

# TAX JUSTICE FOCUS

the quarterly newsletter of the tax justice network



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## Editorial

**Babatunde Olugboji**

In the past decade or so, there have been various campaign and advocacy initiatives (on fair trade, trade justice, debt cancellation, debt repudiation, etc.), largely led by the global north, in efforts to Make Poverty History. While these initiatives have recorded some relative successes, it is becoming increasingly clear that any nation that is unable, for various reasons, to effectively mobilise its domestic resources will find it extremely difficult escaping the clutch of poverty. In a number of African countries, especially the resource rich nations, huge multinationals have negotiated considerable tax holidays for themselves, while others, in collusion with government officials, evade or avoid taxes and export such unpaid amounts to third countries, mostly tax havens.

Rich countries like the UK are happy to accommodate these corrupt companies and officials when they are friends and allies, especially in the ill-defined war on

terror. And UK and other Western banks are glad to open their vaults to these illicit deposits, safe in the knowledge that age old banking secrecy laws will grant zero access to prying eyes. Smart bank executives also know that in all probability such monies will never be repatriated. Even in the unlikely event that they are; millions of pounds in interests would never leave these shores.

A close look at the behaviour of firms headquartered in the UK and British policies indicate that the UK has contributed significantly to the inability of African countries to effectively mobilise domestic resources, including tax revenues. Between 1972 and 1988 for instance, non-residents are believed to have deposited an estimated £1,000 billion – believed to be from questionable sources – in UK banks. In fact, the UK 'mainland' is such a magnet for criminal funds and money launderers that the US State Department ranks Britain ahead of many offshore centres as vulnerable to money

laundering by criminals because of the country's secretive banking arrangements. Although the British government disputes this, in the past two years or so, at least two Nigerian governors were investigated after being caught with millions of pounds sterling in cash.

How about offshore centres? In the UK, offshore centres have become outstanding places to launder the proceeds of crime and corruption, owing to the secrecy surrounding their operations. They have been implicated in several money laundering schemes. The International Monetary Fund (IMF) in a 1996 report estimated that US\$500 billion – between two and five per cent of global Gross Domestic Product (GDP) – was laundered offshore every year. In 1999, this figure rose to between US\$590 and US\$1,500 billion. A 1997 United Nations report calculated that laundered global revenues from corruption, fraud, pornography and prostitution stood at between US\$500 billion and US\$1,000 bil-

## Africa issue

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lion. Arms dealers also often use offshore bank accounts to conceal their tracks.

## leading agencies fighting poverty should do more, say more and devote more energy to the fight against corruption in the UK, and elsewhere

Damningly, many offshore financial centres are located in UK Overseas Territories and British Crown Dependencies. An estimated US\$800 billion, for instance is held in Britain's tiny offshore islands. In March 2006, bank deposits in Jersey alone stood at almost US\$348 billion - up from US\$17 billion in 1980. Seventy per cent of those deposits originated outside the sterling area. Some 90,000 anonymously owned companies are registered on the islands. Between 1972 and 1988, Channel Island firms are believed to have assisted in laundering US\$1.2 billion that a Saudi prince received in bribes. Island branches of a prominent high street bank were used by arms dealer Rudolph Wollenhaupt to sell millions of pounds worth of arms to the former president of Congo-Brazzaville, Pascal Lissouba, which he used in a civil war.

Even more money – fully one-third of the world's offshore wealth – is held in 17 Caribbean offshore centres, most of

which are UK Overseas Territories. Some estimates suggest that between one-third and one-half of this money consists of the proceeds of crime. Caribbean havens are becoming increasingly important as other banking countries such as Switzerland, Luxembourg and Liechtenstein are being forced by international pressure to open up their books and become more transparent.

All the more reason why leading agencies fighting poverty should do more, say more and devote more energy to the fight against corruption in the UK, and elsewhere. If only corruption and its associated ills, including reverse flow of capital, can be stemmed, the argument for more development assistance will become moot. For example, about £25 billion flows into Africa in aid and loans while an estimated £200 billion flows in the opposite direction – to UK and northern banks – through corruption, money laundering and other criminal means. London banks are believed to hold US\$6 billion from Kenya and Nigeria alone. Now is the time for the rich countries, especially the UK, to act.

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# Capital flight and Africa

**Africa loses billions of dollars every year through corruption, money laundering and tax evasion. But as the World Bank prepares to get tough on corruption, it has failed to grasp a critical part of the problem, writes Patrick Smith.**

Nigeria's anti-corruption czar, Nuhu Ribadu, tells of the multi-billion dollar losses suffered by his country from corrupt deals, tax evasion and pricing scams. He held the World Bank and IMF annual meeting in Singapore spellbound with his accounts of billions of Nigeria's oil wealth which have been siphoned into western accounts and tax havens over the past three decades.

