



Extractive windfalls and profit shifting risks

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Rising global extractive commodity prices, driven by the energy transition and geopolitical shocks, are generating trillions of dollars in windfall revenues for extractive industries. These revenues could provide a major opportunity for resource-rich developing countries. Yet, new evidence shows that a significant share of windfall profits is shifted to tax havens, undermining fiscal gains.

- Extractive multinationals declare most of their profits in producing countries, but a significant share is still booked in tax havens (18%), where real activity is limited.
- Profit shifting intensifies during commodity booms : about 17% of windfall profits between 2016 and 2023 were reallocated to havens.
- Fiscal gains vary across sectors: mining revenues are far more responsive to price increases than oil and gas.
- State capacity plays a critical role: higher-capacity governments capture significantly larger windfalls.

These findings have direct policy implications. General instruments such as the global minimum tax may be insufficient to protect extractive revenues. Enforcement must be counter-cyclical, with particular attention during price upswings. Fiscal design should reflect both sectoral dynamics and state capacity, and governments must weigh the broader question of whether to rely primarily on extractives or to diversify fiscal bases. Finally, special windfall or excess profit taxes can play a role but require robust anti-avoidance safeguards.

Introduction

The global energy transition, combined with recent geopolitical shocks, has pushed world prices for extractive commodities—minerals, oil, and gas. These price shocks generate trillions in annual revenue, often referred to as “windfalls”. Such windfalls are crucial for the development of resource-rich countries—but only if governments can tax them effectively.

These windfalls represent both an opportunity and a challenge. For governments, they offer the prospect of financing development, diversification, and the long-term costs of extraction. Yet windfalls are also highly volatile and temporary.

A further challenge is that multinational enterprises dominate global extraction, and their complex financial structures create opportunities to shift profits abroad. Whether windfalls are turned into public revenue depends on three interlinked factors: how multinationals book their profits, how fiscal regimes are designed across sectors, and how effectively states can enforce tax rules.

This policy note builds on a new working paper by Alice Chiocchetti and Ninon Moreau-Kastler, which combines country-by-country reporting, project-by-project disclosures, and license-level production data to trace the geography of extractive multinationals’ profits. This newly combined data gives an unprecedented, complete view of the allocation of activity of these large firms.

The study investigates how windfall profits respond to global commodity prices, how much is shifted to low-tax jurisdictions, and how far governments succeed in capturing them through fiscal regimes. The results shed light on a central question for policymakers: under what conditions can resource-rich states tax extractive windfalls effectively, ensuring that extraordinary profits are translated into public wealth rather than private rents abroad?

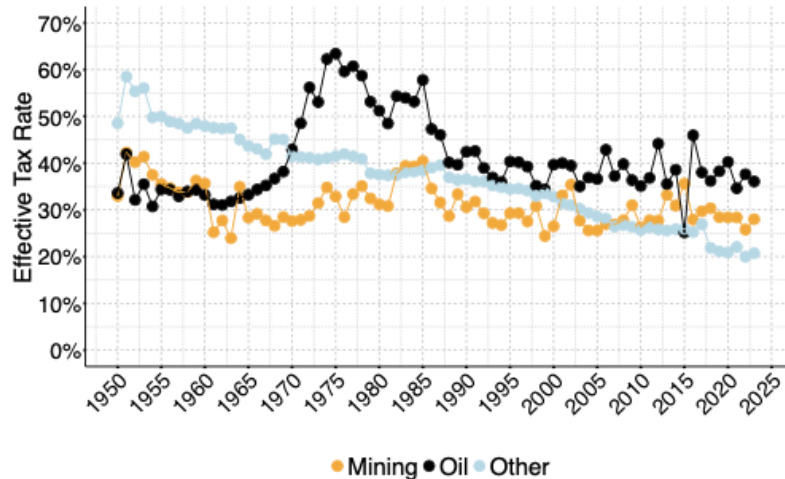
Background: The extractive sector and its fiscal regimes

The extractive sector is organized around large multinational firms. For oil and gas, MNEs account for 40% of production volume, and around 70% in mining. Where extractive MNEs are absent, states rely on state-owned companies, local firms, or artisanal miners. Extractive multinationals tend to be vertically integrated and also active in the transformation and distribution steps.

