

TAX JUSTICE FOCUS

the quarterly newsletter of the tax justice network

first quarter 2006 volume 2 number 1

Pulp reality, tax fiction

The building of a huge pulp factory in Uruguay by Finnish company Botnia not only represents a threat to the environment. Thanks to the various tax exemptions the company has secured, the Botnia investment will bring little real benefit to the country's economy, writes **Jorma Penttinen**.

The benefits of foreign direct investment are more or less taken for granted. The transfers of technology, employment opportunities, direct money flows, and revenues for local and state government are seen to benefit the host country.

It was no surprise then that Uruguay was more than keen to accept the building of huge pulp factories on the banks of river Uruguay, on the other side of which is Argentina. The Finnish-owned Botnia factory would produce one million tonnes of pulp when operating, and the Spanish-owned Ence would be half that size.

Botnia's plant will be the biggest ever foreign investment in Uruguay's history, and according to the

calculations produced by Botnia, the factory would increase the country's GDP by 1.6 per cent.

Botnia's investment is explained by lower costs: fast growing eucalyptus trees and cheap labour mean that production costs are half of those in Finland. The pulp is not destined for South American markets; it will be transported to Europe and China.

There are, however, dark clouds over the Botnia project. Civil so-

ciety organisations in Uruguay and Argentina, which lies just across the river, share concerns about the environmental impact of the mills. Protest has been particularly strong in Argentina, where the president has also voiced opposition to the pulp mills on environmental grounds. According to an opinion poll carried out in August 2005, just over half of Uruguayans opposed the pulp mills. The issue will be referred to International Court of Justice by Argentina, and the presidents of both countries will meet in the near future to discuss the two pulp mills.

As well as the environmental concerns, there is another more complex question of whether the Botnia investment will bring any real benefits to the Uruguayan economy.

In Finland, Botnia currently has five pulp mills. Their combined production is 2.7 million tonnes – only three times that of the Botnia mill in Uruguay – and they employ directly some 1,600 people. The mills are situated mainly in small towns and are very important to the surrounding communities. To the local municipality, the personal income tax of the company employees is the most important benefit; and in a good year the company taxes equal this. There is also a property tax which goes directly to the local mu-

nicipality. The benefits from dividend taxes and VAT are paid mainly to the state.

In Uruguay, Botnia has been able to negotiate itself free of these kinds of obligations. The land area was rented for \$20,000 for 30 years, which is practically nothing. The

Trade issue

Letter from Davos	2
Letter from Bamako	4
Campaigns and TJN news	4
The supply side of corrupt practices	7
Media roundup	7
The WTO and taxation	10
Mind the tax gap	11
The hidden face of corporate corruption - unmasked	12
Reviews and new research	13
Calendar	15

Editor: Jenny Kimmis
email: info@taxjustice.net
Published by the Tax Justice Network
International Secretariat Ltd
© Tax Justice Network 2005
For free circulation

ISSN 1746-7691

special legislation of the *Zona Franca* free trade area will guarantee that Botnia does not have to pay any customs duty on machinery and equipment imports; which equals nearly one hundred million euros tax relief in a billion euro project. The majority of the equipment is manufactured in Finland.

Furthermore, the company will not pay income tax under the free trade area contract. It will pay source tax on dividends, services and assembling work.

The profits will mainly be given in the form of dividends to foreign shareholders and thus exported out of the country. Even though the production costs are half of those in Finland, the pulp will be sold at the world market price.

It has been estimated that pulp mill will add \$200 million per year to Uruguayan GDP, and that it will generate some \$25 million annually in taxes. During the construction period the project will employ around 4,500 people, and later there will be some 300 people working in the mill. It is estimated that the pulp mill will generate 8,000 jobs indirectly, mainly in the eucalyptus plantations. According to Botnia, the project is already the biggest private employer in Uruguay.

But when Ricardo Carrere of the World Rainforest Movement was asked what financial benefits the pulp mill will provide, his answer was “none”. He had seen pulp mills in Indonesia, South Africa, Brazil, Chile and Finland, and argued that the vast Uruguayan mill will diminish into a small one when all tax exemptions and subsidies are taken into account.

Basically, the pulp mill will not pay any taxes. As Carrere explained, the harvesting of eucalyptus trees is supported by tax relief and the state is building roads, port facilities

and other infrastructure for the company.

Carrere does believe, however, that the increase in GDP will indirectly benefit Uruguay. The growth of GDP and major foreign investment will improve the image of the country in the eyes of international monetary institutions, banks and investors.

The problem is that future investors will certainly demand equal treatment from the state, and the companies will continue to avoid paying taxes. A factory of this size is a powerful economic agent in a country

profits will mainly be given in the form of dividends to foreign shareholders and thus exported

like Uruguay; granting tax exemptions to encourage foreign investment means that this power is transferred to foreign companies. This is a great loss to democracy.

The Finnish state is selling itself short by supporting this kind of investment. Free trade areas and the many tax exemptions available give transnational firms a green light to avoid their social responsibility by not paying taxes. Until now, transnational companies that are at least seen as Finnish (for example, only 10 per cent of Nokia shares are actually held by Finns) have been able to use their financial power to influence policy on foreign investment.

A big political issue in Finland at the moment is the announcement by paper company UPM-Kymmene that it plans to reduce its workforce in Finland by 3,600 people over the next two years. It seems particularly odd that the Finnish embassy in Uruguay should be vigorously supporting the Botnia investment at such a time. The project is seen in Uruguay and Argentina – and also in Finland – as ‘a Finnish project’, yet the benefits for the Finnish state and people are very questionable.

Jorma Penttinen is a freelance journalist and the coordinator of TJN Finland.

 jorma.penttinen@surfeu.fi

Letter from Davos

Lucy Komisar

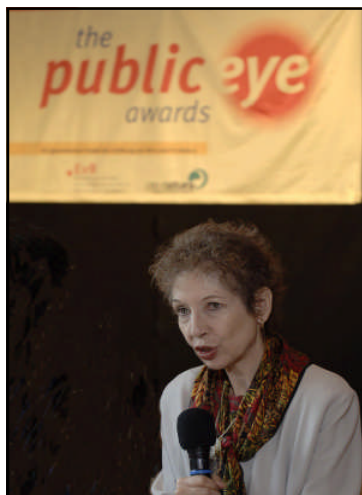
Davos is not my idea of where to hold a meeting. It is cold at the end of January, and though the views of snowy Swiss hills are charming, the town is not – just a long street lined with shops, hotels and restaurants. Yet an entrepreneur named Klaus Schwab knew that powerful people in business and politics would come to network with their peers – each group being bait for the other – and that corporate journalists would show the rich and powerful their usual reverence.

So the World Economic Forum in Davos has since 1971 been a magnet for business people, whose companies now pay about \$20,000 to ‘belong’, \$10,000 each to attend the meeting, \$78,000 to be an ‘Annual Meeting Partner’, and \$250,000 each year to be an ‘Institutional and/or Knowledge Partner’. Politicians are only too happy to come to connect with political financiers with such deep pockets. The WEF website says “The Forum is under the supervision of the Swiss Federal Government.” The Swiss official devotion to profitable tax evasion explains why TJN is not among the handful of NGOs invited.