Ribadu was feted by World Bank President Paul Wolfowitz who is working hard to convince everyone that the Bank is getting serious about corruption – within his organisation, and within both western and developing country governments, and within the transnational companies that dominate the global economy.

Wolfowitz is using tougher language than his predecessors and has appointed a high-powered lawyer, Suzanne Rich Folsom, to head up the Bank's new investigation unit, the Department of Institutional Integrity. Wolfowitz's anti-graft blitz comes as a raft of new books highly critical of foreign aid and the growth of state corruption have been written by

former World Bank officials such as Robert Calderisi and William Easterly.

Such books and at least some of Wolfowitz's rhetoric openly question the wisdom of the big new foreign aid push promoted by British Prime Minister Tony Blair's government last year alongside proposals by American economist Jeffrey Sachs to end global poverty by 2025 with a massive transfer of wealth from the world's richest economies to the poorest.

There is, however, one critical issue missing from the arguments of both the pro and anti-aid camps, and indeed missing from much serious economic analysis by the World Bank and the IMF. There is in fact already a massive transfer of wealth in the global system but the transfers – amounting of several hundred billion dollars a year – are overwhelmingly from the world's poorest countries to the richest. This is not just the corruption, more narrowly defined by Wolfowitz, it is a range of global financial transactions – both legal and illegal – that are starving the treasuries of some of the world's poorest states.

Call it 'dirty money' or flight capital, it's the money that is illegally taken out of developing countries each year through a combination of pricing and tax scams, and the plain theft of state resources. The cost of corrupt contracts currently is one of the smaller elements of this outflow, according to experts such as Raymond Baker based at Washington's Brookings Institution\*. Current estimates are that it is over US\$30 billion a year from Africa alone. These losses easily eclipse the value of the aid and debt promised to Africa by the rich countries at their annual G8 summit.

No one can put a precise figure on volume of dirty money but in 1998, Michel Camdessus then Managing Director of the IMF said in Paris that "estimates of the present scale of money laundering transactions are almost beyond imagination – 2 per cent to 5 per cent of global GDP would probably be a consensus range". Applied to global GDP of US\$32 trillion a year, that indicates a range of US\$640 billion to US\$1.6 trillion a year.

This figure is just part of the dirty money equation. 'Laundered money' is money that breaks anti-money laundering laws. It doesn't cover the billions of dollars of tax-evading funds – the revenues from commercial crime on transactions that

are deliberately mispriced to move money, mainly out of developing countries, to offshore tax havens.

So where does all the money come from? First, there are the proceeds from crime: global organised crime, which is rapidly infiltrating Africa, makes around US\$1.5 trillion a year of which the drugs trade – again much of it originating or transiting through Africa – makes around US\$400 billion a year.

Counterfeit goods, many of them coming from Asia but again increasingly produced in Africa, are reckoned by Interpol

to account for about US\$450 billion of current world merchandise exports of US\$6.5 trillion a year. Also important are the illegal arms sales: these cover most of the small arms used in Africa's wars, either by rebel movements or governments such as Sudan's which are subject to international sanctions. Illegal sales of small arms alone

are put at over US\$1 billion a year, with illegal sales of all conventional weapons at as much as US\$10 billion.

Growing in importance, too, are illegal sales of oil as the world price spirals. Unrecorded oil sales come mainly from Saudi Arabia, Russia and increasingly from Angola and Nigeria. More than a million barrels a day are illegally extracted and traded.

Shell reckons Nigeria is losing more than 100,000 barrels a day from various forms of oil theft, known locally as 'illegal oil bunkering' where the stolen oil is clandestinely loaded onto tankers and the trade documentation is elaborately forged. This trade deprives Nigeria of several billion dollars of oil revenue a year, and many of the gangs behind the violence in the Niger Delta buy their arms with the proceeds from bunkering.

Commercial and state corruption are important not just for the volume of funds that are shifted out but also because of the damage they do to the integrity of judicial and political institutions. If officials can be easily bribed, they allow corporate criminals and drug barons to operate with impunity. "Government corruption creates a permissive environment, and this magnifies criminal activities and financial shenanigans in the rest of the economy", says Raymond Baker.

Those financial shenanigans, Baker says, are the biggest components of 'dirty money': the transfer pricing and mispricing that allow corporations to take out hundreds of billions of dollars each year from developing countries and into tax havens.

