

Special meeting of ECOSOC on “International Cooperation in Tax Matters”



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Extractive Industries Taxation — Developments within the UN Tax Committee

Extractive Industries Taxation

In accordance with Economic and Social Council resolution 2013/24 of 31 October 2013, the Special Meeting of ECOSOC on International Cooperation in Tax Matters will be held on 5 June 2014 at the United Nations Headquarters. The one-day meeting will consider international cooperation in tax matters with the participation of representatives of national tax authorities.

An interactive discussion on “Extractive Industries Taxation Issues for Developing Countries” will highlight the taxation effects that natural resource extraction has on developing countries. While policy discussions often focus on the macro-economic effects of resource extraction, less attention is paid to the fiscal systems governing the sector. The extractive industries are or will become an important sector in at least 60 developing countries and emerging economies. In turn, this means that the taxation rules that apply to the extractive industries will be crucial in developing countries’ efforts to mobilize domestic resources for development. For many developing and middle-income countries, revenues from the extractive industries already present an important source of income or will do so in the near future. Countries seek to balance creating or sustaining a supportive environment for large investment with the need for revenue streams that can be applied to development priorities.

The extractives industries are special in many ways. The sector is shaped by high sunk costs in the form of substantial investments that cannot be recuperated if a project is terminated, fluctuating prices that in turn influence the profitability of exploration and extraction, volatile demand, heavily vertically integrated structures and long production periods. At the same time, compa-

nies active in the extractive industries have the potential of substantial earnings in excess of a minimum return on investment and substantial market power as they often drive the exploration process.

Otherwise, the extractive industries are similar to other sectors that are dominated by multinational companies. The rapid advances in technology, transportation and communication in connection with highly mobile capital and taxation rules that have not always kept up with the transformative changes of recent years have increased the possibilities for tax evasion and avoidance by means of treaty shopping, transfer mis-pricing and hybrid mismatch arrangements.

While these challenges are the same for all countries, under-resourced and overstretched tax administrations in developing countries are often not as well equipped to deal with them. The knowledge that is needed to design and administer appropriate tax rules governing the extractive industries is often lacking. Specialist information and expertise is often held asymmetrically between multinational companies and developing countries as well as between developed and developing countries.

Subcommittee on Extractive Industries Taxation Issues for Developing Countries

It is for these reasons that the UN Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee), after initial discussions commenced in 2012, formed a Subcommittee on Extractive Industries Taxation Issues for Developing Countries at its 2013 annual session. Its mandate is to consider, report on and propose draft guidance on extractive industries taxation issues. In undertaking its work, the Subcommittee seeks to engage with other organizations active in the field. The Subcommittee is comprised of representatives from tax adminis-

trations with wide and varied experience in dealing with the extractive industries, academia and international organizations as well as representatives from the private sector, including from petroleum and mining companies. The initial meeting of the Subcommittee, hosted by the South African Revenue Service, took place in Johannesburg in May 2014. The main outcome of the meeting was agreement to focus on areas where the UN can add special value, i.e. by publishing an overview note on issues in this area as well as more detailed policy and administrative guidance notes that focus on specific taxation and governance aspects of the extractive industries. Examples may include capital gains tax issues in this area including offshore “indirect” sales of local assets, and tax issues of environmental reclamation of extractive sites. A second meeting is likely to follow in Tanzania in September of this year with a view to effectively finalizing recommendations to the UN Tax Committee’s 10th Annual Session in Geneva (27 to 31 October 2014).

During the Special Meeting of ECOSOC on International Cooperation in Tax Matters, an interactive discussion will focus on “Extractive Industries Taxation Issues for Developing Countries”. The panel discussion

will provide representatives of governments and international organizations the opportunity to contribute their views to the debate and discuss recent developments in this area. Ms. Liselott Kana will present the Chilean experience with mineral taxation as it may be relevant for developing countries more generally. In her deliberations she will share some lessons on how to deal with the extractive industries from the point of view of an emerging economy. Her insights will be followed by a presentation by Mr. Stig Sollund, who will focus on the Norwegian experience with oil and gas taxation and the long-term perspective and the inter-generational aspects of resource wealth that is inherent in extractive industries taxation. Victoria Perry will shed light on the work of the IMF in supporting developing countries to set up efficient tax rules governing the extractive sector. The last presentation will be by the Coordinator of the UN Subcommittee on Extractive Industries Taxation Issues for Developing Countries, Mr. Eric Mensah. He will focus on the value that the UN Tax Committee can add in this important area, working cooperatively with others and mobilizing the UN convening power and universality on a key tax and development issue for many countries.■



On-site visit of the UN Subcommittee to Kloof Goldmine, South Africa

For further information

Please refer to the Financing for Development website at <http://www.un.org/esa/ffd/tax/eit/index.htm>