# Personal views and suggestions on Equalization Measure

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I have attended the Equalization Measures webinar on June 12, and first of all, I would like to thank Robyn for hosting it, as well as Daniel for his technical presentation, and Cebert, Jose, Kris, Corey, and other experts for meaningful discussions that inspired me a lot.

I've been thinking about whether it's possible to find approach of Equalization measures that are reasonable , simple, low management cost and beneficial to both contractors and ISA?

## 1. Basic principles

(1) What are ISA's core assets and core interests?

I believe that the protection of the raw ore deposited on the seabed and the protection of the Marine environment are core assets and core interests of the ISA. The principles of “whoever removes the original ore pays” and “whoever pollutes the marine environment pays” should be followed in the international seabed area. Sharing profits with contractors is not the fundamental way for ISA to gain benefits. In an extreme case, if a contractor removes 1 million tons of polymetallic nodule ore in the international seabed area and makes zero “profit”, I believe that the ISA should also collect royalties from the contractor. Therefore, I believe that the collection of royalties by ISA is the most reasonable and legitimate way for ISA to gain revenue.

(2) Under the 1994《Implementation Agreement》, The payment system should not be complicated and should not impose major administrative costs on the ISA or on a contractor，contractors have the right to choose the payment system applicable to their exploitation contracts.

## 2. Comments on existing Equalization measures Standard

The existing equalization measures standards are too complex, financial management costs are too high, and operability is not strong, mainly due to the involvement of different jurisdictional countries in financial auditing and regulation.

## 3. Suggestions for optimizing existing equalization measures standards

(1) The ISA regulates the structure of mining(collector) enterprises attached to exploitation contracts, stipulating that the contractor of each exploitation contract needs to establish a pure, single mining (collector) enterprise belonging to the sponsoring country. All business of the mining (collector) enterprise is only related to

the exploitation contract. This concept is similar to Kris's earlier PPT mention of "Mining Perimeter" in GloBE Rules and Daniel's PPT mention of "related entity for mining activity", but also differs. The main business of this mining (collector) enterprise is to collect nodule ore and transfer and sell original nodule ore in the international seabed area by Arm’s Length Transaction . The business of the mining(collector) enterprise should terminate at the transfer point of nodule ore, which is also the transaction point of original ore. The scope of business from the transfer point of the international seabed area to the port of a sovereign state exceeds the jurisdiction of ISA. In addition, metallurgical operations should not be carried out in the international seabed area (excluding physical dehydration of original nodule ore) to avoid marine pollution.

(2) The cost of financial supervision and audit for a single, pure mining (collector) enterprise belonging to the sponsoring country mentioned above is greatly reduced. I believe that the mining (collector) enterprise can generate positive cash flow by only selling nodule ore, while the rest is a "cost". For example, the mining (collector) enterprise can rent survey ships from other countries for exploration business, or rent survey ships from other countries for environmental testing business. However, when conducting financial accounting, all business needs to be consolidated into this single mining (collector) enterprise, and both exploration and environmental monitoring businesses generate negative cash flow. However, if GloBE Rules are adopted, exploration and environmental monitoring, which belong to different national jurisdictions, may generate profits.

(3) The financial management (audit) cost of equalization measures for pure mining (collector) enterprise belonging to the sponsoring country is greatly reduced.

a. Equalization measures can be simplified into two options. The first option is " Additional Royalty", and the second option is " Additional Profit Share", where the contractor can choose any one option.

The first option, the method of calculating "additional royalty":

If the corporate income(CIT) taxrate announced by the sponsoring country is less than 25%, for example, 20%, the contractor's enterprise shall pay the equalization measure.

Amount of payment = ([（value of annual transfer of nodule ore）×8%]/ 25%) ×（25%- 20%）

Here, 8% is the assumed royalty rate coefficient, which can be corrected in commercial mining practice. Then, ISA verifies the "profits" and "taxes" of the contractor's annual financial statements.

The second option is the " Additional Profit Share " method.

ISA verifies the "profit" and "tax" of the contractor's enterprise in its annual financial statements. If the "tax" is less than 25%, the contractor's enterprise makes a

payment for the equalization measure.

Generally, ISA's review of the annual financial statements of the contractor's enterprise can be used as a substitute for an equalization measure audit.

(4) It is not appropriate to determine an 8% rate coefficient at the current stage, as the MIT financial model is only a theoretical model, and this rate coefficient should be negotiated and determined by the contractor after completing the technical and economic evaluation of the exploitation project.

(5) In addition to using the metals in the ore for pricing, the calculation of royalty using the transferred raw ore （or raw ore）pricing should also be included.

I can give an example to visualize how a mining enterprise (collector) operates and where the financial closure of a mining (collector) enterprise ends. We can draw an analogy between a fishing enterprise that catches tuna on the high seas and a mining (collector) enterprise, if the tuna on the high seas is under ISA management, the tuna can be analogized to raw nodule ore. Taxation of fishing enterprises in general is determined by the tax laws of their sovereign State. Similarly mining (collector) enterprise pay taxes to the sovereign (or sponsoring State) and also pay fees (meaning royalties) to the ISA. Typically, fishing enterprises transfer their tuna catch on the high seas to tuna processors at market prices. The end point of the financial settlement of the fishing enterprise is its trans-shipment point. Similarly, a mining enterprise (a collector) may trans-ship nodule ore on the high seas to the next smelter that smelts the nodule ore, which is beyond the jurisdiction of ISA. So the most logical end point for the financial settlement of a mining enterprise is the point of trans-shipment of nodule ore in the international seabed area, and the most logical way of valuing nodule ore is on a raw ore basis. It would be manifestly unreasonable to extend the point of financial settlement for fishing enterprises to processing and catering enterprises, or even to pay taxes on tuna sashimi priced from the menu. Similarly, mining (collector) enterprise can not extend the financial settlement to smelting enterprises, mining enterprises to obtain polymetallic nodules ore can be smelted to get copper metal (products), copper metal (products) can be manufactured bullets, if the mining enterprises according to the bullet in the copper metal valuation of the tax (payment) is obviously unreasonable. The above is the reason why BPC emphasized the valuation of the original nodule ore in its previous discussions on the payment system.