How does it work? The basic principle is to use mispricing to take the money out: over pricing the goods that a country imports or underpricing the goods that it exports. For decades, in Cote d'Ivoire, President Houphouet-Boigny and commodity traders deliberately underpriced the country's cocoa exports. The differ-

ence between the price officially recorded and channelled through Cote d'Ivoire's central bank and the real market price of the exports was shared between the politicians and the traders involved in the scam, and then banked offshore.

The scam also works the other way around: researchers have found that Nigeria pays as much as ten times the market price for many of its finished good imports such as generating sets: the central bank remits the money overseas in payment of the grossly inflated invoice. Again the proceeds are shared between the foreign trading company and the local corrupt officials facilitating the payment and order.

The other key technique is transfer pricing. This can only happen within a multinational corporation with a headquarters organisation, usually in Europe or the USA, and several subsidiaries, usually in Africa, Asia and Latin America. The headquarters of the multinational sells components and services 'internally' to its affiliate company in Africa at a hugely marked up price thus ensuring that the local entity makes only a minimal profit and minimising its tax liabilities.

Researchers such as Baker put the volume of mispriced trade at between 5 per cent and 7 per cent of the US\$4 trillion of world trade each year: that's over US\$200 billion each year. Common to all these transactions – mispricing, drug smuggling or corrupt payments – is the use of the West's pin-striped army of lawyers, accountants and company formation agents and the experts who hide

**there is already a massive transfer of wealth in the global system, but the transfers - amounting to several hundred billion dollars a year - are overwhelmingly from the world's poorest countries to the richest**

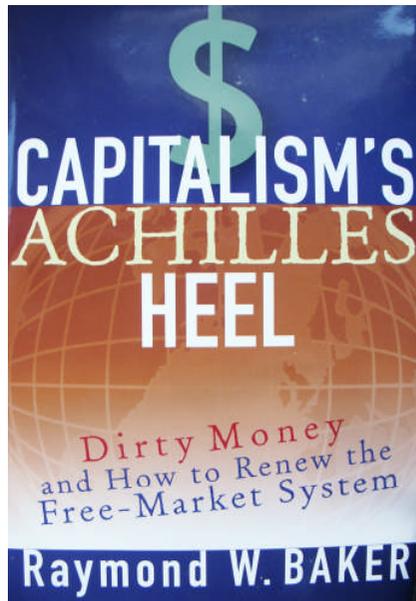
the ill-gotten gains in offshore tax havens.

Attempts to improve international cooperation on tax and regulate offshore operations are moving painfully slowly. At least US\$11.5 trillion is currently held in offshore tax havens. Incredibly, tracking such huge illicit outflows is not regarded as a priority by international financial institutions.

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[www.africa-confidential.com](http://www.africa-confidential.com)

\* *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System* by Raymond Baker (John Wiley & Sons, New York, 2005).



# The spoils of oil: how multinationals and their professional advisers drain Nigeria of much needed resources.

**Nigeria loses billions of dollars every year from tax evasion and capital flight by the multinational oil companies operating in the country. This money should be helping to fund pro-poor development, argues **Owolabi Bakre**.**

**F**ifty years of oil and gas exploration and production that should have transformed Nigeria into a prosperous country have brought only misery and extreme poverty to the country's people. Successive Nigerian governments have failed to provide basic infrastructure, public services and much-needed development programmes to stimulate wealth distribution. The evidence shows that almost all the transparency and good governance-preaching multinational oil companies operating in Nigeria – in collaboration with the erring Nigerian rulers, politicians and public officials – have been partly responsible for the country's economic woes.

Trade liberalization, forced on Nigeria by multilateral institutions such as the World Trade Organisation (acting under the pressure being exerted by the multinational oil companies), has had the effect of shifting the tax burden from the oil companies onto local consumers who are already burdened by extreme poverty.

Despite the existence of exploitative tax

rules, the oil multinationals have been further heavily involved in criminalising the Nigerian business culture, compromising the nation's policymakers, contaminating national institutions and subverting the nation's due process. The oil companies have also been implicated in environmental pollution, have refused to cooperate with the Nigerian regulators, and have also consistently disobeyed a series of court orders to compensate the victims of pollution, especially in the Niger Delta.

**the oil multinationals have employed armies of accountants and auditors to effect tax evasion and illegal capital flight from the Nigerian economy**

Almost all the oil multinationals were found to have been using fraudulent means to obtain public subsidies, tax

incentives, export credit guarantees and reserve additional bonuses from the Nigerian government. These companies employed armies of accountants and auditors to effect tax evasion and illegal capital flight from the Nigerian economy. The companies benefit from Nigerian infrastructure and public utilities, but consistently refuse to pay their share of the democratically agreed taxes on the huge profits they make in the country every year.

