerial level adopted the OECD Strategy on Development in May 2012. The Strategy aims to promote further OECD engagement with partner countries and foster better mutual understanding and cooperation. The main goal of the Strategy is to strengthen OECD's contributions to "higher and more inclusive growth in the widest array of countries", making full use of the OECD evidence-based approaches to improve policy making and economic reform in developing, emerging and developed economies. The Policy Dialogue is an integral part of this endeavour. The Policy Dialogue aims at establishing a multi-year structured process to foster knowledge sharing and peer-learning among producing countries - OECD member and partner countries alike - on how to best harness natural resources for more inclusive and broad-based development and identify under what conditions and how natural resources can play a transformative role and have a multiplier effect on the local economy.

The Development Centre is uniquely positioned within the OECD to act as the institutional interface for policy dialogue between OECD and Partner developing and emerging economies. First established in 1962, the Centre comprises now 42 Members from Americas, Africa, Asia and Europe and it comprises eighteen non OECD members. Such a broad membership is central to achieving the Centre's mission as an independent and inclusive platform for knowledge-sharing among OECD, emerging and developing economies. The new Network for the Policy Dialogue on Natural Resource-based Development is meant to serve this purpose. The inclusive approach of the Centre goes beyond governments, as it engages other key development stakeholders such as the private sector, think tanks, and foundations. The multi-stakeholder consultation organised as part of the inaugural meeting was designed to bring in additional perspectives to ensure the broader relevance and buy-in for this new initiative. Through operating as an inclusive platform, the Policy Dialogue's inputs can also effectively contribute to the OECD's understanding of the challenges faced by developing and emerging economies, as well as to improved coherence between OECD policies and Partner countries' policies, help identify ways to develop collaborative approaches and strategically co-ordinate with the private sector to achieve mutually beneficial outcomes for both investors and host governments and identify important new development issues.

Compared to other fora and initiatives, the added value of this process mainly lies in its unique structure designed to make the most of existing sources of wisdom within as well as beyond the OECD to *produce new collective knowledge* supported by evidence-based comparative analysis of country policies and practices. Through this process of interaction and exchanges, best practices may be identified or specific tools may be developed to inform and support policy making decisions in participating countries. This contrasts with other dialogue initiatives for the *dissemination of knowledge* or *implementation of frameworks* produced by a group, or other expert organisations. Another specific feature of the Policy Dialogue is the multidimensional approach covering several policy dimensions related to natural resource-based development in order to better understand how they interplay. In this respect, the Policy Dialogue will benefit and build upon the work and expertise across the OECD, bringing in analysis, expertise and input for policy making as appropriate. Complementarities and coordination will be sought with the work done by other institutions and organisations.

The opening session provided the opportunity to seek preliminary feedback from participating countries on the proposed thematic areas for possible consideration outlined in the scoping paper: (i) Revenue optimisation; (ii) Transparency; (iii) Shared value creation and local development; (iv) Spending and distribution.

Participating countries welcomed this new OECD initiative and expressed general support for the proposed thematic areas, covering issues of common concern for producing countries across different regions. Participating countries valued the opportunity to mutually learn from each other through engagement in a real knowledge sharing platform. Given the thematic alignment with the Africa Mining Vision, a participating country considered this global platform as a useful complementary vehicle for African countries to bring their experience and perspectives beyond regional initiatives and learn from their global peers. Participating countries further considered that this initiative can help them work towards better policy coherence and contribute to streamlining the developmental dimension across the OECD and policy advice for resource-based economies.

While providing preliminary feedback on the proposed issues for consideration, participating countries put particular emphasis on the importance of the development-oriented use of revenues and their distribution. Many countries are confronted with serious policy challenges on how to spend effectively natural resource revenues accumulated in sovereign wealth funds, as they are struggling to preserve macro-economic stability while trying to attract long-term investment in remote areas that are capital intensive. Participants preliminary felt that knowledge-sharing around systems to stabilise fiscal revenue from natural resources for funding social programmes would worth further consideration, together with a better understanding of the role of the state and state-owned enterprises, also taking into account the vulnerability of the extractive sector to corruption. The creation of quality jobs and a local integrated economy through a better understanding of the entire value chain of natural resources was also considered of particular importance.