Since 2000, however, two Swiss NGOs, The Berne Declaration, which is a TJN member (one of its staff, Andreas Missbach, serves on the TJN steering committee), and Pro Natura, the Swiss branch of Friends of the Earth, have sponsored the Public Eye on Davos to provide an alternative to the neo-liberal, profit-centred focus of WEF (pronounced ‘wef’, rhymes with ‘Jeff’).

The Public Eye initially ran alternative conferences. For the last two years, it has given alternative ‘awards’ for world-class socially

irresponsible behaviour. TJN's nominees in the tax category have been winners (or losers, depending on your point of view). Last year the prize went to KPMG and this year to Citigroup. As I wrote the Citigroup report, I got to present it.



Lucy Komisar speaking at the Public Eye Awards 2006, Davos.

We were in good company at the ceremony, with Amazon Watch presenting the environmental winner, Chevron, for poisoning large numbers of people and land in Ecuador with oil waste, and SACOM, a Hong Kong student and teachers group, targeting Disney for the violation of workers' rights in Chinese factories.

After a morning press conference at the Evangelical Church community centre, the big afternoon event was jammed with members of the public and media, and, in good humour, was hosted by Swiss cabaret artist and actor Patrick Frey. Amnesty International Secretary General Irene Khan gave an incisive speech.

A comic highlight was the appearance of Maurizio Antonini, a Silvio Berlusconi look-alike, starring in the Italian-German guerrilla comedy *Bye Bye Berlusconi!* He arrived with 'bodyguards', was introduced as the Italian Prime Minister, and declared proudly, in Italian, that he was a master of money-laundering. Berlusconi was awarded the Public Eye's 'Pinocchio Prize' for the most irresponsible businessman of the year.

None of the real 'honorees' showed up to claim their prizes – stylized sculptures of the Public Eye.

I had requested accreditation to the WEF as a representative of TJN, but that was predictably denied. I would have liked to present the award sculpture in person to Citigroup CEO Charles Prince, who was there. When I looked at the list of prominent CEOs in attendance, it was clear that Citigroup wasn't the only tax evader represented.

However, I was surprised to discover that the issue of tax evasion has moved up a notch on the agenda even of WEF, although it wants to keep it outside the corporate meeting. It co-sponsored a civil society forum on the subject with Bread for All, Switzerland. It may not be too long, however, before the issue breaches the barriers and lines of security police and confronts the world's powerful CEOs.

The most significant political event of January in Davos was a statement released by the International Confederation of Free Trade Unions

(ICFTU), which represents 155 million workers in 236 affiliated organizations in 154 countries and territories. (They were invited to WEF.)

The ICFTU expressed its concern about "plummeting corporate taxes", making the connection between joblessness and poverty-level pay. It highlighted the shift from corporate to personal taxes. "More and more of the tax burden is falling on individuals, while major companies are failing to pay their fair share", said ICFTU General Secretary Guy Ryder. "The ICFTU, the World Confederation of Labour and our global trade union partners will be putting this issue on the international agenda this year", he said.

While still in Davos, I met with ICFTU President Sharan Burrow of Australia and three other labour officials and we established the beginnings of collaboration between TJN and the ICFTU.

Davos turned out to be an important networking place for us – if not exactly what its corporate sponsors had in mind!

Lucy Komisar is a New York based investigative journalist.

[e lkomisar\(at\)msn.com](mailto:lkomisar(at)msn.com)

Read more on the Citigroup report on TJN's website:

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

Read more on the Public Eye Awards 2006 on the Berne Declaration website:

[w www.evb.ch](http://www.evb.ch)

Tax, poverty and finance for development

Workshop at Essex University, 6-7 July 2006

The role of tax policy in alleviating poverty and inequality and promoting sustainable growth will be the main theme of this workshop jointly organised by the Association for Accountancy & Business Affairs and the Tax Justice Network.

The workshop will bring together researchers, academics, journalists, consultants and professionals, politicians and representatives of civil society organisations, government and international organisations to facilitate research through debate and discussion, and to generate ideas to inform and shape the political initiatives and campaigns already under way.

Anyone interested in participating should contact Richard Murphy: richard.murphy@taxresearch.org.uk
For further details and a booking form, see the AABA website: www.aabaglobal.org

Letter from Bamako

Emma Lochery

My first night in dusty Bamako, stunned by my sudden relocation from a chilly Oxford morning, I wondered what strange series of events had landed me in Mali preparing to participate in the World Social Forum. Though I was familiar with the aims of the Tax Justice Network, I had no experience of the social forum movement and no idea how the idea of a Tax Justice Network for Africa would be received by a diverse selection of representatives from African civil society.

Taking off from Bamako airport four days later, I had my first chance to reflect on the Forum and found that I had an overwhelming sense of joy – of hope. The people I had worked with and encountered in Bamako had a truly visionary view of how to tackle the problems of the international financial system. They suggested practical solutions to improve the situation of developing countries without claiming to offer yet another panacea.

The TJN team comprising John Christensen, Matti Kohonen and myself held three workshops to explain the history of TJN and the reasons we thought the time was right to establish a network across

Africa. In each seminar we then opened the floor, hoping our comments would frame a discussion led by the participants. And what happened in the first workshop and continued throughout the whole Forum affirmed the need for a TJN for Africa.

Our plans were complemented with a depth of knowledge, experience, and passion from all sides of the vast continent. Participants in the workshops – researchers, trade unionists, journalists, NGO workers, and students – offered exam-

mining companies in Ghana are given tax amnesties for ten years and then leave six months before the amnesty is due to expire

ples from their own countries of abuse of tax policy by multinationals, the connection between kleptocratic leaders and secret bank accounts in the North, and the increasingly regressive nature of domestic tax systems. We heard about how mining companies in Ghana, notoriously operating in the city of Ashanti, are given tax amnesties for ten years and then leave six months before the amnesty is due to expire. Activists from Kenya remarked that the infamous Goldenberg scandal was just one example of the damage that dirty money causes in many African countries.

However, despite recognition of the scale of the problems there was a strong consensus about the possibility for action and opportunities

to change the situation. In Ghana, due to conditionality enforced by the International Financial Institutions, taxes had been levied which were taxing people into poverty. Due to research, advocacy, continuous lobbying and finally cooperation between authorities and civil society, there is now a principle in the tax policy which prevents such unjust taxation.

In South Africa, COSATU (Congress of South African Trade Unions) along with other civil society organisations publishes the *People's Budget* which they present to government. To strengthen and improve the initiative, they are seeking ways to include information on the taxes companies should be paying. They need expertise – exactly what the proposed Tax Justice Network would provide.

One of the big questions repeatedly raised in the workshops was how to generate the political will to fight the problems of tax evasion and tax avoidance. This concern cuts right to the heart of the reasons for launching a network. Having the ability to match resources and expertise to people and their ideas will apply pressure to companies and government in the most potent places. A Tax Justice Network for Africa will be launched: all eyes on Nairobi 2007.

Emma Lochery is in the final year of her degree at St. Anne's College, University of Oxford, and is a researcher for the Oxford Council for Good Governance.

emma.lochery@st-annes.oxford.ac.uk

Campaigns and TJN news

Slovenia conference on flat tax
Richard Murphy

I was surprised and pleased to be invited to speak at the International Academic Forum on the Flat Tax Rate in Slovenia in early February. The conference was a joint initiative of the International Monetary Fund (IMF) and the Center of Excellence in Finance (CEF), a training institute for public finance in the Balkans.