The case of the Shell Petroleum Development Company (SPDC) provides one example. It was only after its failure with the Federal Inland Revenue's Appeal Commissioner, the Federal High Court, Court of Appeal – and knowing full well that it would also fail to get what it deemed as a favourable verdict at the Supreme Court – that the company finally agreed to settle out of court its disputed tax liability of US\$17,857,142.86 (owed to the Federal Inland Revenue of Nigeria). Nigerians are eagerly waiting to see if this out of court settlement initiated by SPDC actually takes place.

In addition, a recent value for money audit carried out by the Nigerian House of Representatives Committee on Petroleum Resources accused SPDC of colluding with the Nigerian Minister of State for Petroleum Resources, Edmund Daukoru, to underpay the Nigerian government by US\$3.2 billion for the crude oil extracted there.

Another example is provided by the case of Chevron Nigeria Limited. After investigations of tax evasion, the Nigerian House of Representatives Committee on Petroleum Resources has ordered the United States oil producer to refund to the Federal Government of Nigeria a total sum of US\$492 million. This is money that Chevron failed to pay as a part of its tax obligations.

Another United States oil servicing and engineering company, Halliburton, on interrogation by the Nigerian Economic and Financial Crime Commission (EFCC), admitted that its officials paid US\$2.4 million to some erring Nigerian public officials to gain tax favours and receive tax cuts from its liability totalling more than US\$14 million. Halliburton is also currently under investigations in the USA and Britain for illegally paying about US\$180 million to the former military ruler, the late General Sani Abacha, and some other top officials of his regime to secure contracts to build a natural gas plant in Nigeria.

These scandals of the transparency, accountability and good governance-preaching multinational oil companies have been carried out using the professional services and expertise of their

accountants and auditors. These professionals helped the companies to evade taxes and effect illegal capital flight from Nigeria in the first place, then helped them to deny that these corrupt practices took place – even after investigations had confirmed that they did.

The corrupt attitudes of Nigerian rulers, politicians and public officials and the collaboration of the oil multinationals operating in the country have contributed greatly to the impoverishment of the Nigerian economy and the country's 70 per cent poverty rate.

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## tax justice network for Africa

The Tax Justice Network for Africa will be launched at the 2007 World Social Forum in Nairobi, Kenya. TJN for Africa will help African civil society to create a network of researchers, campaigners and policy makers dedicated to the struggle against illicit capital flight, tax evasion, tax competition and other harmful tax practices.

Immediately before the WSF, on 18 and 19 January, a research workshop on the theme Tax, Poverty and Finance for Development will be held at the Meridian Court Hotel in Nairobi. The workshop, co-organised by TJN, the University of Nairobi and the Association for Accountancy & Business Affairs, will bring together researchers, policy makers, professionals, campaigners, journalists and others with an interest in tax justice.

For further information visit: [www.taxjustice4africa.net](http://www.taxjustice4africa.net)  
 or email: [info@taxjustice.net](mailto:info@taxjustice.net)

# Tax justice and the oil industry

**Nicholas Shaxson** examines Angola's efforts to enhance transparency of oil industry payments and suggests some surprising potential allies in the struggle for tax justice.

There has been much recent discussion about two complementary transparency initiatives: one, backed mainly by non-governmental organisations (NGOs), is called Publish What You Pay (PWYP), while another, backed by NGOs and governments and oil and mining companies, is known as the Extractive Industries Transparency Initiative (EITI.) PWYP and EITI. It is possible that a Tax Justice approach might be relevant for considering the big gaps in both approaches.

These two initiatives originated, in large part, from NGO campaigns on Angola, where it had become clear that large amounts of oil revenues were 'disappearing', at the behest of the presidency, meaning that the IMF, and Angola's own finance ministry, among others, could not make sense of national accounts. With a history of war and hyper-inflation, Angola made a vivid case study for the problem. Oil company reports require disclosure of amalgamated data by region or globally, making it theoretically impossible to unpick it and find out BP's Angola data, say, and construct an independent picture of how much money Angola really earns.