Capacity-building, taxation, access to infrastructure and information on existing reserves, dispute management processes, compliance, monitoring and enforcement, impact and externalities on water, land and energy use, price transparency and other tools to get better deals, improved donor coordination were referred to as additional important issues for extractive-based development. Capacity building, modelling of fiscal regimes, inventory and cost-benefit analysis of different fiscal and revenue-generating instruments and contractual provisions were regarded as extensively covered by other fora/organisation, while donor coordination was said to happen already at country-level with margins for further improvement. Some participants suggested considering a differentiation of treatment between the oil & gas and mineral sectors when delving deeper into the topics, while recognising the potential for cross-fertilisation and learning.

While addressing the issue of duplication and proliferation of initiatives, a parallel was drawn with the similar objections the OECD was confronted with when the decision to embark on the development of the Anti-Bribery Convention was taken. A lot of other initiatives had been already put in place at the time, but the OECD was able to make a difference in addressing important global governance gaps. To maximise value added and avoid risk of duplication and "proliferation fatigue", participating countries agreed to focus the discussion on issues in which the OECD has a comparative advantage and on the identification of common challenges for both OECD and partner countries.

Afternoon session: Multi-stakeholder consultation

Additional representatives from oil & gas and mining companies, industry associations, think tanks, foundations, civil society organisations and other relevant institutions joined the multi-stakeholder consultation to share additional perspectives and provide input to the selection of issues for future work. The consultation was structured around the thematic areas outlined in the scoping paper i) Revenue optimisation; (ii) Transparency; (iii) Shared value creation and local development; (iv) Spending and distribution. The format was interactive, with short kick-off interventions to launch the discussion. The consultation was action-oriented, aiming at building on OECD comparative advantage and seeking input for shaping concrete value added proposals for future work in 2014-2015.

How to optimise revenue collection?

The scoping paper proposes to look into revenue-generating mechanisms with sufficiently built-in responsiveness and reactivity to enable countries to manage volatility more efficiently and ensure predictability and stability of revenue flows. A representative of the mining industry conveyed the perspective of investors, emphasising how the current focus on the price of a commodity often leads to increased uncertainty, with changes in host country legislations or contracts when prices are high to secure a larger share of the supposedly increased profits. It was suggested that the negotiation between host countries and investors of a rate of return on investment (ROI) adequate for the risk profile of the investment and factoring the total "resource rent" (including all economic benefits resulting from extractives for the host country) would help minimise pressure for renegotiation. As a result, reduced uncertainty and increased transparency would allow investors to take a slightly lower ROI, thereby allowing the jurisdiction a proportionately greater share of the revenues. The ROI formula would measure all input costs and output revenues on a regional basis. A few participants considered that it would be difficult to adopt a "one-size-fits-all" approach given the variety of scenarios for each project. They further pointed to the difficulty for countries to manage public expectations and the need to generate immediate revenues.

More generally, uncertainty in risky investments with a long life-span was regarded as the key challenge for the oil & gas as well as the mining industry. From an industry perspective, risk-sharing would be conducive to enhanced collaboration between investors and host governments and the establishment of true partnerships. Focusing on the definition of risk portfolio for a particular project, including geology, cost, price variables and agreeing how to share the risk would help to get better and fairer contracts and pave the way for figuring out concrete sharing arrangements. The overall economic return should be considered, also taking into account the interplay between taxation regimes and holes in recoverability, for example where local content requirements are in place.