My invitation arose from an article written for the Guardian newspaper in the UK in which I made clear that the choice to adopt a flat tax was not a tax based decision but was instead a political choice about the whole system of government and society that a country wanted.

The importance of the conference cannot be overstated. Slovenia is considering a flat tax. If it does not

adopt one then this may mark the turning point in the march of flat taxes through Eastern Europe. There are also signs that Hungary and the Czech Republic might reject flat taxes. For many of those present the stress of the argument was apparent.

The result was a range of speakers who were in general excellent, and some of the thinking was of the highest quality (almost, without exception, I have to add, from those opposed to any flat tax). Alvin

Rabushka's presentation was notable by its weakness. It seems that after 20 years of talking flat tax he believes the argument has been won and therefore needs no further reiteration. He also appears to believe that the tax he proposes is inevitable.

It was therefore something of a responsibility to be his main opponent on the platform, but in practice I had a lot of fun showing just how riddled with loop-holes his proposal is. First, the flat tax only charges wage income and the cash flow surplus of business to tax; it allows all other income to escape charge. Second, it would not be levied on any foreign source income. This adds up to what I described to the conference as a 'tax planner's idea of heaven'. The message was noted. I think quite a number of treasury officials went away wondering if flat tax is the panacea that Rabushka describes. At least, that is my hope.

Conference papers available at:

W www.cef-see.org

Richard Murphy's review of the arguments for and against flat taxes commissioned by the Association of Chartered Certified Accountants should be published before the next edition of TJF is distributed.

Launch of Plateforme Paradis Fiscaux et Judiciaires in France John Christensen

The launch in early February of Plateforme Paradis Fiscaux et Judiciaires (PPFJ) creates a new coalition of major French development agencies which were involved in the activities of the '2005 - Plus d'Excuses' campaign. PPFJ has been launched with the principle objective of tackling the illicit activities of offshore tax havens.

In their initial work coalition members will be focusing on research, public education and awareness raising, and working within mainstream French and international

civil society to promote measures against tax havens.

PPFJ member organisations include:

Secours Catholique / Caritas France
www.secours-catholique.asso.fr

Comité Catholique Contre la Faim et Pour le Développement
www.ccf.asso.fr

Centre de Recherche et d'Information pour le Développement
www.crid.asso.fr

Eau Vive www.eau-vive.org

Réseau Foi & Justice
www.aefin.org/fr

Survie www.survie-france.org

ATTAC France
www.france.attac.org

Transparence Internationale
www.transparency.org

PPFJ is a member of the Tax Justice Network.

PPFJ can be contacted by emailing Claire Bertucat:

e claire-bertucat@secours-catholique.asso.fr

Barcelona debates on tax havens

Juan Hdez. Viguera

Attac Catalunya organised two events (on 14 and 15 February) in Barcelona to stimulate debate on tax havens. On both days, Juan Hdez. Viguera (Attac Spain member and TJN steering committee member) presented the main arguments from his recent book *Tax Havens: how offshore centres undermine democracy*.

At the 14 February event at the Libreria Central del Raval, the discussion was led by Juan and Nuria Almirón (a writer, professor at the Barcelona University and member of Attac Catalunya). At the 15 February event at the Economics Faculty of Barcelona University, the round table discussion was led by Juan and Arcadi Oliveres (professor at the Universitat Autònoma de

Barcelona, president of Justícia i Pau and member of Attac Catalunya).

For more information on Attac Spain and the campaign on tax havens see:

W www.attac.org.es

For more information on the *Tax Havens* book in Spanish see:

W www.akal.com

To contact the author, Juan Hdez. Viguera:

e jhviguera@auna.com

International Conference on Innovative Financing for Development in Paris Raphael Calvelli

As the international community continues its search for new ways to finance development and fight poverty, this conference in Paris (28 February-1 March) was a timely opportunity to discuss the various options with a wider group of countries and groups. Over one hundred countries and around 60 non-governmental organisations participated.

The decision to establish a tax on airline tickets with some of the proceeds being used to fund medicines to fight pandemics, which will soon become effective in 13 countries, is welcomed by TJN. But it is also important that measures such as this are accompanied by further efforts to strengthen national tax regimes. Thus TJN hopes that global taxation, and particularly the problems associated with capital flight and the proposal for a Tobin tax, will now have higher priority in international discussions. It will be interesting to see what the follow-up conference in Brazil in June 2006 brings.

'Releasing the Hidden Billions for Development', the paper given by Bruno Gartner of TJN at the Paris conference, is available on the TJN website.

W www.taxjustice.net

Oxford meeting on tax and poverty

Alex Cobham

On 1 March, TJN held a joint event at St Anne's College, Oxford. With St Anne's PPE Society and the Oxford Council on Good Governance (OCGG), the event featured four speakers and a lengthy Q&A on the title "Only the little people pay tax" - *The Issue at Heart of Global Inequality*. An audience of students and academics contributed to a lively and wide-ranging discussion.

Emma Lochery (St Anne's) organised and chaired the session, and spoke on the subject of a TJN for Africa. John Christensen and Matti Kohonen (both TJN) spoke on TJN and the role of tax havens. Alex Cobham (OCGG) outlined the demands made of tax systems in richer and poorer countries, and the trends over the last thirty years that have undermined their ability to deliver.

Discussion on global taxation in the Spanish Parliament

Juan Hdez. Viguera

On 7 March an event titled *Global Taxes and the Financing of International Development* was held at the Congress of Deputies of the Spanish Parliament. The event was convened jointly by the Presidents of the Commissions for Economy and International Development of Spain's lower house. Among the speakers leading the discussion were Sony Kapoor (TJN), David Hillman (Stamp out Poverty), Juan Hdez. Viguera (Attac-Spain and TJN) and Ricardo G^a Zaldívar (Attac-Spain and TJN).

The event was attended by representatives of Spain's main political parties as well as a number of non-governmental organisations. A lively debate resulted in a commitment from those members of Parliament present to establish a parliamentary working group to examine in more detail the issues discussed: financing for development, global taxes and the control and regulation of financial markets.

Financing public goods and tax evasion: two issues linked in Italy

Raphael Calvelli

Three conferences took place in early March in Rome around a similar theme: where to find new resources for financing public development? First, an event called *Global Financing for Global Public Goods and Development* at research centre Istituto di Studi e Analisi Economica (ISAE); second, a meeting run by the Italian Forum of Social Movements for Water; and third, a meeting between civil society organisations and NENS, a progressive think tank.

Debate during all three events showed that significant resources for international development could be raised if more attention were focused on tackling the problem of tax evasion and reforming policy in the arena of international taxation. The conferences also provided a great opportunity for networking and valuable links were made between Italian campaigners working on both tax and development issues.

TJN-USA sets out campaign priorities

Lucy Komisar and Bill Fant

There is now a Tax Justice Network USA! An organising meeting was held in Washington DC on 20 March to set up the new TJN affiliate. The meeting at the offices of Citizens for Tax Justice, headed by TJN steering committee member Bob McIntyre, established a steering committee and basic operating rules for the new group and adopted a series of policy measures.

The steering committee includes Co-Chairs Bob McIntyre and Lucy Komisar (also on the TJN steering committee), and members Jack Blum (Americans for Democratic Action), Cristina Martin Firvida (National Women's Law Center), Joel Friedman (Center for Budget Policy and Priorities), Marc Granowitter (American Federation of State, County and Municipal Em-

ployees), Jo Marie Griesgraber (New Rules for Global Finance), Craig Holman (Public Citizen), Joseph Horgan (Teamsters Union) and John Irons (Center for American Progress). Bill Fant is the Director of TJN-USA

The steering committee approved campaigns regarding:

Corporate tax return disclosure.

