TAX JUSTICE FOCUS

The quarterly newsletter of the tax justice network

THE ISLANDS EDITION
VOLUME 3, NUMBER 4

THE OECD AND OTHER INTERNATIONAL INITIATIVES: A VIEW FROM THE CARIBBEAN

Over the past decade the Caribbean islands have certainly felt the impact of initiatives by the OECD, the EU and the Financial Action Task Force (FATF) to counter tax competition, money laundering and terrorist financing.

The number of offshore banks has fallen, across the board. In the Bahamas, for example, legislation was rewritten in 2001 in response to an FATF blacklist, leading to a decline in the number of offshore banks and trusts licensed by the government (from 395 in 1999 to 226 in 2006.) This reduced government license revenue, but local employment in banking and its direct economic contribution to the local economy have recovered. St. Vincent and the Grenadines hosted thirteen offshore banks in 2000 but as of June 2007, there were none. In the Cayman Islands, the number of banking firms has fallen from a high water mark of 475 in 1997 to 265 by September 2007.

Nevertheless, throughout the Caribbean foreign assets on deposit have not fallen: instead, the overall trend is upwards. Data reported to the Bank for International Settlements showed deposits in Caribbean OFCs growing from $1.3 trillion in 1998 to $3.3 trillion in 2006.[1] This may be partly because the OECD, the FATF and the EU have focused on individuals (those who avoid or evade income tax, or clean ill-gotten gains) and not on the financial activities of corporations. In this context, however, it is not a simple matter to determine the actual extent of tax avoidance activity. Assets may represent, say, multiple iterations of the same underlying deposit – such as through securitisation and derivatives, for example; and offshore financial assets are far more than simply the savings accounts of high net worth individuals. Many assets of individuals are also held offshore through corporate structures and trust companies. Government revenues, however, are

[1] For more details on the Bahamas, Cayman, Dominica and St Vincent and the Grenadines, see William Vlcek (2007) "Why Worry? The Impact of the OECD Harmful Tax Competition Initiative for Caribbean Offshore Financial Centres" *The Round Table: The Commonwealth Journal of International Affairs* 96: 331–346. Several other Caribbean jurisdictions are described in Oral H. Williams, Esther C. Suss, and Chandima Mendis (2005) "Offshore Financial Centres in the Caribbean: Prospects in a New Environment" *The World Economy* 28: 1173–1188.

Editor: Nicholas Shaxson
Contributing editor: John Christensen
Design and layout: www.tabd.co.uk
Email: info@taxjustice.net
Published by the Tax Justice Network International Secretariat Limited

For free circulation, ISSN 1746-7691

Ugland House: more than 12,000 companies "work" in this building. Photo: thanks to Cayman Net News.

generated by license fees, independent of the quantity of assets that transit the Caribbean.

For the Cayman Islands, figures represent assets on deposit for the 8,707 (as of September 2007) mutual/hedge funds registered there. For the British Virgin Islands, data includes assets channelled through more than 774,000 (December 2006) international business companies (IBCs). In Bermuda, assets on deposit to some extent represent capital used to underwrite policies issued by 1,460 (December 2006) international insurance and re-insurance firms.

The OFCs that have weathered the international campaigns most successfully have done so by diversifying, or by improving on their specialisations in specific sectors.

The European Caribbean territories (Anguilla, Aruba, British Virgin Islands, Montserrat, Netherlands Antilles, Turks & Caicos) are subject to the European Union's Savings Tax Directive. After years of work, the EU achieved a compromise on some member states' objections to exchanging account holder information to help other Member States collect taxes owed by their citizens. The compromise introduced the alternative of a withholding tax instead of taxpayer information exchange, but the geographic coverage of the Directive did not extend very far beyond the EU.[2] The Directive came into force in July 2005, and after the first full year the revenue collected was far less than expected. Two major gaps in the Directive have allowed EU citizens to continue to avoid tax payments: first, a failure to include some recognised offshore centres in the programme, leading to significant financial flows to Singapore and Hong Kong. The second gap is that, like the OECD's tax competition project, the EU Directive only covers the savings of citizens: so any OFC with a company registry could provide EU citizens with a corporate vehicle to transfer their assets into in order to avoid tax.

