Metal Ores in Tax-Driven Wealth Chains: A Case Study of Tax Planning in the Finnish Mining Sector

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Background 1/2

- Since 1990s, a large body of research on global value chains and production networks
- However, these studies have neglegted the role of global wealth chains (Seabrooke and Wigan 2014) within the decentered corporations (Desai 2008)
- Focus on the intra-firm tax avoidance and wealth chains allows theorizing the planning power corporations exert over states
- Evolutionary economics provides also helpful tools for analysing these non-market aspects of capitalism

Background 2/2

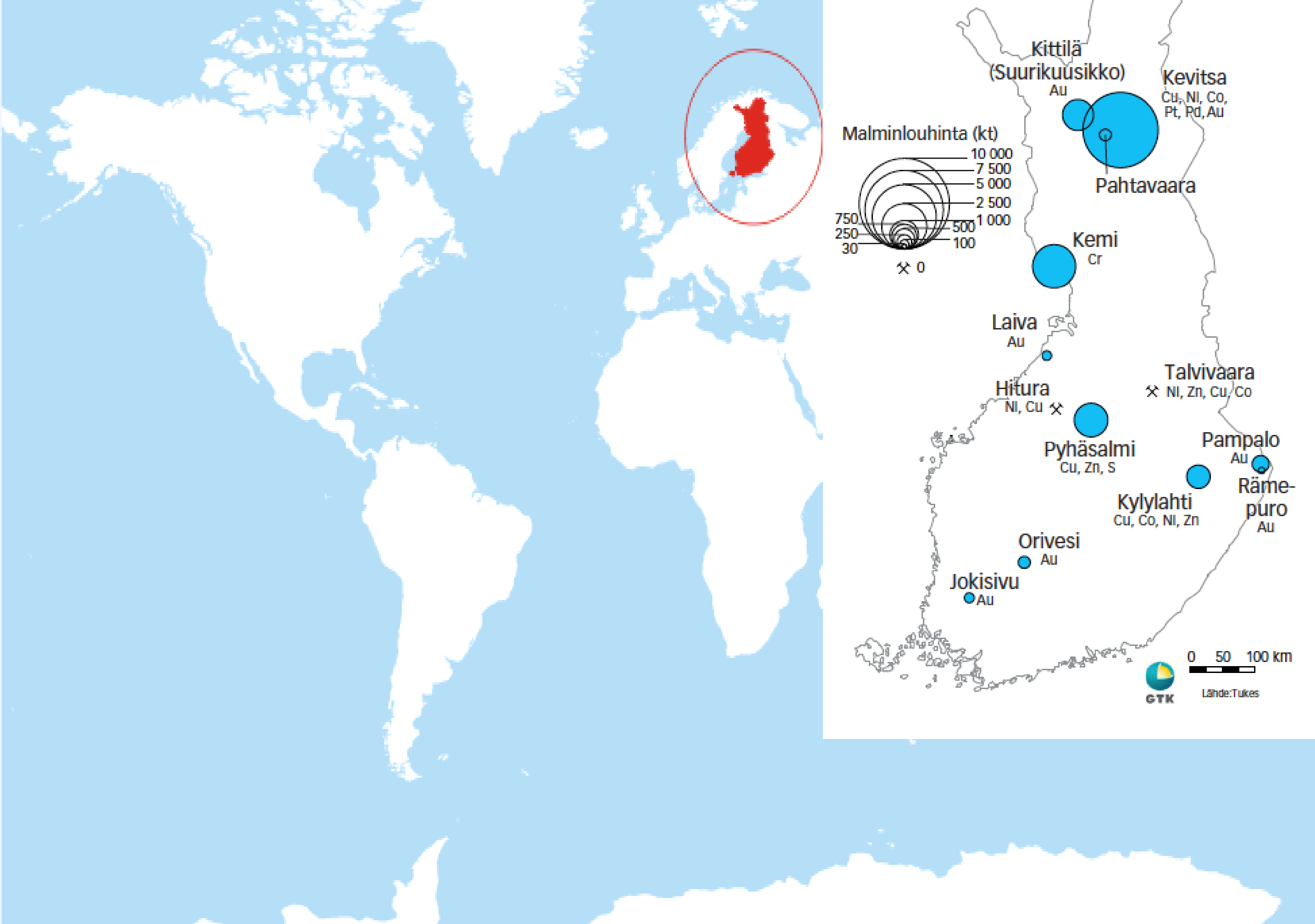
- Generally, these issues has received too little attention in the IR studies – extractive industries perhaps as an exception
- One reason for this is probably the technical and inter-disciplinary nature of the questions at hand
- Most of the accounting studies on tax avoidance rely on large statistical datasets, but ‘information about tax shelters is notoriously hard to find’ (Lisowsky, 2010, also OECD)
- Hence, the need for case studies that discuss the corporate tax avoidance ’in the real world’ (Oats, 2012)

… but how to overcome the high level of secrecy that characterizes extractive industries?