The revenue agency (IRS) commissioner, Mr Everson, has called for a discussion of partial or full disclosure of corporate tax returns. TJN-USA is sending a letter in support of the Everson initiative. TJN-USA is also requesting a meeting with the IRS Commissioner to raise the issue of requiring one set of corporate books, rather than allowing one set for the IRS (showing losses) and another for the SEC (showing profits).

Transfer pricing. In 2005, the Treasury proposed regulations regarding cost-sharing (transfer pricing) arrangements between US companies and their foreign subsidiaries with respect to development of intangibles such as intellectual property. TJN-USA is commenting on the regulations, which are good in parts, but based on separate-company accounting.

Capital gains disclosure. Currently in the US, brokerages are only required to report to IRS gross proceeds from the sale of stock; they are not required to report any information on basis. Senator Bayh has introduced legislation that would require brokers to report a taxpayer's initial purchase price when reporting to the IRS on stock transactions the taxpayer has engaged in. TJN-USA is supporting this.

Comprehensive tax reform legislation is currently on the back burner, at best. The Bush administration continues to maintain it will renew the focus on reform in 2007, but given its current political fortunes, this effort appears to have little promise.

Launch of Belgian campaign on tax havens

Patrick Ruymen

Following campaigning success which resulted in Belgium enacting legislation introducing the Tobin-Spahn tax, Belgian activists have now turned their attention to combating the negative development effects of tax havens. This campaign involves a broad cross section of civil society from the Walloon, Brussels and Flemish networks.

TJN's publication *tax us if you can* has been published in both French and Dutch and will be used by campaigners to raise awareness of the issues among the general public in Belgium. On 24 March, a press conference was held at the Belgian Parliament to kick start the campaign and to promote *tax us if you can*.

The supply side of corrupt practices

John Christensen

A shift of focus in the corruption debate away from petty bribery of local government officials in the direction of grand scale looting of entire nations by kleptomaniacs and their assorted cronies is long overdue. So the report by the British Africa All Party Parliamentary Group which focuses on the supply side of dirty money flows is wholly welcome.

Published in March 2006, *The Other Side of the Coin: the UK and Corruption in Africa*, highlights what further actions the British government needs to take to tackle the trade mechanisms which facilitate corruption, including tax evasion. It also draws attention to the inadequacy

of existing measures to prevent abuse of Crown Dependencies and Overseas Territories for money laundering purposes and proposes a variety of measures to tackle this abuse, not least full disclosure of beneficial ownership of offshore companies.

TJN-UK participated in the consultation process which preceded the publication of *The Other Side of the Coin*, and many, though not all, of our recommendations have been incorporated in the report.

John Christensen directs the TJN International Secretariat.

The full report can be downloaded from the TJN website.

Media roundup

TJN media and communications adviser Mike Lewis gives an overview of TJN's media work in an exciting and varied first quarter 2006.

Anti-corruption activists in Nigeria, the offshore connections of British cabinet ministers, prospects for African welfare states...TJN's recent media profile shows the Network is beginning to be seen as a serious commentator on a range of tax and social justice issues beyond its own immediate work. It also shows the increasing reach of TJN research and comment, which has been recently cited in the media not just by TJN members and spokespeople but by Ghanaian editorial writers and the head of the UK's Revenue Department.

There is now a new TJN media resource for journalists, activists and network members: Tax Justice Network's new blog (<http://taxjustice.blogspot.com>), which will be used to host press releases and short comment pieces for use by Network members in their own media work, and also to

publicise tax-related news stories from the Intertax email list and around the world.

TJN at the World Social Forum

TJN's presence in January at the African leg of the World Social Forum, held in Bamako in Mali, opened up new contacts and unprecedented coverage for the Network outside Europe and North America.

The need for strong tax regimes to promote development was the headline theme of the Bamako coverage of Ghana's largest daily paper, the **Daily Graphic** (24 January). TJN's John Christensen was quoted on the role of tax avoidance in the globalisation process, as companies reconfigure their investments and trading patterns in order to take advantage of tax havens: "whilst capital markets and institutional investors have globalised, tax re-

gimes remain largely nationally based and tax havens are used to exploit the gaps between nations by providing zero tax regimes and banking secrecy." Other participants discussed the gender implications of unequal globalisation, and the need for democratic reforms within the UN and the WTO.

Hans Pienaar, writing in South Africa's **Cape Times** (24 January) and syndicated in the **Sunday Independent** (29 January) and **African News Dimension** (26 January), hailed TJN's planned African network, seeking to establish "a network of top-class taxation professionals to do battle with their counterparts assisting transnational companies in Africa". He also trailed TJN Africa's formal launch at next year's Nairobi World Social Forum: "John Christensen said the best way forward for the development of countries of the south (the Third World) was not increasing aid

or debt relief but simply protecting governments from capital plunder - an issue not merely for governments but for consumers and workers who carry the tax burden when TNCs [transnational companies] shirk theirs." The inbuilt tax advantages of transnational companies over their domestic competitors was also discussed, and Pienaar placed TJN Africa in the context of South African Minister of Finance Trevor Manuel's recent call for a discussion of tax avoidance by transnational companies.

The role of Western banks and offshore finance centres in concealing the taxes and financial dealings of oil companies in Nigeria was the theme of

the Nigerian daily **Vanguard** (23 January and 9 Feb), quoting John Christensen and other participants at the Bamako meetings.

European press interest in the Bamako leg of the World Social Forum was sadly limited. Germany's **Tageszeitung** (24 January) mentioned the TJN seminar in its brief coverage of the Bamako meetings, but most major European papers focused instead on the parallel meeting in Venezuela.

An op-ed by John Christensen and Mike Lewis from the TJN Secretariat, carried by the weekly Ghanaian paper **Public Agenda** (4 February), the Africa-wide development newsletter **Pambazuka** (15 February), and **AllAfrica.com**, reflected on the contrast between the vibrancy of civil society coming together in Bamako, and the "suits, celebrities, steel fences and security forces" of the World Social Forum's twin, the World Economic Forum. Drawing on work by Amherst economist Léonce Ndikumana, Christensen discussed Africa's particular vulnerability to capital flight, draining such a high proportion of sub-Saharan Africa's GDP that "Africa - a continent we are con-

tinually told is irrevocably indebted - could actually be a net creditor to the rest of the world".

And the winner is...Citigroup

While TJN meetings were taking place in Bamako, four thousand kilometers away in the Swiss ski resort of Davos, company CEOs and Hollywood glitterati were meeting at the World Economic Forum. TJN took part in the parallel civil society meeting, Public Eye on Davos, where it nominated banking

"Africa - a continent we are continually told is irrevocably indebted - could actually be a net creditor to the rest of the world".

John Christensen quoted in Ghanaian paper **Public Agenda**.

giant Citigroup for a Public Eye 'corporate social irresponsibility in taxation' prize, releasing a comprehensive new report detailing Citigroup's 40-year history of offshore banking scams, tax avoidance schemes for dictators from Chile's Augusto Pinochet to the family of Nigeria's Sani Abacha, and clandestine networks of companies for international money transfers.