The point was made that flexibility could only be built in contracts once there is clarity around who takes which risks. A participating country observed that risk allocation presupposes the definition of the pie, which in turn is affected by the asymmetry of information about available resources. To overcome this challenge, it was suggested looking at ways to increase the pie. At the time of the exploration investment, the focus is often on immediate returns, through fees and licences rather than getting commitment from companies to invest and contribute to expanding the country knowledge base. In order to get better deals, it was suggested that further analysis to improve the general understanding of both governments and investors around the key elements that contribute to risk and return (beyond mere numerical comparisons) would be very useful. This analysis could be extended and encompass how risk factors can be brought down. Broader governance issues around the different roles at play (legislator, regulator and operator) were also mentioned for possible further consideration. The expertise of the OECD on international tax matters was acknowledged, particularly with regard to base erosion and profit shifting and transfer pricing. It was suggested that the OECD would be well-placed to analyse the linkages between tax revenues and expenditures, a far less explored area so far.

How to use transparency as an effective tool for accountability and development?

The scoping paper identifies a clear gap in the global governance of extractives with specific regard to the lack of a level playing field at operational level for reporting of payments made by multinationals to governments. Additionally, it was proposed to carry out a comparative analysis of key clauses in oil and gas, mining contracts to enable countries to negotiate better deals through improved understanding of the implications associated with different available options. A typology study on high-risk profiles in the extractive sector (looking at different patterns of conduct, activities and types of entities that frequently give rise to illegal payments to foreign public officials) was also put forward for possible consideration.

Participants and stakeholders unanimously recognised the importance of transparency in extractives, stemming from the public nature of the resources at stake. They emphasised that transparency is not an end in itself, but should be a means to achieve broader development objectives and promote better accountability. Filling out forms or ticking boxes on a check-list do not automatically translate into improved outcomes on either the government or the company side. Participants and stakeholders valued the importance of transparency for governments to improve tax collection, build trust, reduce risks and attract investments. Transparency further allows citizens, local communities and civil society to receive reliable information to hold governments and companies accountable as well as to understand the overall economic value that is generated from extractive operations. The point was made that this goes well beyond taxes and royalties. In particular, stakeholders noted how transparency can help governments get the buy-in from local communities for specific projects and better manage expectations, through improved understanding of the project life span, commodity cycle and potential benefits. Transparency around contracts can enable countries get better deals by reducing asymmetry of information and by fully integrating the developmental dimension in the negotiation process through cross-fertilisation of practices. On the government side, transparency can be achieved through a number of institutions (for example the agency responsible for reporting on costs of transactions of a certain mineral in a given country, particularly where the national budget is based on the projected value of the commodity). However, some countries are struggling with using the information available through existing reporting systems, like the EITI, as they have limited capacity to fully understand financial data. Participants pointed to the pressing need to build the institutional capacity to deal with the available information. In this respect, a company representative referred to plans to boost expenditures on institutional capacity, including for the management of community funds, and local content.

Transparency on how the money is spent at national and sub-national level was considered equally important. The complexity and length for granting licences and permits was regarded as a source of corruption all along the process.

With specific regard to reporting of payments, it was acknowledged that the private sector would benefit from the creation of a level-playing field. They called for the widest possible application of transparency across jurisdictions to ensure clarity, comparability and avoid loopholes characterising current mandatory reporting regimes (state-owned enterprises for jurisdictions outside the EU and the US and too small entities to be listed on public exchanges). The proposal of working towards standardised reporting template covering EITI, Dodd-Frank and EU requirements was discussed. Support was expressed for the need to shift the focus of the discussion from disclosure and compliance to how data can add value and help make the pie bigger. Specific reference was made to the potential challenges associated with implementation by member states of the new EU transparency requirements in the extractive and forestry sectors. As member countries are free to choose how to implement those requirements, they will do it in many different ways. Navigating through all this data and make sense of it will be definitely challenging and working towards standardisation would be helpful. However, beyond the EU context and based on the EITI's experience, it was reported keeping a balance between standardisation and meaningful data for each country can prove difficult. It was suggested that rather than focusing on pure standardisation, the OECD may consider setting up a repository of data where all the information generated through different reporting structures could be found. This would improve the interoperability of available data in different reporting structures.

How to leverage non-renewable natural resources for structural transformation and local value creation?