Mining tax policies

- Mining is a peculiar industry
  - High and risky investments vs. high profit potential
  - Natural resources are often considered national wealth – granted to MNEs for the benefit of communities
  - Mining business involves social and environmental risks to third parties
- Demand to charge MNEs a rent for extractives
  - General corporate income tax (share of profits)
  - Mining specific royalties (ad valorem)
  - Other taxes usually not as important

Metal ore mines in Finland



The case study setting

- We reviewed the financial accounts of the 11 enterprises mining metal ores on 12 mine sites in Finland
- A multiple case-study of two Canadian mining enterprises operating three mines in Finland
- **The key questions:**
  - **Factual/theoretical:** How and why do the intra-corporate wealth chains differ from the value chains?
  - **Theoretical:** What do the findings tell us about the questions of power and agency in the global economy?
  - **Methodological:** How could financial accounts research be used as a tool for critical social scientific or business studies?

Research material

- Financial statements of individual group companies are publicly available in most European countries
- Dataset included:
  - Nearly 200 annual reports and financial statements from Finland and other countries
  - 60 companies or groups related to the 12 mines
- Complementing sources of data:
  - Comments from the MNEs in question
  - Public corporate tax data (Finland)
  - Orbis database
  - Stock exchange reports
  - Corporate websites
  - Media coverage

What we found?

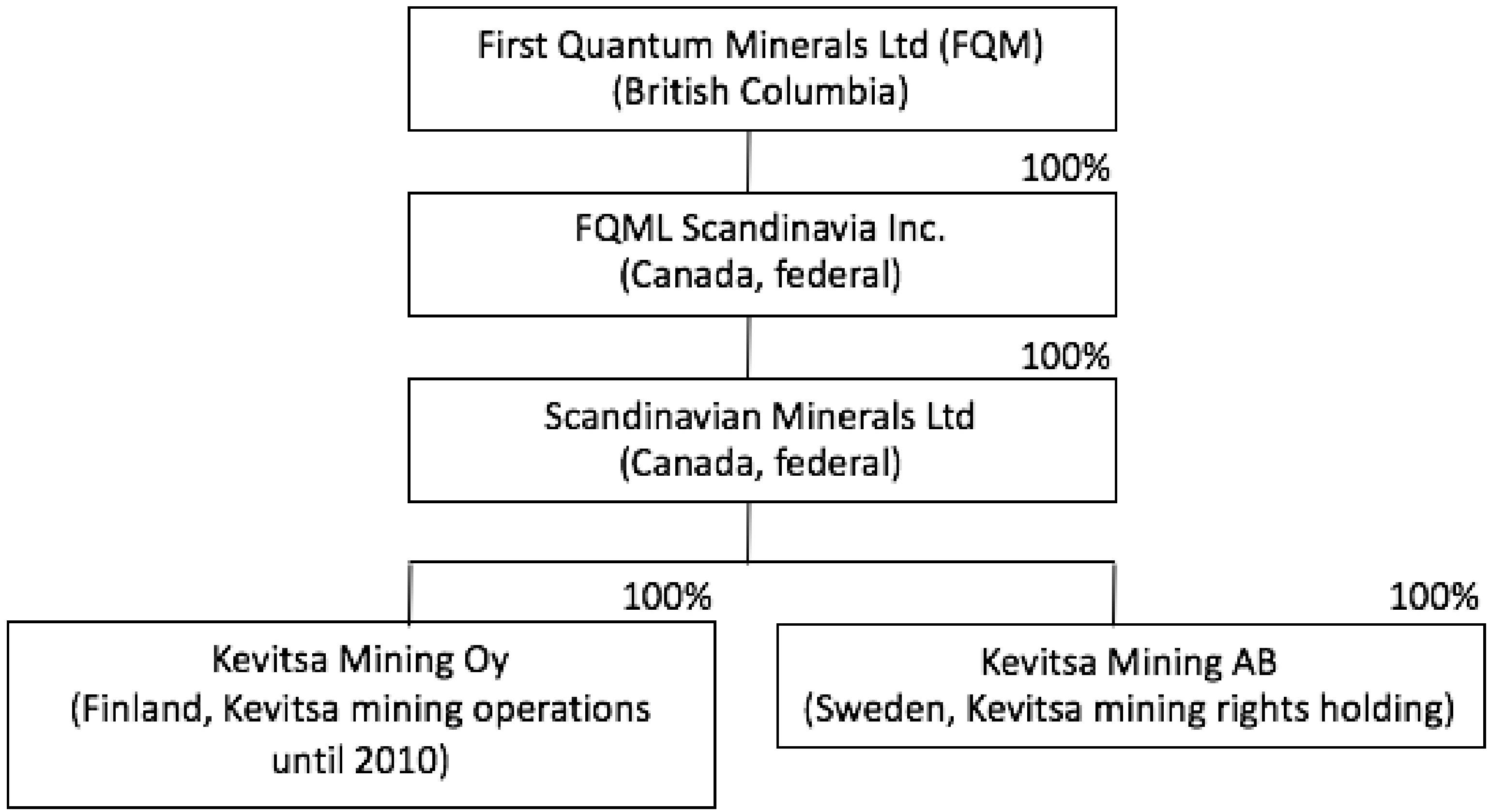
- MNEs employed altogether seven different arrangements to lower their corporate income tax and to shift out profits from Finland
- Arrangements eroded CIT that would have been payable under better laws
- Finland is one of the most developed countries in the world, but in mining taxation it resembles developing countries