"Data reported to the Bank for International Settlements showed deposits in Caribbean OFCs growing from $1.3 trillion in 1998 to $3.3 trillion in 2006"

What does the future hold? Officials in the Caribbean OFCs recognise the benefit in diversification. Antigua and Barbuda have attempted to establish offshore Internet-based gambling. The Cayman Islands, noting Middle Eastern investors' and depositors' worries about possible asset freezing by the US government in its "war on terror" are creating regulations to support Islamic financial services. Public and Congressional frenzy against the proposed acquisition of American ports by the Dubai firm, Dubai Ports World, did little to mollify these concerns.

Limiting our analysis to offshore financial centres and island tax havens, however, obscures the full extent of the challenge. Any country may function as a tax haven for the residents of any other country. The barrier to tax equity is not simply the operation of Caribbean OFCs, but national borders and national sovereignty. If we agree that tax equity is a global problem, then it clearly requires a global solution. This, then, confronts us with the hard reality of national differences over taxation.

As long as tax laws are national, shifting assets to another country will continue to be used as a way to avoid taxes. The future is likely to be a more complex version of the present, at least until co-operative global solutions are put into place.

William Vlcek is Lecturer in International Politics at the Institute of Commonwealth Studies, University of London and author of the forthcoming study, Offshore Finance and Small States: Sovereignty, Size and Money (Palgrave Macmillan).

[2] See also *Tax Justice Focus*, Third Quarter 2007 (vol 3, issue 3).

THE PROSPECTS FOR ISLAND HAVENS

editorial

Change has swept through the offshore world in the past decade and island tax havens have been buffeted by inter-linked multilateral initiatives from the OECD, the Financial Action Task Force (FATF,) the EU and others.

Concerns about tax evasion, money laundering and financing for terrorism have generated pressure on island havens to give up some of their selling points, and many have tightened regulation and relaxed strict secrecy. Even more threatening is competition from major offshore financial centres like Delaware and London which now, in some cases, offer tighter secrecy and looser regulation than what is available in the island havens.

Two broad views about the future have emerged. The first one questions whether the island havens can survive: at a minimum they face big challenges; some even hold that the end of offshore is nigh. Yet proponents of a second view point to rapid growth in the most prominent and established island-based offshore financial centres (OFCs), and to the success of an array of newcomers.

Titles like 'The Death of Tax Havens' or 'A Death Knell for Tax Havens' back up the first view. Hampton and Levi (1999) suggest that these centres may be 'spinning into oblivion'. An industry insider holds that: 'It is likely that many of today's tax havens will not be fit enough to survive' (2002: 98). Richard Hay, a prominent member of the industry, has claimed that island OFCs adopting more stringent regulations than competitors like Delaware are committing 'financial suicide' (STEP 2005). Many predict that the number of tax havens will fall sharply in a few years.

The new initiatives require OFCs to collect more information on their clients, and to be more willing to exchange this information with other tax and law enforcement authorities. They are asked to provide greater transparency, and to impose new regulations and standards which impose compliance burdens on OFC governments and financial services providers: collecting, verifying and exchanging information is laborious and expensive.

Financial centres in rich countries are often spared these new requirements – so they compete on a playing field tilted in their favour. For example, most of these centres still offer bearer securities (which confer anonymity); they do not regulate corporate service provides; and they allow non-residents to form de facto anonymous companies. Island havens and others offering such services now risk being blacklisted and jeopardising their international banking links.

Some evidence also supports this view that tax havens' heyday is over. For example, the Pacific islands of Nauru, Niue and Tonga have withdrawn from the offshore market due to external demands for tighter regulation. Some smaller OFCs, especially in the Pacific (Vanuatu and the Cook Islands) and the Caribbean (Antigua & Barbuda, Aruba, Dominica, Grenada, Montserrat, the Netherlands Antilles, St Lucia, St Vincent and the Grenadines), face stagnation of their industries.

Yet many people doubt that island havens are doomed. For one thing, the most prominent and established ones seem to be booming. The Cayman Islands, the British Virgin Islands, Bermuda, the Isle of Man, Jersey and Guernsey are enjoying steady – and sometimes spectacular – growth; the same is true for Singapore and Hong Kong. Perhaps this is compatible with the first analysis: business will become concentrated in a few leading centres, while most are squeezed out.

What is more, some newer entrants using supposedly out-moded or unsophisticated models – such as selling International Business

"Even more threatening is competition from major offshore financial centres like Delaware and London which now, in some cases, offer tighter secrecy and looser regulation than what is available in the island havens."