Participants discussed ways to enable the creation of a value added economy along the life cycle of mining and oil and gas projects and maximise opportunities for local development, including through local content strategies. Participants and stakeholders discussed approaches that promote sustainable and competitive local value creation and development. The kick-off intervention emphasised the need to focus on the symbiotic relationship between the interests of local communities, suppliers, governments and international investors to ensure that all of them continuously realise value. Multi-stakeholder structures and dialogue would be very helpful to adapt approaches to evolving circumstances and work out a good match, rather than replicating models. Companies are seeing themselves as development actors and are trying to better perform this role, including through better alignment with host countries' development objectives. Data from a recently released report show how corporate expenditures for local supplier development largely outweigh payment in taxes and royalties in a significant sample of countries. Success stories on local supplier development show how the structure of the global economy opens up opportunities for resource-linked development through the integration of local suppliers into global value chains. As a result, the tax base is also expanded. Business representatives stressed the importance of looking at the entire life-cycle of extractive projects for maximising opportunities for linkage development and the creation of shared value. In this regard, transparency can indeed serve as an enabling tool for host governments, companies and civil society to partner together to maximise opportunities for local development and fully exploit the potential for resource-linked development. In particular, having a clear understanding of the employment and business opportunities along the life-cycle of extractive projects can pave the way for mutually beneficial outcomes for both host countries and investors.

A new win-win philosophy, as opposed to win-lose scenarios that have prevailed in the past, would allow to exploit the full potential for natural resource-based structural change and the successful integration of globally competitive local companies into global value chains. Industry clearly expressed its willingness to support the structural changes required in the countries in which they operate and acknowledged that sustainable growth is important for both governments and companies. Caution was expressed regarding the possible revitalisation of the infant industry argument, which was successfully implemented in the 1970s in countries with solid institutions. It was noted that sunset clauses, solid institutions and clear understanding of the market dynamics are all factors to be considered. Selecting the winner as well as the artificial imposition of unrealistic targets was also regarded as a potential vehicle for corruption or rent-seeking behaviours. Participants discussed in further detail policies that set targets and preferential treatment requirements. It was noted that setting unachievable targets can easily result in the creation of false economies, inefficiency and ultimately lead to counterproductive results. Multi-stakeholder dialogue can help setting realistic and commercially viable targets, reflecting the underlying market conditions. Many participants referred to examples of successful policies where local content development objectives were integrated into broader national strategies.

It was reported that, when first enacted, South African national regulatory reforms leaned towards compliance and yielded highly differentiated results. While pockets of excellences were created, initial lack of stakeholder alignment – with government focusing on transformation at all costs and business on competitiveness and growth at all costs – led to sub-optimal outcomes. Through dialogue, both government and business realised that transformation and competitiveness are not mutually exclusively and that collaboration is key for sustainable growth of the industry and meaningful transformation of the national economy. In this respect, having a long-term horizon was considered critical.

Emphasis was put on the need for concentrated efforts, including building a collective understanding of local capabilities of the work force and ensuring coordination among different actors engaged in capacity building and training. This is reflected in the comprehensive national strategy developed by Chile to tackle inequalities, diversify the economy and reduce dependence on the mining sector. Public authorities have worked with all major mining companies to collectively assess the number of workers and types of skills needed to match supply with the market demand. This has resulted in the optimisation of resource allocation for targeted training and capacity building, with alignment of interests and stronger ties between the private sector, research excellence centres and educational programmes. Win-win partnerships, local procurement strategies and targeted training programmes (capacity building and vocational training) have helped multinationals to achieve efficiency, security of supply and cost reductions in the supply chain and global competitiveness in safety, quality, and environmental impact. The multinational sets innovation targets and assist local companies in coming up with innovative technological solutions that increase overall productivity. Territorial policies for making cities linked to mining production better places to live in further helped align the needs of the municipalities and the companies. OECD has already undertaken work on Antofagasta in Chile and is partnering with public local authorities to assist with the development of the territorial dimension of natural resource production in Kazakhstan and in remote region of the Russian Federation. Australia was referred to as a further example of how mining served as the springboard for the development of a world-class service industry, accounting for an even bigger proportion of GDP compared to extractives.