When BP said in February 2001 that it would publish its payments to Angola unilaterally, Angola threatened it with contract termination, and the British

company stepped smartly back into line. The NGOs, as a result, launched PWYP, partly as an effort to level the playing field. Instead of asking oil companies to publish data unilaterally, it advocated a mandatory approach: western regulators, legislators, and/or international bodies would require companies to disclose disaggregated data for their worldwide operations. But ExxonMobil, Chevron and Total, in particular, and several governments, resisted this, arguing (among other things) that since state oil companies are responsible for a large share of poor oil-producing countries' revenue, you would still not get the full picture even if all western companies operating in those countries disclosed disaggregated data.

So the EITI was born. This takes a voluntary approach to disclosure of data: governments like Angola's or Congo's would voluntarily disclose data, giving a clearer picture of their revenues than ever before. EITI has had some success, albeit a bit patchy.

Both these approaches have relative and shared strengths and weaknesses. One

shared weakness is that they both deal with the issue of a country's oil revenues *after* costs have been deducted. They do not touch the cost base of the oil industry at all. This is quite an omission – for example, Angola has eleven or twelve major oil projects under development, several of which have involved investment costs worth US\$3 billion or more, which form part of the cost base of the industry. Three billion dollars here, three billion there – and soon you are talking real money.

This is a murky terrain, which under Production Sharing Contracts (common in the oil industry) corresponds to what is known as 'cost oil' – that portion of each barrel of oil that is paid back to the oil companies to cover the initial investment costs they put in. (The remainder, 'profit oil' is split between the government and the companies on a sliding scale formula.)

This cost base is hard to monitor for reasons that will be familiar to people in the Tax Justice Network: tricks like mispricing and thin capitalisation enable companies to shift money around through subsidiaries to maximise their costs and tax deductions. Audits can help countries get a better grip on these, and

the Angolan state oil company Sonangol has also taken the step of taking large stakes in local joint venture partnerships with a wide array of big international companies providing helicopters, catering, shipping, drilling equipment, and the like, helping Angola get a better grip on what exactly is going on inside the cost base of its industry.

In 2004, Sonangol tried to go a step further – telling the oil companies that they would be required to route all their payments related to their Angolan operations through local banks. There were several reasons for attempting this: it would provide more money to local banks (and hence local vested interests) in fees, and it would theoretically enable them to provide more credit to the local economy.

Another reason was what one Angolan official described as "the flip side of transparency" – to enable the Angolans to see more clearly how the money really flows through their industry. Everyone is asking them to be transparent, the official said; why can they not ask the oil companies to be more transparent to them? In a rare show of solidarity, the oil companies came together to oppose this initiative, which appears to have been dropped, at least for now. (However, independent Angolan media reported in June this year that Deputy Prime Minis-

ter Aguiñaldo Jaime said at a meeting in Hanover that he was still angered by the fact of oil companies' financial flows related to Angola were 'offshore' and should be routed through local banks.)

An important point here is that Angola, or at least some important people or factions in Angola, seem to have interests aligned with those of the Tax Justice Network. This is not to say that an alliance between TJN and Angola is necessarily feasible (given the billions of dollars gleefully salted away offshore by Angolan politicians, it seems rather unlikely), but that the Angolans' concerns are generic, and that it is possible that the TJN might, in future, find allies in the most surprising places.

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Publish What You Pay's *Extracting Transparency* can be downloaded from the campaigns page of the TJN for Africa website.

[www.taxjustice4africa.net](http://www.taxjustice4africa.net)

# Calling multinationals to account

**International accounting standards may seem far removed from Africa's problems – and frankly rather dull. But, as Richard Murphy argues, getting multinationals to report properly on their activities in poor countries is an essential step towards enhanced economic justice.**

**T**he Publish What You Pay (PWYP) coalition of almost 300 organisations made a breakthrough in September 2006. It persuaded the International Accounting Standards Board (IASB) that sets the rules for accounting for most of the multinational corporations in the world that its request that those companies account 'for who and where you are' should be given serious consideration.

'Accounting for who you are' simply means that a company should list all the countries in which it operates and name all its subsidiaries in every country. This information is at the very core of corporate accountability and is of particular importance in developing countries. Anyone who wants to know which company is doing what and where in the world could benefit from this information. And it is either difficult – or impossible – to get this information at the moment.

'Accounting for where you are' means that every multinational company should publish information for every country in which it operates. This would include

information on profits and other important issues like labour costs. It would also include data of importance to many developing countries where fraud prevention is vital, including all payments made to governments and tax information.

These proposals may appear radical but they are no more radical than the proposals for reform of 'segment reporting' put forward by the IASB. And putting the proposals into practice need not be costly or technically difficult. Every transnational corporation already has this information available for internal accounting and tax purposes.