Extractive multinationals face sector-specific fiscal regimes. For example, on top of corporate income tax, resource-rich states implement specific

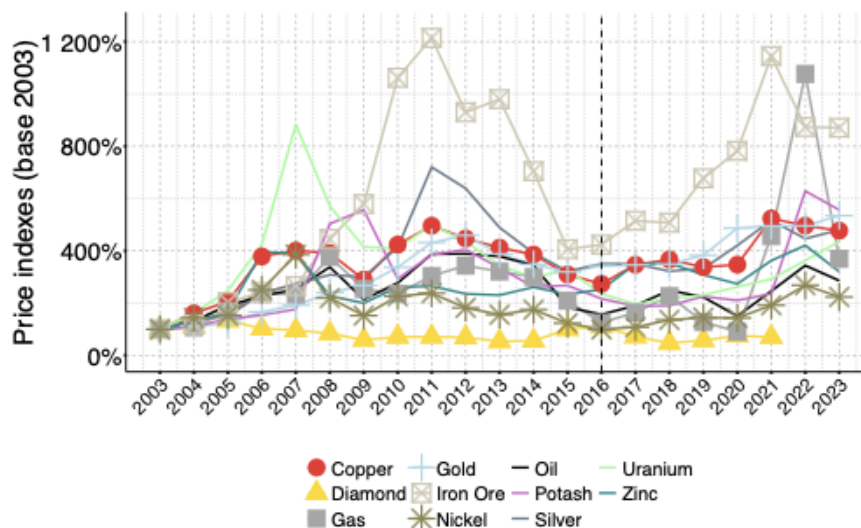
instruments such as royalties and other production-based levies. As a result, **multinational effective tax rates in the extractive sector did not experience the same general decline as the rest of the economy, and remain high today** (see Figure 1).

FIGURE 1



Additionally, the extractive sector is subject to pronounced commodity price cycles (see Figure 2). Many extractive products experienced large price increases over the past two decades (for example, the price of iron ore increased about tenfold), although trends and volatility differ across commodities. These price changes generate “windfalls”, that is, additional profits not linked to higher production volumes or productivity. Windfalls also serve, in part, to compensate extractive MNEs for the risks incurred during exploration and development phases

FIGURE 2



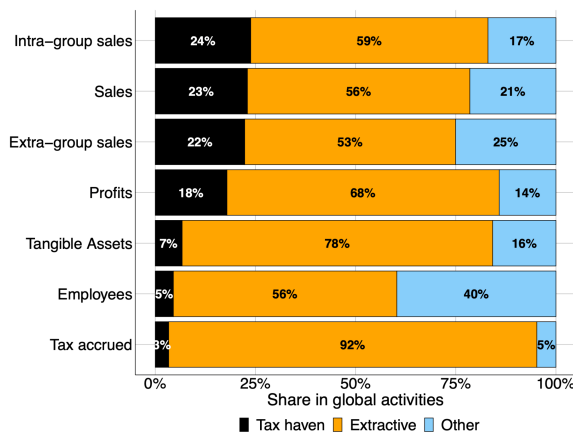
Key findings

Extractive MNEs' profits are mostly declared in producing countries, but with a significant presence in tax havens

Extractive MNEs declare the majority of their profits (69%, see Figure 3) in countries where they also have an extractive activity. This pattern explains the large dependence of their profits on commodity prices: a 1% change in this price is associated with a 1.65% change in global profits.

At the same time, extractive MNEs maintain a substantial presence in tax havens. We find that 18% of their profits are booked in low-tax jurisdictions, despite these affiliates accounting for only a small fraction of assets and employees, which are indicators of real activity. Affiliates in tax havens tend to be heavily specialized in Insurance or Intra-group finance services compared to the rest of the group.