The global reach of the winning corporations ensured that Citigroup's award, alongside other Public Eye winners in human rights abuse, environmental damage, and bad labour law categories, was covered in national and international press. Switzerland's **Tages Anzeiger**, **Aargauer Zeitung**, **Berner Rundschau**, **Grenchner Tagblatt**, **Basler Zeitung**, **Bieler Tagblatt** and **Zürcher Oberländer** all carried the story (24 January). Russia's **RIA Novosti** news agency and **Interpress News Agency's** Rome and Johannesburg bureaus mentioned Tax Justice Network's nomination, while the major German daily **Süddeutsche Zeitung** (26 January) noted that "Citigroup subsidiary Citibank is the largest non-Swiss private bank, helping to transfer money to tax havens for rich tax refugees, corrupt and criminal ruling powers, according to the Tax Justice Network". Even Tibet's **Phayul** news website (27 January) carried Citigroup's nomination. Cosima

Marriner, money diarist for UK daily broadsheet **The Guardian** (25 January) wryly noted the dangers of this global profile: "sponsoring the high profile economic gabfest in Davos has its downsides, as Citigroup discovered when it was singled out for 'corporate social irresponsibility in taxation' at the Public Eye on Davos awards..."

Mind the Tax Gap

In January and February TJN-UK released two innovative pieces of research on corporate tax avoidance led by Richard Murphy, one of TJN's senior advisers. The product of a major project to establish a methodology for analysing corporate tax avoidance, *Mind the Tax Gap* found that the UK's 50 largest companies had paid 5.7 per cent less tax than expected according to headline corporation tax rates - effectively avoiding £20bn of tax between 2000 and 2004. The second report found consistent inaccuracies in most of these companies' tax accounts, making it impossible to account for around £5.2bn of tax.

Mind the Tax Gap was launched with an exclusive in UK national Sunday broadsheet **The Observer** (15 January). In the same edition economics correspondent Conal Walsh added a feature on 'How UK plc stays ahead of the taxman', connecting TJN's findings with recent cases in the European Court of Justice in which Marks and Spencer and Cadbury Schweppes argued that UK tax law on group taxation broke EU law. He noted that "nobody likes paying taxes, but Britain's biggest companies have got complaining down to a fine art". Satellite TV channel **Sky One** mentioned the report in their breakfast bulletin that morning. **CFO.com** and **Accountancy Age**, the leading UK weekly journal for the accounting profession, also picked up the story that week. Coverage in the **Financial Times** (8 March) focused on the massive amount of deferred taxation found by the study in the FTSE50's tax accounts: "£36bn...a

sum slightly greater than all the corporation tax paid in the UK in 2004-05", which may never be paid.

The controversy has continued into March, with the 'Hundred Group' of finance directors from the UK's largest corporations releasing their own figures to counter TJN's report, citing £9bn of other taxes paid by the UK's big companies in addition to corporation tax ("most notably employers' national insurance contributions, local business rates and irrecoverable value added tax"). But TJN's figures themselves were not disputed, and the **Financial Times**' tax correspondent Vanessa Houlder noted (8 March) that "businesses do not bear the cost of taxes levied on them; it falls on shareholders, customers and suppliers. Raising employers' national insurance contributions, for example, will mean lower wage rises for employees over time."

The Hundred Group's report itself acknowledged the impact of TJN's work, saying that "companies were coming under increasing scrutiny as a result of moves to put tax 'firmly on the agenda of the corporate responsibility movement'" (**Financial Times**, 9 March). The findings have also made inroads amongst policymakers, with the head of the UK's Revenue and Customs department citing TJN's figures in evidence to UK parliamentarians to argue that "company accounts did not provide anything like a useful representation of corporate tax contributions" (**Accountancy Age**, 9 March; **Financial Director**, 9 March).

Mr Mills and the Mafia

The offshore world hit UK and Italian headlines in early March with the political furore surrounding Italian prosecutors' allegations that David Mills, husband of UK government minister Tessa Jowell, had received corrupt payments from Italian Prime Minister Silvio Berlus-

coni, distributed through a network of offshore trusts and shell companies in Jersey, Guernsey and the British Virgin Islands. The UK has yet to mobilise its own laws against corruption and money-laundering to investigate the case. The UK's national broadsheet **The Independent on Sunday** (4 March) quoted TJN's John Christensen arguing that these laws remain poorly enforced: "there appears to be sufficient evidence to investigate [Mr Mills] under the provisions of the Proceeds of Crime Act 2002." David Raynes, an anti-corruption strategy adviser, backed his argument: "[t]his is a UK citizen bringing £350,000 into the UK via a network of offshore trusts, who has not yet proved without doubt the money was honestly earned. This is the type of activity the Proceeds of Crime Act 2002 was designed to deal with."

Flat Tax

On 3 February TJN adviser Richard Murphy went head-to-head with the father of the Flat Tax, Stanford University's Alvin Rabushka, at an international forum of ministers, experts and IMF representatives debating Flat Tax in Bled, Slovenia. **Slovenia Business Week** (3 February) quoted Slovene Finance Minister Andrej Bajuk arguing that flat tax would make the Slovenian economy more competitive, although he acknowledged that the state would have to "take care of those who would lose out because of the move".

'A New Deal for Africa'

Ghanaian weekly **Public Agenda** (27 February) and the website of UK daily broadsheet **The Guardian** (20 February) carried an opinion piece by Alex Cobham, from the Oxford Council for Good Governance. Responding to proposals

by UK international development minister Hilary Benn to support African welfare states, he argued that aid budgets are already well short of the level required to meet the Millennium Development Goals in 2015, and that an African New Deal can only be funded by tackling tax avoidance and evasion. His research has found that \$385bn (£221bn) in revenue is foregone by poorer countries due to tax avoidance and tax evasion each year:

three times the amount that could be produced by the UN goal of increasing aid budgets to 0.7 per cent of rich countries' GDP. He also cited TJN's *Tax Gap* figures to argue that highly

visible tax avoidance continues in the UK and other OECD countries. He urged the UK Department for International Development to take a lead in insisting that rich countries exchange tax information with poorer countries, and putting tax firmly on the development agenda.

Public Agenda followed up Alex Cobham's piece with a major editorial on the 'Scam of Offshore Looting' (10 March), citing TJN's estimates of untaxed offshore wealth and arguing that "tax is emerging as an overlooked but central issue in the fight against poverty."

TJN's work was also cited in a report (24 March) on a UNDP workshop in Nigeria bringing together government and civil society representatives from 13 West African countries to discuss the UN Convention Against Corruption. Nigeria's UNDP representative Duada Toure announced that "supporting anti-corruption institutions and concerned Civil Society Organizations in their efforts at curbing corruption was high on the agenda of the UNDP in its five year plan for 2006-2010".

To contact Mike Lewis:

 media@taxjustice.net

The World Trade Organisation and taxation

Jennifer Farrell looks at the ways the WTO can influence trade related tax policies and asks whether the organisation is equipped to take on the governance of international taxation issues.

The World Trade Organisation (WTO) is in the unique position of being the only judicial international institution providing regulation in the area of taxation. The defeat of the US Foreign Sales Corporation and Extraterritorial Income Act (FSC-ETI) tax break, which resulted in the largest punitive trade sanctions in the history of the WTO, provided a timely opportunity to reconsider the role of the WTO Agreements in the field of taxation and the asymmetrical impact for developing countries. However it is unfortunate that the Doha Round, which has tabled over 50 issues involving developing states, opted not to tackle taxation issues.