Case 1. Kevitsa nickel and copper mine in Lapland, Finland (First Quantum Minerals)

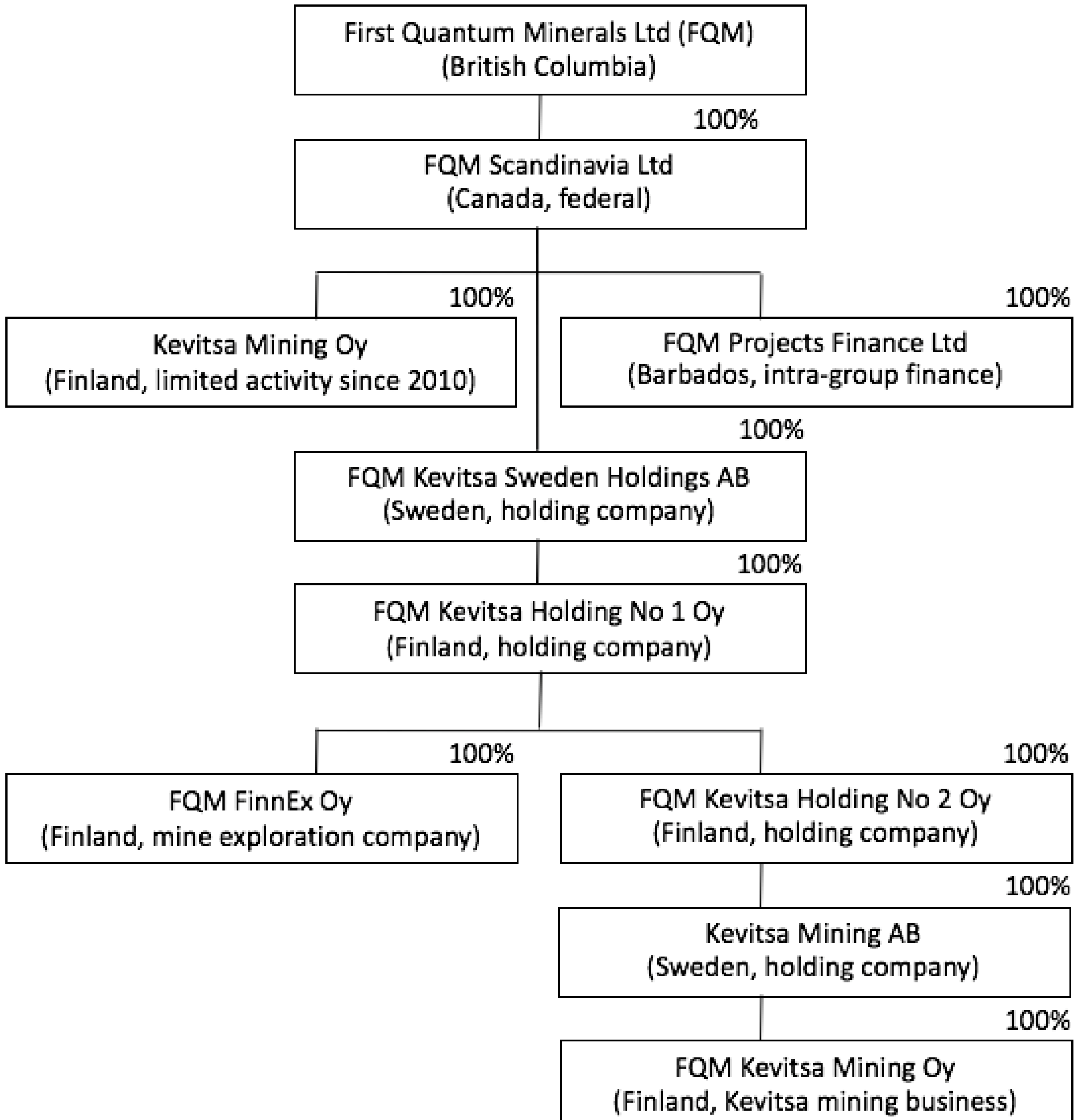
First Quantum Minerals Kevitsa mine

- FQM a Canadian MNE listed in Toronto, London and Lusaka stocks
- Operates seven mines (Pyhäsalmi and Kevitsa in Finland)
- In 2008, acquired Canadian Scandinavian Minerals that held Kevitsa mining rights for $278 million (Kevitsa only asset)
- In 2012, began commercial production in Kevitsa
- Highly profitable ever since, in 2014:
  - Revenue $271 million
  - Operating profit $93 million
  - Expected to remain profitable
- Mine depletion expected in 2042

Kevitsa group structure 2008



Kevitsa group structure 2011



Tax implications 1/3 (Kevitsa)

A Swedish FQM subsidiary sold mining rights and other assets and debts related to Kevitsa to a Finnish FQM subsidiary.

- Depreciations of assets tax-deductible in Finland
- Interests of the intra-group debts tax-deductible in Finland. Total debts related to mining investments €547 million in 2014
- The appreciation of mining rights of €287 was realized in the sale
    - Capital gains tax exempt in Sweden
    - Depreciations deductible in Finland?

Tax implications 2/3 (Kevitsa)

Shares of the Finnish mining company sold to a Finnish holding-company – purchase financed with intra-group loans worth €275 million.

- Finnish companies un-capitalized. Negative equity in 2014: €134 million
- Interests of intra-group debts tax-deductible in Finland

Tax implications 3/3 (Kevitsa)

Shares in Finnish mining sub-group transferred to a Swedish holding-company.

- Dividends channelled to parent in Canada via Sweden tax exempt (5% withholding tax according to Finnish-Canadian tax convention)
- No transfer tax in Finland for possible sale of Kevitsa (holding-company could be used as the sale object)

Tax effects for FQM and Finland

- Un-capitalization tax loss estimate by 2014: €13 million (tax paid €3 million)
- Future effects of un-capitalization: hundreds of millions?
- Other effects difficult to estimate or yet to be realized