The impact would, however, be great. Corporate accountability would be enhanced worldwide. Local information on multinational corporations would be available, often for the first time. And the amount of tax paid by those companies to individual governments would be known. Through the Extractive Industries Transparency Initiative (or similar initiatives) the amount of revenue for which the government can be held ac-

countable will be known. This is bound to increase transparency and reduce the risk of corruption. The result will be increased revenues for developing countries and a reduced dependency on aid.

Publish What You Pay only have a mandate to work on this proposal for the extractive industries. But the information would be of huge benefit in many other sectors. TJN will continue to work with PWYP but also wants to broaden the campaign so that an International Accounting Standard is secured that delivers benefits across all sectors and countries. Massive progress has been made to date. Please contact me if you are interested in taking this campaign to the next stage.

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# The hand that rocks the cradle...African youth's perceptions on taxation

Young people in South Africa are confused about the impact of tax on their lives. More tax education is needed to inform these future voters and tax-payers, argues **Ruanda Oberholzer**.

The words of Nelson Mandela on Tuesday 10 May 1994, the day of his inauguration as the first black President of South Africa, will be remembered by people throughout the world: "Out of the experience of an extraordinary human disaster that lasted too, too long, must be born a society of which all humanity will be proud." Today more than ten years after the African National Congress (ANC) became the leading party in the Government of National Unity; one can still argue whether these words are merely an idealistic dream or an achievable goal for any government.

People have become increasingly helpless and confused about the impact of taxation (an essential activity if there is to be a government) on their daily lives. Many people consider a great deal of the money levied on taxation to be spent unwisely, and that the manner in which taxes are collected is also often unwise.

Research with the primary aim of establishing an overview of the perceptions on taxation under previously disadvantaged black South African learners was performed in order to identify whether a need for more tax education and training exists. The youth of South Africa are the future voters and taxpayers of a country and never before have so many young

people had as many opportunities for interchange, learning and dreaming of a better future.

University students provided final year black high school learners of a township school in South Africa with an educational session on taxes after which the learners had to complete a questionnaire.

Almost all the learners (95 per cent) indicated that they had a better understanding of taxes after the educational session. Possible reasons for this important fact are certainly a topic that justifies further research and can possibly include some or all of the following:

- the lack of exposure to taxes
- receiving insufficient information
- lack of knowledge by parents and educators.

Another significant finding was that 98 per cent of the respondents feel that other learners will benefit from attending a similar educational session.

The following two questions were specifically aimed at identifying the resources available to the learners and their preferences relating to information media. The majority of the learners have

access to television (93 per cent), radio (92 per cent) and newspapers (89 per cent). Only a very few learners have access to computers and the internet. As expected, the various types of resources the learners have access to influence their preference relating to what media should be used to provide more information on taxes. The learners had a stronger preference to receive information on taxes by means of television (80 per cent), newspapers (74 per cent), educational sessions (68 per cent) and radio (61 per cent). They showed less preference for receiving information by means of brochures / pamphlets (43 per cent), computers (29 per cent) and the internet (11 per cent).

Finally, an open question where learners could make any comments regarding taxation provided some insight and a lot of food for thought. Some of the comments received are listed:

- "Having people educating us about taxation is an important thing because before the presentation most of us had no idea."
- "It was very good because it really gave me a better understanding even though I knew about taxes. Thank you."
- "I think taxation is the right thing for people to pay. Today's presentation was

enjoyable and understandable."

- "I think the presentation was really great and I have learned that brown bread does not get taxed."
- "Even though I already knew about taxation, but more knowledge in your mind makes you know even more."
- "My comment is that your sessions are good so there must be more like in community halls."
- "Today was good. I hope you do this at other schools!"

It is important that any government should be concerned about the views of the next generation. Therefore, if we believe that Sommer is correct in stating: "What you put into the school will appear in the life of the people of the next generation", it would pay great dividends to any government to invest a considerable amount of the future education curricula to the subject of taxation.

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# Reviews and new research

Charles Sampford, Arthur Shacklock, Carmel Connors and Fredrick Galtung (Editors)  
**Measuring Corruption**  
 Ashgate, 2006

Without wanting to be too harsh on Transparency International, how can it be that over 40 per cent of the countries measured as 'least corrupt' by its 2005 Corruption Perceptions Index (CPI) are offshore tax havens? Whose perceptions are we dealing with here? And whose definition of corruption? These questions are important because the CPI shapes the corruption discourse and adversely influences the credit ratings of the (mainly African) poorer countries which dominate the 'most corrupt' end of TI's rankings. In other words, these figures matter.