[1] Tim Bennett: *International Initiatives Affecting Financial Havens* (Butterworth Tolleys)

"News coverage and analysis of offshore centres tends to look disproportionately at changes in the "supply" side of offshore financial services, especially with the regulatory impact of new multilateral initiatives. Much less attention is given to demand-side changes: trends such as rising prosperity in China, rising African oil wealth or a transition to market economics in the former Eastern bloc."

Companies (IBCs – offshore shell companies generally without any physical presence and relying on secrecy) are thriving. Samoa (1988), Belize (1990), the Marshall Islands (1990) and the Seychelles (1994), for example, have all seen rapid growth in numbers of companies, and gains in revenue. Some centres that had declined have recently staged a come-back: notably Panama, but also Liechtenstein and the Bahamas. New jurisdictions have also entered the field like Brunei (in 2000), and (more ambiguously) Anjouan (in 2001),[2] Sao Tome e Principe (2006),[3] and even Somalia (2003),[4] calling into question whether barriers to entry have in fact been raised.

How do we explain these two conflicting analyses: first, that tax havens are dying; second, that they are flourishing? Other articles in this edition explore the question further. Vlcek looks at how the multilateral initiatives have focused heavily on individuals, neglecting the financial activities of corporations. Christensen highlights the fragility of Jersey's tax haven model and Shaxson challenges their claim to play a useful role in the global economy; Murphy looks at the problems facing the UK Crown Dependencies, exploring trouble that might lie ahead. Separately, Lesage's article examines how the UN, which has been eclipsed by the OECD initiatives in global tax affairs, could and should play a stronger role in this field.

There are other reasons for the divergence of views on whether tax havens are thriving or dying out. News coverage and analysis of offshore centres tends to look disproportionately at changes in the "supply" side of offshore financial services, especially with the regulatory impact of new multilateral initiatives. Much less attention is given to demand-side changes. Even if OECD countries can coerce their own citizens and firms to give up the offshore option, or entice them back with their own rival products, trends such as rising prosperity in China, rising African oil wealth or a transition to market economics in the former Eastern bloc, may be cushioning or even cancelling out the impact of the supply-side trends. For example, although the British Virgin Islands has given in to demands from the OECD, FATF and EU, its IBCs are a continuing success, based on demand from Chinese customers who are indifferent to the Western initiatives.

We must also consider what options small states have, other than offshore finance. In agriculture, the market has been wrecked by rich country protectionism (sugar, bananas), or it may be unsustainable (fish), or it is fickle (tourism.) This lack of other options helps explain why small states hang on to the offshore option so fiercely.

[2] See http://www.anjouan.gouv.km/content_eng/creation.html
[3] See http://www.princemanagementsa.com/english.html
[4] See http://www.somaliaweb.biz/sifc.htm

NEWS HIGHLIGHTS

The Ford Foundation has confirmed a grant to TJN for research into the nature of, and institutions that enable, cross border illicit financial flows out of developing countries, and recommend reforms. This will run parallel to research by the Global Financial Integrity program into volumes of cross border illicit flows from developing countries.

Following criticism from TJN, **Transparency International said** it will now start a "second wave" of corruption campaigning focusing more on corruption facilitated by bankers and financial centres.

In a keynote speech, South African Finance Minister Trevor Manuel **attacked abusive tax practices** and called for global co-operation on tax, saying that smaller, poorer countries are especially vulnerable.

TJN and its issues continued to emerge prominently in the world's media. For example, a **TJN programme** won a radio programme of the year award in Australia; and the UK's *Guardian* newspaper ran **a front-page splash** about tax tricks in the banana industry.

See more news on TJN's home page, **www.taxjustice.net**

WHAT FUTURE FOR THE CROWN DEPENDENCIES?

feature

Richard Murphy

For the Crown Dependencies of Jersey, Guernsey and the Isle of Man the threat of external regulation has become – unlike for the other major tax havens – very real. All the major tax havens that are normally given this status by organisations like the OECD, the IMF, the Financial Action Task Force (FATF) or the European Union are accustomed to external regulation now. Yet it is only in the Crown Dependencies that this regulation has resulted in major changes in tax (as opposed to regulatory) systems.

These three havens are not EU members but the EU's Code of Conduct on Business Taxation applies to them (see Box 1). Unlike the OECD initiative on harmful tax practices, the EU Code has proved to have real teeth when each jurisdiction has depended for a significant part of its state income from taxes on company profits. This is particularly so for Jersey, where about 40% of all state income has come from this source (such dependency is probably unique in the tax world). The figure for Guernsey is 32%, and just 8% for the Isle of Man.