- FQM finance company registered in Barbados: low tax on intra-group interest income?

Other tax arrangements (Pyhäsalmi & Suurikuusikko)

- Creation of intra-group debts by acquiring separate mine investment abroad in a restructuring
- Offsetting mining profits with losses from other mines/business using group contributions
- Total tax losses at the three mines in 2011–2014 due to thin capitalization and Swedish holding company structures
  - €49 million
  - Total CIT of all metal ore mines €92 million
  - Metal ores mined €3 861 million

Tax law loopholes discovered

- Barbados: low taxation on offshore income (<2,5%)
- Finland: interests tax-deductible – no witholding tax on interests
- Finland: capital gains from mining concessions tax exempt if held by companies registered abroad
- Luxembourg: low effective taxation on intra-group interest income (<1%)
- The Netherlands: no effective taxation on intra-group interest income received by a cooperative
- Sweden: intra-group dividends / capital gains tax exempt

Some theoretical contributions

- The legal foundations that allow separation of wealth and value chains merit further research
- The separate entity doctrine and arm’s length principle in international tax law allows corporations to separate their wealth chains from value chains
- Many of the prices are *de facto* planned, allowing companies to differentiate their wealth chains from their value chains
- The work of early evolutionary economists such as John C. Commons and Thorsten Veblen can be useful in analyses of these non-market aspects of global capitalism

Other contributions

- Diversity of tax arrangements ignored by the statistical studies
- Developed countries not necessarily better equipped to tackle tax avoidance than developing ones
- The importance of intellectual property rights even in the highly tangible mining sector
- The importance of cross-disciplinary research
- Opening new methodological grounds?

Thank you

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