*Measuring Corruption* sets out to examine the pros and cons of quantifying corruption, but in doing so the editors recognise that measurement requires precise definition, which is where the discussion becomes contentious. As Mark Philp points out in his chapter on definition and measurement, corruption can only be defined according to the "legal or social standards constituting a society's system of public order". But judging from the case studies which form the bulk of the second half of the book, further convergence is required before a satisfactory international definition of corruption can be arrived at. Until that stage is reached,

argues William Miller in his chapter, "debate over **the** definition of corruption is best avoided". Which calls into question whether it is possible, or even desirable, to attempt measurement of such an elusive concept.

Drawing on divergent views from a range of experts, *Measuring Corruption* provides a useful tour d'horizon of the current state of the debate and examines the strengths and weaknesses of various approaches to measuring corruption. A J Brown's contribution on the evolution of a new taxonomy based on a rational / behavioural approach signals a way forward for the definitional debate, and Frederick Galtung argues a strong case for root and branch overhaul of TI's Corruption Perception Index, which, he says, is counter-productive in its current form.

Disappointingly, the contributors continue to emphasise bribe-taking rather than bribe-giving, and insufficient attention is given to corruption in the private sector. Furthermore, there is no analysis of how the supply side role of financial intermediaries stimulates corruption. A no-holds barred review of how offshore secrecy encourages and facilitates dirty money flows might yield an entirely different perception of the geographies of global corruption.

John Christensen

Kenneth Stewart and Michael Webb  
**'International competition in corporate taxation: evidence from the OECD time series'** in *Economic Policy* 21:45, pages 155-201, January 2006

## Tax competition - just an illusion?

Kenneth Stewart and Michael Webb, an economist and a political scientist working in University of Victoria, Canada, came up with a conclusion in early 2006 which surprised many: there is no evidence on a 'race to the bottom' in corporate taxation in OECD countries.

Stewart and Webb analysed time series data on corporate tax burdens in OECD countries since the 1950s. They found hardly any evidence of a downward convergence of tax burdens on corporates across countries; evidence suggests that the trend is neither downward nor converging at the OECD level. In fact, the only significant co-integration was found between individual northern European countries. The authors suggest that, in respect to taxation, national goal-setting determines tax policies much more and tax competition and international coordination much less than suggested by many globalisation theorists.

The most interesting part of the pair's work is the methodology used. They wanted to eliminate the distortions

caused by international tax avoidance from their study and integrate intra-corporation profit-shifting. The article and the discussion which follows, revealing the limitations of the approach, are essential reading for all researchers using quantitative methods in their work on tax competition.

Stewart and Webb illustrate a need to shift the policy debate from general assumptions on tax competition to more specific discussions on tackling harmful tax practices.

Ville-Pekka Sorsa

**The next Tax Justice Focus will be a special edition on tax competition.**

# Campaigns and TJN news

## Brasilia finance meeting a success for TJN

The first plenary meeting of the Leading Group on Innovative Financing Mechanisms was held in Brasilia, Brazil on July 6-7 2006. Lucy Komisar, attending for TJN, joined representatives of 20 non-governmental organisations and around 40 countries.

Lucy raised the issues of tax evasion and capital flight, arguing that they should be put much higher up the Group's agenda. This view was echoed by other civil society representatives and some governmental delegates. Marcelo Ramos Oliveira (TJN steering committee member) and Clair Hickman, both of Unafisco, the Brazilian union of tax auditors, a member of TJN, also spoke in support of the TJN position.

In her final summary, the chair of the plenaries, Ambassador Maria Luiza Ribeiro Viotti, said: "...urgent attention must be given to the issue of tax evasion, which erodes the tax base of several countries, thereby reducing the resources available for combating hunger and poverty."

## TJN side event on tax evasion at the ECOSOC session

The UN Financing for Development Office invited TJN to organise a side event workshop at the ECOSOC Substantive Session held in Geneva in July. Presentations were made by Professor Michael J. McIntyre of the Wayne State University, Vicente Paolo B. Yu of the South Centre, and David Spencer, lawyer and Senior Adviser to the Tax Justice Network. The presentations were followed by a lively discussion among attendees including experts representing governments, UN agencies, academia and civil society.

The issues discussed included the links between capital flight, tax evasion, corruption and money-laundering, transfer-pricing, and repatriation of assets. Speakers emphasised the need for international organisations to focus more on preventing and combating fraud and capital flight. Participants also evaluated the benefits of developing a Code of Conduct on Cooperation in Combating Capital Flight.

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## The geographies of corruption

The World Bank has seized on corruption as an explanation for the failure of its Washington Consensus programme, but downplays the high-level dimensions of corruption and ignores the broader political economy of North-South relations.