FIGURE 3

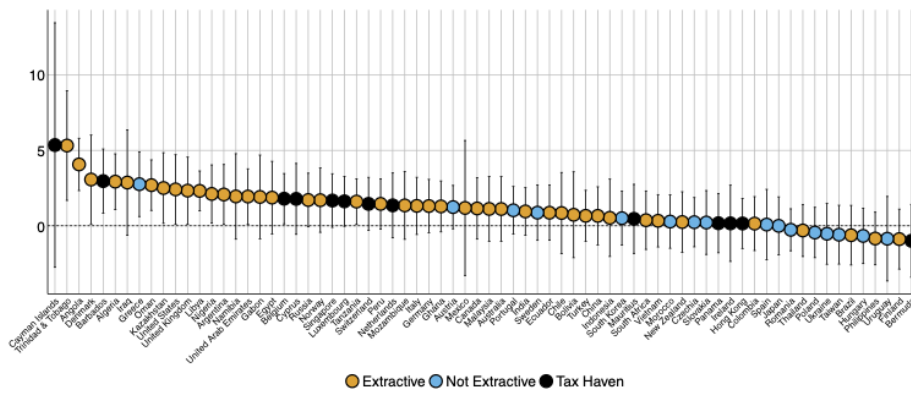


Profitability across the sector has a U-shaped curve: high in extractive countries, low in consumption countries with higher tax rates, and high again in low-tax affiliates.

Windfall profits are partly reallocated to tax havens

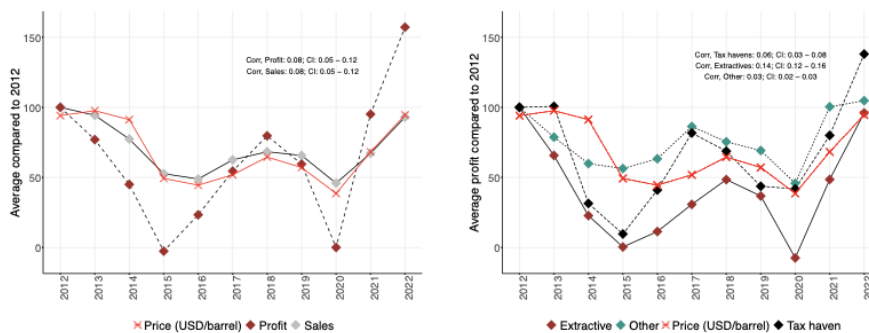
This study finds evidence that, within extractive groups, windfall profits are partly reallocated to havens. As shown in Figure 4, tax havens' affiliates respond more to price changes than the rest of the group not specialized in extractive activity — evidence of over-booking of windfalls in low-tax jurisdictions.

FIGURE 4



More specifically, a 1% increase in commodity prices is associated with a **0.56 percentage-point higher profit elasticity in tax-haven affiliates than in other non-extractive affiliates of the same group** (see Figure 4). This reallocation of windfalls implies that \$1 in consolidated profits due to price change corresponds to \$0.20 in haven-affiliate profits (compared to \$0.80 in extractive affiliates, and no spillover to other affiliates). This corresponds to approximately **17% of the extractive sector’s windfall profits** between 2016 and 2023. Such patterns are consistent with intra-group transactions, highlighting that profit shifting is not constant over time but closely tied to global price cycles.

FIGURE 5



States capture some windfall revenues, though unevenly across sectors

Extractive governments do capture windfall revenue through fiscal measures. Using project-level payments, we find that for a 1% increase in commodity price, the percent change in government revenue is 1%. However, responsiveness varies across sectors. For mining, the effect is much stronger, with revenues increasing by about 1.2% for each one percent rise in prices. For oil and gas, the effect is weaker, at just 0.9%. These differences likely reflect the structure of fiscal regimes.

State capacity plays a role in capturing windfalls

A further determinant of fiscal outcomes is state capacity. Using project-level data, the study shows that higher-capacity states capture significantly more from price increases. In mining, each 1% rise in prices yields an additional 0.04 percentage points of revenue elasticity in high-capacity countries; in oil and gas, the difference rises to 0.15 percentage points, more than three times as much.

In low-capacity contexts, price booms translate into smaller fiscal gains. This may be due to weaker enforcement of profit-shifting rules, or to a preference for regimes designed to ensure stability rather than expose revenues to volatile prices.