The underlying principles of WTO – namely, non-discrimination and transparency – reflect those which would ideally be incorporated into an international framework for tax justice. The expansionist tendencies of the WTO, coupled with the virtual elimination of traditional barriers to trade, has left open the path for many tax measures to be challenged under the WTO rules. The following provides a brief overview of the main areas of the WTO pertaining to taxation.

The General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) provides a two-pronged approach to ensure non-discriminatory international trade of goods. First, the Most Favoured Nation (MFN) clause requires that benefits granted to one member

must be given to every other member, thus creating a level playing field. Second, the National Treatment (NT) clause obliges countries to treat products crossing their borders in a no less favourable manner than *like* domestic products. Thus all internal taxes applied to goods must be applied in a non-discriminatory manner. There is a growing debate as to whether these obligations have now crossed over into areas of direct taxes that affect the international trade of goods.

The GATT obligations have successfully reduced discriminatory tariffs and border taxes on international transactions of products to *de minimis* levels. The GATT has also opened up trade for developing countries which previously could not afford to trade with richer nations. However, Baunsgaard and Keen recently authored an IMF working paper that found developing and emerging economies are still

The underlying principles of WTO – namely, non-discrimination and transparency – reflect those which would ideally be incorporated into an international framework for tax justice.

significantly dependent on revenue from trade taxes, and many low income countries have not recovered revenue lost from the liberalisation of trade.

While developing countries are granted *special and differential treatment* under the WTO, there is a need for greater safeguards to ensure low income countries can cope with trade liberalisation, particularly when their tax revenue is already severely depleted by tax avoidance and evasion.

The General Agreement on Trade in Services

The 1994 General Agreement on Trade in Services (GATS) deals both with services and service providers, explicitly covering indirect and direct taxes. However this wide scope is restricted by a plethora of exceptions and exemptions. The MFN is weakened by allowing members to specifically exempt measures. The US, not surprisingly, has exempted all direct tax measures under the MFN obligation. Other major economies, including the EU, Canada and Australia, have also made various direct tax exemptions. Officially such exemptions should only exist for a period of ten years, but members have imposed these exemptions for an indefinite period. Tax treaties are further exempted from the reach of the GATS by a general exception for *tax treatment resulting from an agreement on the avoidance of double taxation*.

The NT obligation has even less coverage for regulating discriminatory tax practices. Unless a member makes a specific commitment in a particular service sector, the NT clause will not apply. Moreover, a carve-out for the *effective or equitable collection of direct taxes* was inserted by the US as a make-or-break issue for the survival of the GATS during the Uruguay Round negotiations. Another exemption prevents the GATS dispute settlement being invoked for discriminatory tax measures falling under the scope of tax treaties.

Despite these limitations, the GATS is still in its infancy and can be viewed as a transitional agreement whereby many exemptions will eventually be retracted.

The Agreement on Subsidies and Countervailing Measures

The Agreement on Subsidies and Countervailing Measures (ASCM) expands on the original subsidy clauses in the 1947 GATT creating the most far-reaching implications for members' tax systems. A subsidy is broadly defined as a financial contribution granted by a government or public body where a benefit is conferred. There must also be a degree of specificity to the subsidy either under industry, regional, or enterprise sectors; or a prohibited subsidy, contingent upon export performance or the use of domestic goods over imported goods.

An Illustrative List of export subsidies includes reference to the exemption, remission or deferral of direct taxes and the exemption or remission of indirect taxes in excess of those levied on domestic goods. Thus excessive border tax adjustments, preferential tax treatment or tax incentives, such as tax holidays for exports or special deductions, may all fall under the scope of the WTO.

The ASCM further provides rules for transfer pricing stipulating that transactions between exporters and importers under the same control should be charged at arm's length. Potentially this rule could be used to challenge manipulative transfer pricing practices.

The ASCM causes concern for developing countries that rely heavily on export subsidies for foreign direct investment and development. For example, export processing zones and tax holidays could easily be challenged under the ASCM. On the other side of the coin, the OECD Harmful Tax Competition countermeasures have equally been accused of violating WTO rules. For example, the countermeasure of disallowing deductions or exemptions on transactions with uncooperative tax havens may be actionable under GATT and even GATS.

Enforcement

The WTO has two key enforcement mechanisms: the Trade Policy Review Mechanism (TPRM) and the Dispute Settlement System. The TPRM requires members to submit regular reviews of their trade policies, including details of their tax policies. This is a valuable mechanism which allows an exchange of information and policing for discriminatory taxes. The Dispute Settlement System is often considered the most successful of all international dispute systems. Its effectiveness was demonstrated when the US had to make significant changes in tax policy creating the 2004 American Jobs Creations Act to end sanctions from the FSC-ETI rulings.

Could the WTO serve as an International Tax Organisation?

The framework of the WTO provides an attractive arena for dealing with tax justice matters, or at the very least provides a blueprint for a new international tax arbitration system. However, the WTO can never be a fully fledged answer to international governance of taxation as its purview only extends to international trade matters. Despite this limitation, there is scope to extend the jurisdiction of the WTO into trade related tax issues, thus eliminating many arbitrary or discriminatory tax policies. Taxation must become a substantive issue for the WTO in future trade negotiations, with the view of clarifying the tax rules and potentially creating a *Tax-Trade Agreement*.

Jennifer E Farrell is a PhD Researcher at the Centre for Commercial Law Studies, Queen Mary, University of London.

 j.e.farrell@qmul.ac.uk

IMF Working Paper (WP/05/112), *Tax Revenue and (or?) Trade Liberalization*, by Thomas Baunsgaard and Michael Keen, Fiscal Affairs Department, International Monetary Fund. Available from the IMF website:

 www.imf.org

Mind the Tax Gap

Richard Murphy

I first talked about preparing a report on the Tax Gap in the UK at the TJN tax conference at Essex University in July 2004. As is usual with research based projects, it took longer than expected to deliver the report, which was published in January 2006. It is now available on the TJN web site, along with a related report called *Do they add up?*

In my research I set out to assess the difference between the tax which a reasonable person might have expected the 50 largest companies in the UK to pay if they had settled their liabilities at the 30 per cent corporation tax rate (which was in use throughout the five year period the survey covered) and the actual rates of

tax paid in cash when compared to declared profits before the deduction of any amortisation charges on goodwill (which are not tax deductible in almost any country).

The results were clear. Between 2000 and 2004 the effective tax rate for the 50 companies surveyed fell from 26.6 per cent to 22.1 per cent. The gap was worth at least £7.7 billion in 2004.

In addition, I identified that these 50 companies alone increased the value of their deferred tax (i.e. tax which they might technically have to pay one day, but for which no liability is due at present) from £8.7bn in 2000

to £36.2bn in 2004. The constantly rising trend suggests that in reality none of these liabilities are, in aggregate, likely to be paid.


The conclusion is clear. The UK's largest companies are, despite a constant tax rate, paying a falling percentage of their profits in tax. As the report also shows, that fall cannot be explained by changes in the rates of tax applying to their overseas subsidiaries.

My research suggests the existence of persistent, organised tax avoidance in these companies which launder profits to non taxable or low tax territories. Intriguingly, however, the companies say that if overseas tax rates have an impact on their declared tax rates

then it is to increase them, which is hard to believe. This leads to another conclusion: the disclosed data is not a reliable basis for assessment of the liabilities of these companies, which is confirmed by my second report, *Do they add up?* The latter shows that the tax accounting of these companies is unreliable.