Local content development and value creation was considered by participants as an extremely important area that is relevant for both OECD and partner producing countries. The World Bank has developed knowledge products and is providing technical assistance in the design and implementation of local content strategies and is willing to support and partner with the OECD in improving collective understanding of the complex issues at stake, as demand in this area will be increasing. The OECD is already working on local content requirements and other restrictive trade and investment measures in connection with the development of domestic manufacture capability in renewable industries. Learning lessons from other sectors as automotive and ICT was also considered useful. Synergies with the parallel Policy Dialogue on Global Value Chains and Production Transformation also hosted by the Development Centre could well serve this purpose.

How to manage and spend natural resource revenues for inclusive and broad-based development?

The discussion focused on mechanisms for revenue stabilisation to see how they have actually worked in practice, methods to ensure the fiscal discipline and efficient allocation and distribution of revenues for inclusive development. Participants discussed the challenges and the various trade-offs associated with revenue management and spending, including revenue volatility, discretionary spending, issues of fiscal space and diversification needs linked to the exhaustible nature of non-renewable resources. While tools to ensure stable revenue flows and counter-cyclical spending have been proliferating (sovereign wealth funds, stabilisation funds, fiscal rules and public management financial systems), some participants felt that additional analysis and policy advice would be needed to better understand how these funds work in practice. A suggestion was made to go beyond anecdotal evidence of well-known successful cases to assess how the same instruments are performing in different contexts and provide policy advice on how to overcome challenges in public management systems, national procurement, investment accountability and control mechanisms.

Reference was made to at least a couple of countries in which the establishment and size expansion of the sovereign wealth fund proved challenging due to constitutional requirements prescribing revenue-sharing among different levels of governments. Each state government holds a proportionate share of the fund and is entitled to receive a periodic report on performance. For purposes of expanding the fund, tensions between saving and spending options may surface, in particular when local governments are confronted with urgent social demands that need to be addressed.

While some concerns were expressed around fiscal decentralisation due to associated risks of relaxed fiscal discipline and misalignment with spending goals set at central level, participants recognised the need to structure efficient regimes to tackle immediate social needs. A few options, like well-targeted spending as substitute for subsidies, cash transfers linked to incentive schemes for local revenue mobilisation and sound fiscal management and re-distribution linked to development plans were briefly discussed.

Countries like Bolivia have set a clear-cut legal framework mandating the allocation of revenue from both hydrocarbons and mining collected in the state budget for supporting programs on education and basic social services like access to energy, water and electricity. In particular, 85% of royalties raised directly by the municipality are used for the provision of basic services (water, electricity and road infrastructure) while the remaining 15% to prospection and exploration activities. The municipality invests the money for developmental projects benefiting the communities affected by extractive operations. In Chile, mining royalties have been used for the development of innovation and technology and for supporting the reconstruction effort after the earthquake. A special taxing scheme on resource producers has been guaranteed to ensure transparency and continuous attractiveness of the investment climate. In Colombia, royalties are split between producing departments and a fund managed by the central bank to invest in research and development and regional development and cover the basic needs of the country, particularly in remote areas.

It was suggested that the OECD could undertake further analysis of country practices linking the use of tax and royalties to a specific development objective and assess advantages/disadvantages, bearing in mind that money is fungible. Understanding what worked and what didn't in different countries and providing guidance on what to spend money on was regarded as a worthwhile effort. It was further suggested that the OECD could review how stabilisation funds are working in practice, leaving aside intergenerational funds given the complexity and time required to put them in place and make them operational even in advanced economies.

DAY 2 - 19 December

Prof. Petter NORE, Chief Energy Analyst, Ministry of Foreign Affairs, Norway chaired the inter-governmental morning and afternoon sessions held on 19 December. The objective of the second day was to build convergence among participating countries around issues of common interest, in which the OECD has a comparative advantage, to shape the programme of work for 2014-2015. The morning session focused on ¨what ¨ should be addressed, i.e. the selection of issues to be included in the programme of work, while the afternoon session featured a discussion on ¨how ¨ to organise the work moving forward (institutional arrangements).

