

Financial Benefit-Sharing Issues for Critical Minerals:

Challenges and opportunities for producing countries

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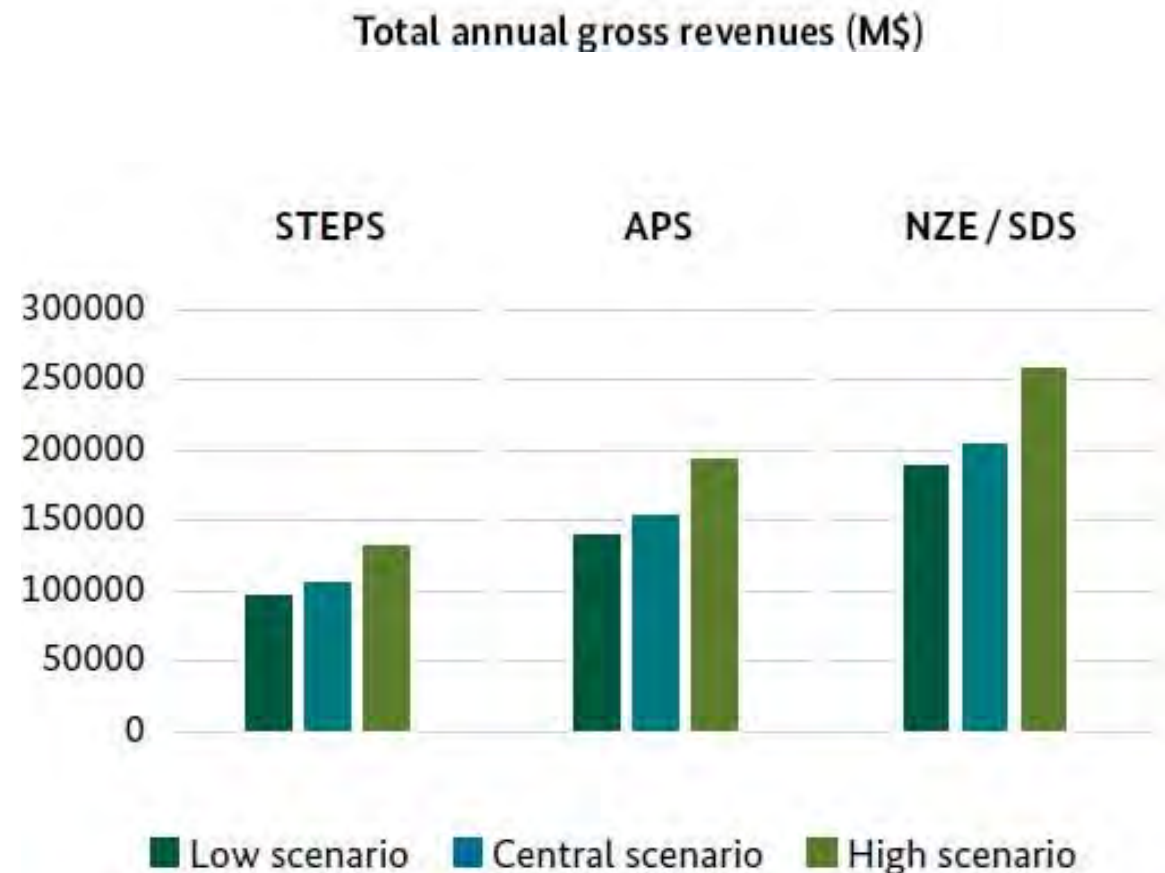
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Why Revenues From Critical Minerals Matter to Developing Countries

Revenues from critical minerals matter to mineral-rich developing countries for several reasons

- Significant revenue potential
- Arguably limited window of opportunity
- Added impetus to lock-in downstream value
- Growing importance of security of supply
- Opportunity to reinforce established principles



Source: GIZ, Econias, BGR Report (2023)

High: Fastest transition and highest mineral prices / mining sector profits

Low: Slowest transition and lowest mineral prices / mining sector profits



Framing the Challenges and Opportunities for Financial Benefit Sharing






Considering risks and opportunities to optimizing financial benefit-sharing outcomes

- ✓ Geological consideration
- ✓ Economic, market and fiscal considerations
- ✓ Social and environmental considerations
- ✓ Geopolitical considerations
- ✓ Governance, legal and regulatory issues



What are the challenges for financial benefit sharing?

Overarching risk of suboptimal financial benefit sharing

<p>Volatile and often less transparent mineral prices</p> 	<p>Oversupply risk</p> 	<p>Alternative financing arrangements</p> 	<p>Community benefit considerations</p> 	<p>Impact of carbon pricing</p> 
<ul style="list-style-type: none">• May complicate fiscal regime design, implementation, and revenue management.• Undervaluing risk.	<ul style="list-style-type: none">• Impact of substitutes.• Impact of deep-sea mining.	<ul style="list-style-type: none">• Growing interest in metals streaming and royalty financing etc.• Lack of transparency and resulting BEPS risks.	<ul style="list-style-type: none">• Over 50% of critical minerals are located on or near Indigenous lands.• How to ensure that fiscal benefits flow back to local communities more directly.	<ul style="list-style-type: none">• Cost of accessing importing markets due to carbon pricing mechanisms e.g. EU's CBAM.



What are the opportunities for financial benefit sharing?

An opportunity to rethink how producing countries benefit financially from mineral extraction

Reevaluate the role of the state

- More common in other extractive sectors e.g. oil and gas.
- State-owned mining companies e.g. Codelco (copper) in Chile and LitoMX (Lithium) in Mexico.
- Equity participation e.g. Brazil and Ghana.

Value addition

- Building or enhancing downstream processing capacity.
- Investment in infrastructure through targeted industrial policy measures.

Reconsider the use of fiscal incentives

- Question utility of fiscal incentives.
- GloBe rules could make some tax incentives (e.g. tax holidays) redundant.

Develop new revenue streams

- Treatment of co-products and by-products.
- Law may not clearly specify by-products and co-products altogether.



Related and Future Work

Developing challenges and opportunities further

Governments first need to :

- ✓ Ascertain how much revenue is at stake
- ✓ Identify and categorize minerals deemed critical for their context and policy ambitions
- ✓ Identify opportunities and risks
- ✓ Define policies that best meet their goals
- ✓ Adhere to the principles of good fiscal governance



Related and Future Work

Developing challenges and opportunities further

- Determining the Price of Minerals: A transfer pricing framework (for **bauxite**, **lithium**, **copper**)
- Review of financial benefit sharing rules and practices for mineral value addition (**copper**, **lithium**, **nickel**)
- Financial benefit implications for alternative financing solutions for critical mineral projects (**metals streaming**, **royalty financing**)

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