The EU Code requires that ring fences be removed from business taxation. Before the Code was introduced, locally owned companies in all three locations were taxed at 20 percent, while companies owned by non-residents could either claim tax-exempt status or negotiate rates as low as 0.5 percent. This discriminates against locally owned entities, and was judged to contravene the EU Code.

In response, the Isle of Man said in June 2000 that it would charge zero per cent tax on all companies -- except for some in the financial services sector which would pay 10% (this has been called 'zero / ten'). This set a benchmark that Guernsey and Jersey had to follow to stay competitive. There is intense rivalry between these administrations.

In June 2003 the European Commission judged that 'zero / ten' complies with the EU Code, and that a discriminatory rate for particular business sectors was allowed – as long as the sector was not determined by residence.

My Beautiful Laundrette: the financial centre in St. Helier, Jersey

That was the easy part. The Isle of Man could afford to lead the way: only a minor part of its revenues came from taxes on companies. It has also enjoyed a unique arrangement with the UK since the introduction of Value Added Tax (VAT) in both jurisdictions in 1973. Under this unusual arrangement, VAT receipts of the UK and the Isle of Man are pooled, then allocated between them on a somewhat arbitrary formula. This benefits the Isle of Man hugely: it receives a wholly disproportionate level of VAT income.[1] In effect, the UK subsidies the Isle of Man by more than £200 million a year. This gave it room to offer the zero percent tax charge.

[1] This must be the case: its VAT allocation amounts to 21.7 percent of its GDP and yet the maximum VAT rate is 17.5 per cent. In the UK, which has an identical VAT system the VAT recovery rate is 6.1 per cent of GDP.

"While the Isle of Man might survive on its subsidy from the UK, Jersey and Guernsey face huge deficits that they can only sustain for a few years based on current reserves and limited scope for privatisation revenues."

None of the islands, however, could afford to lose the revenue from tax on company profits. Jersey estimates the loss from this source at around £85 million a year (my estimate is nearer £120 million, since the government's estimate did not consider the whole affected tax base.) Each state has used strange tax gymnastics to protect its revenue. (See Box 2.)

While the Isle of Man might survive on its subsidy from the UK, Jersey and Guernsey face huge deficits that they can only sustain for a few years based on current reserves and limited scope for privatisation revenues.

Jersey is seeking to fill part of the hole in its budget with a Goods and Services Tax (GST). Like all such taxes this is regressive (i.e. it hits the poorest hardest), as is Guernsey's plan to increase social security contributions. Neither can survive without massive growth in their economies. Jersey assumes annual growth of more than 5% just to break even. But with a global credit crunch underway, which directly affects the products these places supply, economic decline seems more likely. As the deficits accumulate, these jurisdictions will no doubt try to pile extra tax burdens on locals, but there must be a breaking point.

For these two islands, the future looks bleak. The effects of the EU Code could even undermine the stability of their governments, effectively closing them down as tax havens in the coming years. All it requires is for enough European countries to sustain the political will to ensure that the Code Group maintains its objections to their abusive tax practices. We will campaign towards that end.

"In October 2007 the EU Code of Conduct Group told the Isle of Man that it failed the Code and that its law must be revised."

Box 1: The Crown Dependencies and the EU

The Crown Dependencies are related to, but not part of the European Union: they are not signatories to the EU's Treaty of Rome but are treated separately in the Treaty's Protocol 3. For international affairs, the UK is responsible for ensuring the good governance of the Crown Dependencies and negotiates on their behalf in international fora – and by agreement the EU's Code of Conduct on Business Taxation has been extended to them.

Box 2: Contortions in response to the EU Code.

The Isle of Man passed a law in 2005 deeming the profits of locally owned companies to be the property of the shareholders. This requires them to pay tax on the profits of the companies they own – even if they had not received any payment from the company! The inconvenience of this was then circumvented by requiring the company to pay the tax on their behalf. The effect was, of course, that the company continued to pay income tax exactly as before. The ring fence survived intact; it was simply called a personal tax now and the Isle of Man thought this sufficient to get round the Code.

Jersey planned a similar arrangement but in 2005 I warned them that it would fail the EU Code. They changed their plans. The Isle of Man did not, and in October 2007 the EU Code of Conduct Group told the Isle of Man that it failed the Code and that its law must be revised. It now plans to adopt Jersey's approach to require a company with local resident owners to either pay a substantial part of its profits as a dividend (or be deemed to do so.) The local shareholders are then taxed on this dividend or deemed dividend. The only difference from the Isle of Man's previous, failed arrangement is that the company cannot be required to pay the tax for the shareholder: they must pay themselves.

