

The Sales of Minerals and Metals by Governments and SOEs: Scale, Nature and Disclosure Practices

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Background and Objectives

- Short, fact-finding working paper on sales of minerals by governments and SOEs
 - Living document to be updated with further examples in 2019
- Methodology based on desk research and stakeholder interviews
- Objectives:
 - Examine whether and to what degree governments, including SOEs, sell their own minerals production or their share of minerals production from joint ventures
 - Describe the process by which such minerals production is sold
 - Detail what information on the ‘first sales’ in minerals is available in the public domain

Background and Objectives cont'd.

- Case studies on 5 minerals / countries:
 - Diamond production in Botswana
 - Copper production in Chile
 - Cobalt production in the Democratic Republic of the Congo (DRC)
 - Bauxite production in the Republic of Guinea
 - Phosphate production in Morocco
- Each case study covers country context, sales process and regulatory/ oversight mechanisms

Key Findings

- Direct sales transactions between governments, including SOEs, and traders are less common than in oil & gas sector
- Two principal ways of selling minerals production or share of production:
 - Holding ownership - whole / partial - of companies that produce minerals and metals i.e. participating in upstream production and selling all or parts of production
 - Receiving in-kind payments and selling this in-kind production (less common than in oil & gas sector)

Key Findings

- Data scarcity makes it difficult to fully understand the scale but “first sales” identified are material enough to merit disclosure
 - For example, Trafigura purchases from SOEs accounted for less than 10% of the company’s mineral purchases by value in 2017 yet this is still in the order of around 2 billion USD
- Research did not uncover any voluntary disclosures disaggregated by country and SOE by buyers relating to first sales

Case Study: Botswana – Diamonds

- Debswana Diamond Company is a 50/50 joint venture between the Government of the Republic of Botswana and the De Beers Group of Companies
- In 2016 accounted for 21% in value (3.2 billion USD) and 15% in volume (21.9 million carats) of global production of rough diamonds

Sales Process

- Governed by an agreement between the government and De Beers Group
- Production sold approximately every 5 weeks /10 sales per year
- Sorting and valuing conducted by DTC Botswana (50/50 joint venture partnership between government and De Beers Group)
- Post valuation, Debswana sells its own production:
 - 15% is sold to Okavango Diamond Company/ODC (100% owned by government) – then sold at auction sales
 - Remaining production (85%) is sold to De Beers Group – then sold through De Beers Global Sightholder Sales (DBGSS) of which proceeds are spent as follows:
 - 22% taxes are paid to the government
 - 10% royalties are paid to the government
 - Dividends are shared equally between government and De Beers Group
- Results in government receiving roughly 80% of proceeds generated by Debswana as a sum of taxes, royalties and dividends

Case Study: Chile – Copper

- Codelco is a state-owned mining company and largest producer of copper in the world selling cathodes and copper concentrate
- In 2016 accounted for 10.5 billion USD in value and 10% of global production (1.8 million tonnes) of copper

Sales Process

- Long-term relationships / off-take agreements with clients including manufacturing companies account for 85-95% of sales
 - e.g. MoU with BMW, Nexans and Mitsui
- Sales negotiated individually with each buyer on an annual basis
- Copper concentrate is sold to smelters directly
- Price is determined annually by the company based on market prices set by London Metals Exchange
 - For cathodes, Codelco uses daily LME average prices for the month after the month of shipment from Chile (shipments take roughly 30 days)
 - a premium is charged for logistical and admin costs linked to transporting shipments
 - For concentrate, Codelco uses daily LME average prices for the 3rd and 4th month after shipment (takes around 3-4 months for smelters and refiners to process concentrate into cathodes)
 - a discount is provided to account for processing (treatment and refining charges)
- When selling in NAFTA markets, production is sold at market prices set by COMEX



Conclusions

- Commodity trading of minerals and metals by governments and SOEs is a relatively new focus area for stakeholders
- Lack of / scarcity of publicly available information compared to “first sales” of oil and gas
- Direct sales transactions between governments, including SOEs, and traders appear to be less common than in oil & gas sector
- But scale can be significant enough to merit public disclosure, which will require a complementary approach of:
 - Cooperation from SOEs / governments and international trading companies and other purchasers
 - Regulatory instruments in the absence of voluntary disclosure of meaningful data
- Reference database of SOEs – developed in forums like OECD or EITI – would facilitate such disclosure

Next Steps

We would like to document further examples of SOE sales in the minerals/metals sector

- China, Myanmar, Mongolia, Zimbabwe...others
- Any key mineral/metal SOEs missing from the annex of the report?
- How relevant to minerals are the physical trade / financial flows data in session 6 (and related EITI oil sales guidance)?

Thank you!

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