Both sets of data are worrying and indicative of the lack of real accountability in matters relating to tax. This suggests TJN has a continuing role to play in holding companies to account.

Richard Murphy is Director of Tax Research LLP.

 www.taxresearch.org.uk

The hidden face of corporate corruption – unmasked

While global anti-corruption efforts typically focus on 'fixing' problems in poorer countries' public sectors, the power of private sector money to influence government policy is the bigger corruption story, argues Reg Crowder.

Widely held but fanciful misconceptions about poor governance and corruption are standing in the way of serious efforts to confront these two critical problems, which turn out to be two sides of the same coin, says Daniel Kaufmann, Director of Global Programs and Governance at the World Bank.

"Behind the conventional definition of corruption – as the abuse of public office for private gain – lies the image of a predatory state, seen as a huge outstretched hand, extorting firms for the benefit of politicians, high officials, and bureaucrats," Kaufmann writes in 'Myths and Realities of Governance and Corruption'. The article was published in the World Economic Forum's *Global Competitiveness Report 2005-2006*.

Research into corruption conducted over the past six years tells quite a different story:

"Even in strong states, such as the rich OECD (Organisation for Economic Co-operation and Development) countries, powerful conglomerates can have significant influence in shaping regulatory policy. Consequently, it is of paramount importance to revisit the traditional notions of the investment climate.

"More specifically, money in politics is at the heart of the interplay between the corporate and public sectors, in terms of policy and institutional outcomes."

He states that anti-corruption efforts have routinely ignored the power of private sector money to exert undue influence on government.

Kaufmann writes that the OECD Anti Foreign Bribery Convention, which was adopted more than five years ago, has been relatively ineffective. "Many multinational corporations still bribe abroad, at times affecting public policy, and more generally undermining public governance in emerging countries," he states.

He shows how previous anti-corruption efforts by international organisations have failed because they emphasised intervention in the poorer countries' public sectors with "technocratic organisational 'fixes,' often supported through technical assistance, the importation of hardware, organisational templates, and visits by 'experts' from rich countries."

Kaufmann appeals for an end to what he described as today's 'business-as-usual' approach to corruption. He argues that the rich OECD countries should lead by example. A good start would be for all of the OECD member states to ratify and adopt strong national legislation implementing the 2003 United Nations Convention Against Corruption.

"At the time of this writing, of the countries having ratified the Convention only one is a rich OECD country, the remaining being emerging economies," Kaufmann writes. That nation, not named by Kaufmann, was France, which ratified the UN Convention Against Corruption on July 11, 2005. Ecuador's ratification on 15 September 2005, brought the number of ratifications to 30, which automatically put the measure into force 90 days later.

The five wealthiest OECD member states, ranked by GDP, are the United States, Japan, Germany, the United

Kingdom and France. The convention went into force in December without the ratification of the United States, Japan, Germany or the United Kingdom.

The UK subsequently ratified the Convention on 9 February 2006. However, the precise manner by which the government took the action may have, in fact, rendered the ratification meaningless.

The British government's action effectively restricted the application of the Convention Against Corruption to England, Scotland and Wales. As a result, the Crown Dependencies and Overseas Territories are exempt. That means that today the offshore money centres of Guernsey, Jersey, the Isle of Man and the

Cayman Islands, as well as many others, remain beyond the reach of the Convention.

Reg Crowder is an independent business analyst and writer based in Europe. He edits the internet business news site, *Reg Crowder on European Business*.

W <http://regcrowder.blogspot.com>

e reg.crowder@gmail.com

For more information on the *Global Competitiveness Report 2005-2006*, see the World Economic Forum website:

W www.weforum.org,

click on initiatives, then global competitiveness. Report downloads as well as video interviews with the report's authors are available.

Reviews and new research

Joseph Stiglitz and Andrew Charlton
Fair Trade for All: How Trade Can Promote Development
Oxford University Press, 2005

Published just prior to the WTO ministerial meeting in Hong Kong in December 2005, *Fair Trade for All* is a response to a question posed by member countries of the British Commonwealth. Reacting to the failure of the Doha Round of trade negotiations to live up to its promise to be a 'Development Round', the authors were asked: "What would a true development round – one reflecting the interests and concerns of the developing world, one which would promote their development – look like?"

Well for starters it might turn current priorities on their head and give prominence to liberalising services that are intensive in the use of unskilled labour; it would eliminate production subsidies as well as export subsidies; and allow for infant industry subsidies in developing countries. Furthermore it would tackle the tax incentivisation that has been urged on developing countries in their efforts to compete to attract investment flows. As the authors note: "The main beneficiary of that competition is international business, and often countries suffer large fiscal losses without commensurate gains to either their domestic economy or to the efficiency of the location of international production."

A development focus would also draw attention to the fiscal impacts of trade liberalisation policies, especially in the light of recent research showing that developing countries are likely to suffer a loss of total tax revenue as a result of trade tax reductions, and are also likely to suffer adverse economic consequences.

Banking secrecy should be effectively proscribed and companies required to fully disclose all payments made to foreign companies. "No bank" the authors argue "should be allowed to deal with any bank in a country which does not conform to agreed transparency standards." Tackling the supply side of the global corruption and money laundering industry is likely to yield far greater dividends than the persistent focus on bribery of petty officials, and would go a long way towards reducing the haemorrhage of financial resources from developing countries.

In this thought provoking and challenging book, Stiglitz and Charlton make a good start at integrating tax justice concerns into the trade justice agenda.

John Christensen

Ernst & Young Transfer Pricing Reference Guide

This review comes with a warning – please do not try to read this book! You will fall asleep very quickly. The reason is simple. This guide is reference work to the transfer pricing rules of 40 countries. Unless you are an expert planning to make a fortune offering advice in this area you do not need to know the detail of what this book says. But that is not its importance; that lies in the very existence of such a guide in the first place.

To understand this look at what Ernst & Young say of their product in their introduction:

Planning transfer pricing strategies, working to limit tax exposures, and defending a company's return position and transfer pricing practices on a global basis require (sic) knowledge of a complex web of country tax laws, regulations, rulings, methods and requirements.

This is fascinating language. It assumes challenge is inevitable in what they clearly view as an adversarial environment, that "limited tax exposure" (or not paying tax, to use more direct language) is appropriate and that this is an artificial world in which regulation is the key driver of behaviour. But this is contrary to the theory of transfer pricing, which comes into play whenever two entities under common ownership transfer products between them.

The theory says that transfer pricing should be 'on arm's length terms' i.e. the sale should be at market rates.

It is often said that using market prices is difficult, if not impossible because the products transferred have no value to the market since they are often at an incomplete stage of production or are of intellectual property which only the group involved is allowed to use e.g. licence fees for group intellectual property. That may be true on occasion, but I still suspect that this card is overplayed by those who criticise the transfer pricing system. Indeed, as the book shows, mechanisms have been developed to deal with this difficulty. With rare exceptions arising (about which business creates enormous fuss without ever seeking to mention the fact that it quite often gets away without paying tax at all) the result is that taxable income is apportioned between the states that might have a claim to tax it.

And what is really interesting is that the number of countries taking transfer pricing seriously and seeking a share of this revenue is rising steadily. Six of the forty countries listed come from the ex-Soviet block. The largest recent new entrant is India. There is welcome representation from at least eight South American countries that are beginning to see how important this issue is for the protection of revenue. But Africa remains represented by South Africa alone, giving some indication of the isolation of that continent in tax terms.