As a result of uninhibited and constructive exchanges and in light of the input received from stakeholders, participating countries identified four streams of work for 2014-2015 and considered associated proposed intermediate and final output results:

(i) Shared Value Creation and Local Development;
(ii) Revenue Spending and Stabilisation Funds,
(iii) Getting Better Deals;
(iv) High-Risk Profile of Corruptive Behaviours in the Extractive Sector.

Morning session: Building common ground and convergence around areas of shared interest for future work (2014-2015)

There was consensus among participating countries that local content development is emerging as a topical issue of cross-cutting relevance for the mining and oil & gas sectors in many different countries. Both governments and OECD companies will be increasingly confronted with this issue and are struggling to find win-win solutions. The question was raised as to whether the focus should be limited to mining, oil and gas or also extended to forestry and other sectors. It was clarified that as a starting point the work will focus on extractives, taking into account the need to address the specific challenges of the mining *vs.* the oil & gas sector, while recognising at the same time that lessons could be drawn from other sectors for potential cross-fertilisation of practices.

There was also consensus around the usefulness of improving understanding of stabilisation funds and sharing experiences to take stock of successes and failures of stabilisation mechanisms. In many instances, stabilisation funds have guaranteed the stability of income to be invested and shielded public investments from market speculation or provided a buffer during the financial crisis. Among participants, there are countries that have not established such funds for natural resources.

Nonetheless, they also welcomed this exercise as an important learning opportunity that may help inform possible future choices. Despite the fungible nature financial resources, some participants pointed to an increasing trend in producing countries to earmark hydrocarbon and mining revenue for specific development-oriented uses. Participating countries considered it useful to take stock of those practices with a view to better assessing their pros and cons. A country referred to its successful experience in using revenue drawn from exports of phosphates to add value to raw materials, leading to positive economic spill-overs such as the creation of secondary enterprises and new quality jobs.

Participants actively engaged in a frank and constructive discussion to identify further areas where the OECD can make a difference, avoid duplication and unnecessary overlap with other international organisations that have already developed extensive work on inventory of fiscal contractual terms and cost-benefit analysis of fiscal regimes for modelling purposes. While fiscal arrangements were regarded as a key component of contracts, participants pointed to other equally important dimensions reflecting development priorities that need to be properly negotiated in order for mining, oil and gas deals to ensure appropriate returns on investment and at the same time create value for host countries. Emphasis was also put on the need to build synergies among the different work streams to meaningfully advance all stated objectives.

Reference was made to multiple tools used to assist countries in their negotiations, including on-the-job training, efforts to improve coordination and accessibility to available sources of support and the establishment of a negotiation supporting facility by the G-8. While building negotiating capacity has been a constant refrain over the past years and has proved useful for developing countries, participants stressed that achieving better deals entails moving beyond short-term technical 'fly-in fly-out' support. It has to do with creating an enabling environment with built-in mechanisms and contractual safeguards to counter pressures or exposure to external attempts to frustrate progress made towards strengthening governance and building solid local institutions.

Mindful of the need for the OECD to fully exploit and build on its comparative advantage, participants identified international tax matters related to natural resources as a specific area that would be worth tackling in the context of the Policy Dialogue. With specific regard to transfer pricing, the OECD already sets international rules, standards and guidance on transfer pricing based on the arm's length principle. Participants considered that the transfer pricing structures used by some MNEs, in particular the interposition of low-substance trading companies located in low or no tax jurisdictions between the taxpayer in the mineral exporting country and the marketplace may make it very difficult for the tax administration to determine the exported mineral price. This may be the case even if the mineral has a publicly available price on a commodity exchange. In addition, in some transactions the mineral may be exported to a foreign related party before it is fully refined and is at a point where there is no publicly quoted price.

