Minister for Foreign Affairs Mr. Erkki Tuomioja, Transfer Pricing: Alternative Methods of Taxation of Multinationals, June 13 2012, Little Parliament, Helsinki

The fact that the Finnish Ministry for Foreign Affairs is a co-sponsor of this international seminar on transfer pricing has at least two obvious explanations:

- Firstly, the present Finnish Government has - in its program - taken a very strong stance in favor of a reform of international taxation; our government is strongly advocating the closure of tax havens, including, by means of stricter reporting obligations for multinational enterprises and increased exchange of information between public authorities;

- Secondly, our longstanding experience from the Helsinki Process on Globalization and Democracy, has taught us that besides ordinary governmental negotiations and processes, global problem solving today's requires a great deal of multi-stakeholder dialogue and cooperation, involving and listening to all parties who can contribute to solving the problems at stake.

When the Finnish and Tanzanian governments in February this year decided to revisit the Helsinki Process, ten years after its initiation, it was with a clear understanding that the multi-stakeholder concept is still valid and needed maybe more than ever. Not just as a general slogan, but as deliberate approach to a number of difficult and pertinent issues on the global agenda. Not with the idea of entering into negotiations on the issues, at least not as an entry point, but rather to offer space for interested parties to come together and exchange views.

This seminar is a very good example of what the multi-stakeholder approach or concept of the Helsinki Process can mean in practice. We are therefore very pleased to have been able to contribute to arranging this event here in Helsinki.

As I expect the seminar to confirm, there are different views on the issue of transfer pricing. I am not sure that there even is common appreciation of the problem or the challenge. The Finnish Government certainly does not expect this event to provide an undisputed way of proceeding, but we do expect that we will have a profound, constructive and forward-looking dialogue here at our premises even if we still have to do a lot of work to find the most workable ways to deal with the issue.

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The current European financial crisis has given the discussion on public sector role and public finances role new dimensions. The problem is not necessarily that public expenditure grows faster than the European economies, but also insufficient capability to collect tax revenues. This is partly a technical problem, i.e. tax authorities are too weak and the tax code backing them too confusing and with insufficient resources and legal capability to catch and prosecute tax dodgers. Thus we have countries in the EU where tax avoidance has been characterised as a national sport.

A fundamental problem is the lack of social acceptance and political support for taxing citizens in transparent and equitable way. It is important to note that imposing an external pressure to create *technically* better tax legislation and effective tax administration is not likely to produce a sustainable change in tax income if the social and political norms do not change at the same time.

Paying taxes and doing it uniformly across the society, requires social trust and a general belief that Government will ultimately use collected resources to the benefit of all members of the society, businesses included. This is obviously difficult to achieve at the same time when the most urgent payments from the Government's coffers are related to debt serving.

It is widely accepted that Europe needs growth, not only measures aiming at control of the public sectors deficits. I would add that Europe needs trust in national institutions and social inclusiveness; otherwise the sustainability of public revenue, the other side on the equation, cannot be restored.

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I have referred to the European situation as I think that it provides some important and interesting insights to more general developing issues. I don't want to underestimate value of technical assistance in strengthening tax authorities' capacities or importance international tax agreements and cooperation, on the contrary. However, it would not be enough.

Directly related to the topic of this seminar, I would like to emphasize that we need to ensure the companies operating in developing countries that it is on their own interest to contribute their share to the public finances.

Taxation is not only taxation of firms. In developed countries taxes are collected mainly from consumption (i.e. VAT, sales taxes, excises) and income (i.e. taxes on wages and salaries or capital income). In some – mainly Anglo-Saxon – countries also various property taxes are important.

Sustainable domestic resources for development cannot be based solely on taxation on firms. Especially in Middle-Income countries, the growing middle-class is still contributing relatively little to public coffers. I'm not referring solely on 1 per cent of extremely rich, but also to the much larger number of people who have gained a standard of living almost equivalent to that in the most advanced economies.

To motivate middle-classes of the Emerging Economies to pay taxes requires deep changes in social values and systems as we cannot solely rely on altruistic motives. The grand bargain of the Nordic Model of a Welfare State, with its universal social services and social insurance covering the whole population and with a relatively high, but also generally accepted rate of taxation, can be encapsulated to the principle: everyone pays and everyone benefits. Thus social security systems, providing income security and basic services as well as basic old-age pension are necessary. Moreover, public finances should be managed transparent and professional way. The ultimate challenge is to create democratic institutions controlling tax collections and use of public funds.