According to recent business surveys in the UK transfer pricing is the tax issue about which business is most vexed. It is easy to see why. Until recently less than ten countries took the issue seriously, giving ample opportunity for business to hide profits elsewhere in its supply chain. With 40 countries in this book, it's getting harder for them to do that. They are vexed simply because they are having to do some work to prove they are not abusing

multiple tax systems at the same time.

And I think we should we encouraged by that vexation. Sophisticated governments are not going to give up on their fair share of tax, in which case they will either want to maintain transfer pricing rules or some other basis of apportionment. Business will argue for simplicity. The combination will eventually create pressure for two necessities. The first are international arbitration mechanisms, which are sure to happen. The second, in the longer term, is a unitary basis for tax which might give a fair return to those countries that will never have the resources to mount transfer pricing challenges, such as most of those in the developing world.

In the meantime our job is to keep up the pressure on this system, by calling companies to account and by requesting better mechanisms that will more accurately fulfil our desire that companies should declare their profits where they make them so that they might be taxed where they are earned.

Richard Murphy

Ernst & Young Transfer Pricing Global reference Guide December 2005 available free from:

 www.ey.com

**Alain Deneault
Paul Martin & Companies –
sixty theses on the alegal
nature of tax havens**
English edition translated by Rhonda
Mullins, 2006, Talonbooks,
Vancouver

It becomes increasingly difficult to avoid the link between political scandals and offshore 'junk states'. In Thailand, for example, Prime Minister Thaksin Shinawatra scandalised the country in February 2006 by selling his \$1.9 billion stake in Shin Corp, a telecoms and media conglomerate, via an offshore company to avoid paying tax. In Italy, Silvio Berlusconi and his tax lawyer David Mills await news of whether

they will face trial on charges relating to tax evasion and fraud. And in Britain, Prime Minister Tony Blair finds himself engulfed in allegations about corruption in the way that the Labour Party has been funded by loans from rich businessmen, many of whom hold their assets offshore to avoid paying tax.

In this short series of reflections on the relationship between political power and offshore money, Alain Deneault uses the example of former Canadian Prime Minister Paul Martin, the sole shareholder of a shipping company whose ownership is 'entrusted' to an offshore trust, to ask what it means for democracy when those who are elected to hold power put their personal affairs outside the laws of the country they have been elected to govern. Should we be surprised? Enraged? Or do we shrug our shoulders and fall back on arguments that politics is a dirty business which attracts certain types. In other words, does it matter?

Like an elephant, corruption is hard to define. But unlike an elephant it can be hard to recognise when we encounter it. On the one hand we are told that acceptance of bribes by petty officials is undermining good governance in developing countries. On the other hand intense lobbying for tax incentives (which might or might not include donations to political parties or pet charities), and aggressive tax avoidance by company directors and wealthy individuals is an indicator of superior intelligence and innate entrepreneurial skills, and is rewarded accordingly.

Deneault does not fully succeed with his ambitious goal of exploring the ethics of power in an era of globalised business. But the questions he poses are crucial for the future of democratic governments and the debate needs to be sustained. Clearly Thaksin Shinawatra has transgressed what the Thai people considered to be acceptable. Maybe he was too blatant in calling his British Virgin Island company Ample Rich Investments (it's true!).

But what will it take to get the people of other democracies out onto the streets in protest against the shocking financial antics of their elected leaders?

John Christensen

Stewart Lansley
Rich Britain: The Rise and Rise of the New Super-Wealthy
 Politico's, 2006

A remarkable revolution has been taking place in Britain – a great surge in both the numbers of the mega-rich and in the level of their wealth. The number of billionaires in Britain has more than tripled since 1990 while the number of people worth over £100 million has risen more than fivefold. Since 1997, the number with 'liquid assets' of more than £5 million has more than doubled to 9,000. This is tearaway growth by historical standards.

Despite turning Britain from one of the most *equal* societies in the developed world to one of the most *unequal*, the forward march of the super-rich has been widely welcomed across most of the political divide, not least by Tony Blair.

Of course, there are many examples of successful en-

trepreneurs from James Dyson to Stelios Haji-Ioannou who have created wealth, jobs and opportunities and who are widely seen as worth their place at the top. But the hard truth is that today's escalating personal fortunes are not closely linked to record levels of wealth creation. Rather, the ranks of the rich are dominated by tycoons, investment bankers and business executives who, far from creating wealth, have taken advantage of today's pro-rich culture to grab a larger slice of the

cake for themselves. What is happening is a complex transfer from ordinary taxpayers, shareholders and customers.

Twenty years ago, the typical chief executive of a FTSE 100 company earned some 25 times the pay of the average worker. Today it is close to 120 times. This surge in the pay gap might be justified if it had been driven by a transformation in Britain's business performance. But, as *Rich Britain* shows, rising pay has been driven not by improved performance but by the importing of American business practices.

Despite persistent rows about 'rewards for failure', generous pay-off deals for even failing chief executives have become the norm. The management expert Charles Handy has noted that such payouts have made ineptitude by senior executives the shortest route to millionaire status. In America they are known as 'golden condoms' because they 'protect the executive and screw the shareholder'.

the ranks of the rich are dominated by tycoons, investment bankers and business executives who, far from creating wealth, have taken advantage of today's pro-rich culture to grab a larger slice of the cake for themselves

Escalating rewards to City lawyers, accountants and investment bankers are also mostly 'undeserved'. The City in effect operates as an informal cartel charging excessive fees for activity that, for the most part, involves the transfer (or sometimes the destruction) of wealth rather than its creation. Major business decisions are often driven by the prospect of fat bonuses and fees for directors

and their City advisers irrespective of the long-term interest of the company.

Many, if not most, of those sitting at the top of the rich lists from Philip Green and Sir Richard Branson to Hans Rausing and Lakshmi Mittal have also inflated their fortunes through the manipulation of Britain's lax tax rules and thus at the expense of taxpayers as a group.

Rewards and merit have become

increasingly decoupled. Many of the country's super-rich have accumulated their personal fortunes not by productive entrepreneurial activity that adds to the economic base but by the clever, if perfectly legal, manipulation of the economic and financial system to divert wealth created by others in their direction.

Stewart Lansley

Stewart Lansley is the author of *Rich Britain: The Rise and Rise of the New Super-Wealthy*, published by Politico's in March 2006.

Calendar 2006

April 22-23

IMF World Bank Spring meetings in Washington DC, USA.

April 25

UN workshop on New Resources for Development Finance, in New York. Sponsored by the Chilean Permanent Mission to the UN. Speakers to include John Christensen, Ricardo Ffrench-Davis, Jean Landau and John Williamson.

May 2-3

TJN Council Meeting and Strategy Meeting, Athens, Greece.

May 4-7

European Social Forum, Athens.

May 13

World Fair Trade Day

June 10-11

Banktrack meeting in London on financial system issues.

June 14-18

Quebec Social Forum, held at Trois-Rivières, Quebec. Attac-Quebec workshop on 'Tax havens, the stock market and derivatives'.

July 1

Finland's EU Presidency begins

July 6-7

Workshop at Essex University, 'Tax, poverty and finance for development'. For more information see the notice on page 3, or visit:

 www.aabaglobal.org