National tax authorities with weak capacity often find it difficult to determine reasonable prices for such mineral commodity transactions because they have very little information on the foreign counterpart to the transaction and little publicly available market data they can rely on. This may create significant difficulties in determining the arm's length price of the exported mineral. The OECD could support producing countries in building a better understanding on how such arm's length prices might be determined. The OECD could also explore the possibility of putting in place a database or other equivalent tools that can help determine those prices, in particular prices for minerals that are transferred before being fully refined. The OECD is also increasingly offering direct assistance to a number of developing countries in matters of transfer pricing and plans to scale up this work based on evidence that developing countries can get additional revenue yield through transfer pricing adjustments and create a more certain and transparent investment climate. Moreover, the OECD will be increasingly involved on issues of transfer pricing and natural resources upon request from countries that are seeking specific assistance in this field.

In parallel, at the request of the G-8, the OECD is looking at the general issue of transfer pricing comparables data required to determine whether prices are arm's length. This is in response to the concerns expressed by many developing countries regarding the availability of relevant pricing data for comparability purposes. Such comparability data is critical for an effective transfer pricing regime. This work on comparability data would include, but not be limited to, looking at issues regarding such data for natural minerals. The OECD will also look at development and Base Erosion and Profit Shifting (BEPS) issues which will result in a report to the G-20 in Spring 2014. As part of the process, there might be lessons relevant to natural resources that could be fed into the Policy Dialogue.

There was consensus among participants that the OECD should feed in lessons from the BEPS work, an area of clear OECD comparative advantage, into the Policy Dialogue. Participants also clearly expressed the desire to adopt a holistic approach when undertaking comparative analysis of contractual provisions to adequately capture all the relevant dimensions that have an impact on development, well beyond the fiscal component. In this endeavour, synergies with the G-8's negotiation support facility designed to assist resource-rich countries in contract negotiations and discussions around the reasonable determination of international prices for certain minerals could be further explored.

With regard to possible work on transparency, participants felt that it would be premature at this stage to embark on developing standardised reporting templates for payments made by multinationals to governments. They considered that it would be preferable to wait until the overall framework (in EU, US and other countries planning to introduce new laws) is in place and gets stabilised before taking any further action. Participants discussed other possible areas where the OECD can make a difference. Corruption was identified as an extremely important issue, which participating countries are taking very seriously, trying to tackle both the demand and offer sides of the problem. Support was expressed for undertaking an empirical analysis of risk situations as a useful tool to assist countries in detecting and keep pace with evolving vehicles and modalities to circumvent anti-corruption measures, since they evolve as fast as the fight against corruption progresses. It was agreed that the empirical analysis of risk situations could eventually lead to the development of a typology study that many countries thought could effectively support their continuous efforts in the fight against corruption.

Afternoon session: Institutional arrangements and next steps

Participating countries discussed options and concrete modalities to organise future work in 2014-2015, including the establishment of Thematic Sub-Groups for the identified work streams led by (one or two) willing participants, Steering Committee, (Co)-Chair(s), Expert Advisory Board and involvement of stakeholders in the next steps of the initiative.

Participating countries agreed on the merit of involving local authorities, private sector and civil society in further discussions across for all work streams.

The Secretariat was tasked with preparing a note on institutional arrangements for consideration by participating countries.

It was clarified that all participating countries will convene face-to-face twice a year in plenary in 2014 and 2015.

With a view to enhancing ownership of the initiative, plenary meetings may be hosted by participating countries on a rotating basis. Participating countries are encouraged to flag opportunities for optimising the calendar of international events on extractives. The Secretariat will also seek to coordinate and create synergies with other relevant international events, wherever practical and feasible.

All countries participating in the Policy Dialogue initiative are expected to actively engage in the interactive thematic discussions during the plenary biannual meetings and share their knowledge and experience with their peers.

Countries willing to join the Thematic Sub-Groups are also expected to (i) work closely with the Secretariat in-between meetings to support delivery of results, (ii) share relevant information and experiences (i.e. policies, regulations, contracts, case-studies, case-law), including through the appointment of national experts as deemed appropriate in addition to the designated focal points; iii) clearly articulate their knowledge needs, indicating which countries they would like to learn from in order to build or further refine their knowledge base; and iv) contribute to and support the Secretariat in carrying out the programme of work.