Distr.: General
30 September 2014

Original: English

Committee of Experts on International
Cooperation in Tax Matters
Tenth Session
Geneva, 27-31 October 2014
Item 3 (b) (iii) of the provisional agenda*
Taxation of the extractive industries

Subcommittee on Extractive Industries Taxation Issues for Developing Countries

Report of the Coordinator

Mandate of the Subcommittee on Extractive Industries Taxation Issues

After initial discussions commenced in 2012, the new Membership of the United Nations Committee of Experts on International Tax Cooperation ("the Committee") decided to form a Subcommittee on Extractive Industries Taxation Issues for Developing Countries ("the Subcommittee") at their 2013 annual session.

2. The Subcommittee is mandated to consider, report on and propose draft guidance on extractive industries taxation issues for developing countries on the basis that it shall:

identify and consider the most pressing issues where guidance from the Committee may most usefully assist developing countries in this area and report to the Committee on such at its tenth annual session in 2014;

provide a work program to the Committee at its tenth annual session that

* E/C.18/2014/1

base in many developing countries and emerging economies. 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. Governments seek to balance creating or sustaining a supportive environment for large investment with the need for revenue streams that can be applied to their development efforts.

5. 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 recovered if a project is terminated, fluctuating prices beyond the control of the investor that in turn influence the profitability of exploration and extraction, volatile demand, heavily vertically integrated structures and long production periods. At the same time, companies 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.

6. In other respects, 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 kept up with all of these transformative changes have increased the possibilities for tax evasion and avoidance by means of treaty shopping, transfer mispricing and hybrid mismatch arrangements.

7. 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 *information* and *knowledge* that is needed to design and administer appropriate tax rules governing the extractive industries is often lacking or is very thinly spread. Coordination between different parts of the government often proves challenging. Specialist *information*

her deliberations she scrutinized the Chilean legal framework governing the extractive industries. Her insights were followed by a presentation by Mr. Stig Sollund, who talked about the Norwegian experience with oil and gas taxation in the long-term perspective and the inter-generational aspects of resource wealth that is inherent in extractive industries taxation. Ms. Victoria Perry from the IMF shed light on the IMF's work in supporting developing countries to set up efficient tax rules governing the extractive sector. The last presentation was given by myself, Mr. Eric Mensah, in my role as the Coordinator of the UN Subcommittee on Extractive Industries Taxation Issues for Developing Countries. The presentation focused 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.

Second Meeting: Arusha

10. The outcome of the first meeting of the Subcommittee as well as the lessons learned from the panel discussion at the Special Meeting of ECOSOC set the stage for the second meeting of the Subcommittee that was hosted by the Tanzania Revenue Authority in Aug 2014 in Arusha. During the meeting, presentations on capital gains taxation including offshore "indirect" sales of local assets, tax treaty issues, certain VAT issues and tax issues of environmental reclamation of extractive sites were given and first drafts of guidance notes and a framework of the overview note were discussed. The Subcommittee decided at that meeting to2(w).7(he)4a-4( )-10(o)-4(f)91.(T* [7et)-69sn As91ft p(th)2(ap th)-8(e5(ir)5(s)2(fo th)5(ir

10.