Policy lessons

Enforcement should be counter-cyclical and data driven

Profit shifting intensifies during commodity booms, when states are most flush with revenues. This makes vigilance during price upswings crucial. While the global minimum tax provides a useful backstop, it is unlikely to protect extractive revenues fully, since effective tax rates in this sector are already relatively high and profit shifting is highly cyclical. We find in a recent report that a 15% minimum tax on the extractive sector generates modest revenues for resource-rich states (Chiocchetti et al., 2025).

Therefore, enforcement needs to be explicitly counter-cyclical. Administrations should intensify audits and monitoring when revenues appear most abundant, not least. Fast-track audits of intra-group pricing for commodities and financial services, as well as targeted scrutiny of haven affiliates whose reported profits rise without extra-group sales, are particularly important.

Better data can be essential for this. Newly available Country-by-Country Reports and project-level disclosures can be leveraged to track profit allocations and payments. Strengthening such data infrastructures would make windfall revenues more traceable and improve deterrence against base erosion.

Fiscal regime design should reflect state capacity and sectoral realities

Higher-capacity states capture larger fiscal windfalls, showing that investments in administration, audit, and legal capabilities pay off directly in revenue mobilisation. But for lower-capacity countries, the structure of the fiscal regime itself becomes decisive.

Profit-based taxes are efficient in theory but highly exposed to profit shifting. Production-based instruments may provide a more resilient base, but can be more distortive for production and investment decisions. A possible solution, already implemented in Alberta, Canada, could be the implementation of a

progressive production tax, whose rate would increase with the market price of this commodity. Such an instrument could reduce base erosion risks while being less distortive than a regular production tax.

Build long-term fiscal resilience and align windfall taxation with global goals

Diversification offers an alternative path. Broadening revenue sources beyond extractives may provide more stable and diversified fiscal space, even if the amounts collected are smaller at first. For many countries, the challenge is to strike a balance: capturing as much of today's windfalls as possible while gradually building the institutions and tax bases that will reduce dependence on them over time.

Finally, extractive and environmental rents are intertwined. The extraction and use of fossil fuels and critical minerals both generate substantial profits and significant environmental externalities, from carbon emissions to ecosystem degradation. As the world transitions toward cleaner energy, demand for transition minerals and carbon-intensive commodities will evolve, reshaping who earns windfalls and who bears environmental costs. As the world transitions toward cleaner energy, the need to govern the taxation of both extraction and pollution will become more salient. Frameworks for taxing extractive and polluting sectors could complement windfall and profit taxes, ensuring that rents generated from natural and environmental assets contribute to shared climate and development goals.

Conclusions

Commodity price cycles generate extraordinary profits for extractive industries, but these do not always translate into proportional increases in fiscal resources for producing states. This study shows that while most profits are declared in extractive countries, a substantial share is shifted to tax havens, particularly during booms. At the same time, governments' fiscal gains vary considerably across sectors, and the extent to which they benefit depends crucially on their administrative capacity.

For policymakers, the central lesson is that extractive windfalls should not be taken for granted. International frameworks such as the global minimum tax can help, but they are not sufficient. Because profit shifting is most intense when commodity prices rise, enforcement must be counter-cyclical and data-driven, ensuring that administrations can detect and respond to revenue leakages in real time.

Fiscal regime design also matters. Countries with stronger institutions can rely more on profit-based instruments, while lower-capacity states may need to

combine them with production-based or progressive production taxes to secure a stable revenue floor. Investing in audit and data systems, and adapting fiscal tools to local administrative realities, pays off directly in the state's share of windfalls.

Finally, as extractive and environmental rents become increasingly intertwined, the governance of windfall taxation must evolve. Future frameworks should ensure that profits linked to natural resources and pollution are taxed where they arise, contributing both to fiscal resilience and to global climate goals.

In sum, if governments strengthen counter-cyclical enforcement, modernise fiscal regimes, and align windfall taxation with long-term objectives, today's commodity booms can be transformed into proportionate public wealth. If not, a significant share of these extraordinary revenues risks becoming fleeting private rents captured abroad.

References

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