At a session on the Geographies of Corruption held at the annual conference of the Royal Geographical Society, alternative perspectives were offered to explain the meanings and causes of corruption.

Tax havens and transfer pricing were the focus of presentations by John Christensen and Prem Sikka, the former attracting worldwide media coverage of his proposal that Britain, Switzerland and the United States should rank amongst the most corrupt countries because of their role as tax havens and their hindrance of initiatives to tackle this dimension of corruption.

John Christensen's paper – *Follow the Money* – is available for download from the TJN website.

[www.taxjustice.net](http://www.taxjustice.net)

## Global Financial Integrity programme launched

Following on from the success of his book – *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System* – Raymond Baker is heading a new programme on Global Financial Integrity (GFI) at the Center for International Policy in Washington DC.

The GFI will promote higher levels of accountability and legality in international financial flows: a necessary step in the fight against global crime, terrorism, poverty, and failed states. Using research-based advocacy, GFI will focus on several areas:

- Changing US law to prevent all types of illicit money derived abroad from legally entering the United States.
- Examining all illicit cross-border financial flows.
- Eliminating other elements of the global dirty-money system (particularly the secrecy elements).
- Curtailing abusive transfer pricing.
- Advocating enhanced corporate social responsibility.
- Strengthening the global financial system.

For more information, see:

[www.ciponline.org](http://www.ciponline.org)

## TJN contributes to the Social Watch Report 2006

The Social Watch Report 2006 was launched on 19 September in Singapore, at the Annual Meetings of the International Monetary Fund and the World Bank Group. The report focuses on the urgent need to reform the international financial system if national and international commitments to eradicate poverty and promote gender equity are to be fulfilled.

The Report includes articles by Mike Lewis ('Global tax evasion') and Sony Kapoor ('Exposing the myth and plugging the leaks') as well as an article on Switzerland by Bruno Gurtner.

For more information and article downloads see:

[www.socialwatch.org](http://www.socialwatch.org)

## EU seminar on tax competition and coordination

**Richard Murphy**

The EU held a seminar entitled 'Corporate tax competition and coordination in the European Union' on 25 September. Four TJN representatives attended this event.

The seminar featured papers from Europe's leading tax economists, but left me with the question I asked of them publicly during the day, which was "so what?" The reason for asking that was simple. The papers presented showed that the economic case for tax competition was not proven, but they thought it a good thing anyway; that profit shifting takes place, but only with regard to Germany; that these economists are only capable of building tax models of a single economy, but that they are then willing to extrapolate the results across economies, and so on.

Economics is said to be a dismal science. This day proved it. This was undoubtedly the best Europe can do on this subject. But all it proved was that economists have either got a long way to go, or they are offering the wrong criteria for assessing taxation. Or maybe both

## Emirate launches tax haven facility

**John Christensen**

The government of Ras Al Khaimah, the smallest of the United Arab Emirates, has launched measures to allow foreign investors to register offshore companies in its free trade zone.

The RAS International Companies Registry will allow companies to register without a physical presence in the Emirate and to operate with a single director. Offshore companies will not be required to provide audited accounts, and provisions will also allow the use of 'bearer shares', which means that the identity of owner's is not required to be disclosed.

The RAS tax haven is the second to be established in the UAE. Dubai opened the Jebel Ali Offshore Centre in 2003. Abu Dhabi is understood to also be considering opening a tax haven facility.

## Calendar 2006/07

### October 16-17

Extractive Industries Transparency Initiative Annual Conference, Oslo, Norway.

### October 17

Global White Band Day.

### October 19-22

Nordic Social Forum, Oslo, Norway. TJN to launch its code of conduct on tax policy for business.

### October 30

TJN briefing for South Centre members prior to the UN Tax Committee, at the Palais des Nations, Geneva, Switzerland.

### October 30 - November 3

UN Financing for Development Office 2nd Session of the Committee of Experts on International Cooperation in Tax Matters, Palais des Nations, Geneva, Switzerland.

### November 15-18

International Anti-Corruption Conference (IACC), Guatemala City and Antigua, Guatemala. Organised by the IACC Council and Transparency International.

### December 14

First conference of State Parties to the United Nations Convention Against Corruption, Amman, Jordan.

### January 18-19

TJN Research Workshop, 'Tax, Poverty and Finance for Development', Nairobi, Kenya.

### January 20-25

World Social Forum, Nairobi, Kenya.

### January 24-28

World Economic Forum Annual Meeting, 'Shaping the Global Agenda', Davos, Switzerland.