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Conning the Congo - Transfer Mispricing in the Congo Basin

A report in July 2008 by Greenpeace is one of very few case studies that focus directly on the issue of transfer pricing and mispricing in developing countries.

The Greenpeace report, "Conning the Congo," which detailed logging and export activities in the Democratic Republic of the Congo (DRC) and the neighbouring oil-rich Republic of the Congo. The report looked into the activities of the Danzer Group, owned by the German Danzer family but based in Switzerland.

The July 2008 Greenpeace report claims that the Danzer Group engaged in transfer mispricing by underinvoicing the sales price on the export transactions between the Group's logging subsidiaries in the DRC and RC, and the Group's trading companies. This has been a standard practice in the commodities (and many other) sectors.

The Greenpeace report concludes:

"In an environment of endemic corruption, logging companies inevitably operate beyond the rule of law. In the Congo Basin, the logging industry continues to feed the networks of corruption that are obstacles to genuine development. Through support of an extractive industry-based model of development, donor countries and agencies such as the World Bank are effectively

undermining their own rhetoric on establishing good governance and alleviating poverty. Even as the World Bank and its donors continue to pour billions of taxpayers' dollars into the Congo Basin countries in the name of eradicating poverty, international players in the logging industry such as the Danzer Group, are laundering untaxed profits to offshore bank accounts---in effect stealing from the region and its people."

. . .

"International donors, including the World Bank, must prevent further fraudulent expatriation of wealth and profits from the DRC and RC by companies engaged in tax evasion, capital flight, and aggressive tax avoidance. To this end, they must demand that the International Accounting Standards Board (IASB) establish a requirement for all multinational companies to report their trading activities on a country-by-country basis within their consolidated accounts. This approach would identify a group's internal and external income and costs in each country where it operates, hence minimizing the risk of transfer pricing abuse occurring. Such a requirement on the part of IASB would have the status of international law, thus would not require local legislative consent."