Regardless of the case, corporate or personal taxes, we would need a balanced, long-term process to create trust required both in income generation and providing public services and goods needed in development process.

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Next I would like to touch upon few more concrete proposals and already existing initiatives.

As you all know, the European Union is right now in the midst of an intense debate on a financial transaction tax. Following the welcome proposal by the EU Commission, this is no longer another theoretical discourse on the issue, but the most serious political attempt so far to introduce a tax of this kind at the European level. In the internal EU negotiations Finland will definitely be pro-actively on the side of finding a positive solution to the issue.

Attempts to find a solution for the transaction tax challenge are very much encouraged by the fact that the public support for these measures is stronger than ever before in the European public opinion.

Moreover, if Europe beginning with the countries in the Euro-group or a coalition of the willing were able to set an example and introduce a model for how a transaction tax actually could work, that would certainly give a push to the international debate, even if we know that on short term we cannot expect any breakthrough at the global level. The Leading Group on Innovative Development Finance, where Finland is a member, is an obvious global forum for continuing work on this matter. The fresh Global Sustainability Report refers to the issue of international taxation, but did not put forward specific recommendations in this regard. We are open to consider any ideas on how multi-stakeholder dialogue and cooperation around the FTT issue could take the global political process forward.

Concerning the preventing international tax evasion and shutting down tax havens a number of important initiatives are on the European and/or the international agenda, and Finland is engaging various ways in this work, this seminar being one example. We welcome this cooperation and hope that we are able to find other ways to cooperate with the Tax Justice Network.

The International Task Force on Financial Integrity and Economic Development, with our Nordic neighbour Norway in the drivers' seat, has done some exemplary work in a number of areas, including illicit financial flows, automatic information exchange and trade mispricing.

At the European level the promotion of the EU framework for a Common Consolidated Corporate Tax Base (CCCTB) could be one way of ensuring that corporations would be taxed as single units within the EU.

Another important theme is developing and promoting models for the multilateral, automatic information exchange on tax issues. Here we welcome the convention on mutual administrative assistance in tax matters currently being prepared by the OECD and support the broadening of the membership and the scope of the European Savings Tax Directive.

In this context it might also be useful to have a closer look at the Foreign Account Tax Compliance Act (FATCA) recently introduced in the United States, which aims at identifying individuals having deposits in foreign financial institutions and being obliged to pay taxes on their deposits and investments to the US. The aim of this law is to prevent tax evasion through enforcing the access to information from foreign financial institutions. Instead of just trying to find ways of limiting the consequent price tag of this for European and other countries, we might think of developing similar models for tax collection at a multilateral level.

A well-known, but persistent problem is the use of natural resources and how the ultimate owners of the resources, the citizens and communities, are compensated. We welcome the Extractive Industries Transparency Initiative (EITI). It seeks to increase transparency over payments by companies from the oil and mining industries to governments and to government-linked entities, as well as transparency over revenues by those host country governments.

The issue of proper compensation from access to natural resources is not restricted to the developing countries. Also in Finland, we have a lively debate on why we provide access to our mineral resources without any proper compensation. Moreover, of the mining companies, foreign or domestic, are subsidized by the Finnish taxpayers in the form of public transportation and infrastructure investment.

One way towards more just and equitable use of natural resources is to implement natural capital accounting, parallel to GDP and other economic statistics. Knowledge of your resources and their use creates pressure towards better taxation and user fees policies. Finland endorses the attempts to include this in the Rio+20 Summit conclusions and seeks ways to practically support those countries wanting to implement UN standards – the System of Environmental and Economic Accounting (SEEA).

These are just some examples of ideas and measures that could be brought forward in order to limit tax evasion. Also here we are open for your reactions and suggestions as to what might be done through multi-stakeholder cooperation in this field.

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With these words of welcome I wish you a very productive and constructive two days here in Helsinki. I look forward to seeing you again at the closing session, to get an overview of the outcome of this seminar, and maybe to share some initial thoughts with you on the work done.