Guernsey heeded PricewaterhouseCoopers' advice provided after I told Jersey and the Isle of Man that their schemes would fail: Guernsey simply opted to tax dividends when paid. I think Jersey and the Isle of Man will fail the EU test. We're waiting to hear the result.

THE TAX HAVEN MODEL: A FRAGILE ECONOMIC FOUNDATION

feature

Nicholas Shaxson

The Tax Justice Network likes to remind people how tax havens impoverish other countries using secrecy, zero (or ultra-low) taxes or weak regulation to attract wealth-creating capital out of them, depriving the victim nations' governments of tax revenue for development.

Defenders of tax havens point to high income growth and wealth in several tax havens as evidence of their success (see box). Yet although tax havens extract wealth, they have failed to demonstrate how or where they add value in the process of wealth creation. And behind the headline numbers on economic growth, a different story emerges, which is especially pertinent for island havens. John Christensen's article in this edition of TJF examines his native Jersey to highlight some of the human costs of being a tax haven, and reveal similarities with a "Resource Curse" afflicting many mineral-rich economies, where strong headline GDP growth and high wealth per capita mask high domestic inequality, poverty, social tensions, corruption, and the withering away of alternative industries.

This excerpt from Britain's *Daily Telegraph* newspaper in December, illustrates the lives of ordinary people in one of the Caribbean's prime tax havens:

> *Tony Black lives on the richest island on Earth. Today is a typical day: after driving a taxi for eight hours, he will head to a warehouse, where he has an evening job operating machinery. Late tonight, he will move on to his third job, as a nightclub bouncer. At weekends, Tony, 28, drives a truck. "I'm a young black man who's still working four jobs," he said. "I still can't afford my own home."*
>
> *Tony's story is not unusual. Bermuda has the highest GDP per capita in the world – 50 per cent higher than America's – and it has zero unemployment. Mega-wealthy Britons, among them actress Catherine Zeta Jones and insurance magnate John Charman, rub shoulders with even wealthier American tycoons such as Ross Perot and Michael Bloomberg. Meanwhile, the average black Bermudian takes two or three jobs just to make ends meet. And the problem is worsening. Now the issue of inequality has spawned a power struggle that some say risks destroying the tax haven's economy overnight. One Brit - who, like most executives, does not want to be named for fear of making matters worse – said: "My son got home and said: 'Dad, am I a racist?'*

Global top-10 countries by GDP

1	Luxembourg	$71,400
2	Bermuda	$69,900
3	Jersey C.I.	$57.000
4	Equatorial Guinea	$50,200
5	U.A.E	$49,700
6	Norway	$46,300
7	Guernsey	$44,600
8	Ireland	$44,500
9	U.S.A.	$44,500
10	Cayman	$43,800

Source: CIA, 2007; note: countries in red are tax havens.

Tony Black's story reminds me of a man I once met in the corrupt oil emirate of Equatorial Guinea. He was helping chop down part of a forest to make way for an oil terminal in the once-beautiful port of Luba. He worked a fifteen-hour day, on pitiful wages, and was lucky to get that. The oil-rich island's once-proud cocoa industry, one of the biggest employers, had all but collapsed in the face of the oil boom. In the UN's latest Human Development Index, Equatorial Guinea has the dubious distinction of having the world's third worst negative difference – 54 places – between its ranking in terms of human welfare and its income per capita.

When well-funded libertarian institutes proclaim that being a tax haven will make you rich – look behind the headlines, and never forget the harm tax havens cause to other countries. And remember, of course, that international initiatives aimed at curbing tax haven abuses focus on protecting the tax systems of rich countries, leaving poor, more vulnerable countries unprotected.

The tensions in Bermuda highlight one of several reasons why tax haven economies – especially small islands with little else to fall back on – are inherently unstable. But there are other reasons. Murphy's article, on page 5, highlights intense rivalry and tax competition between three jurisdictions of the UK Crown Dependencies, which is destabilising their economies and politics. In a past edition of TJF,[1] Sheila Killian described how pressure from other tax havens has forced her native Ireland into a second round of tax competition, with worrying implications

> *"Tax havens extract wealth, but have failed to demonstrate how they add value in the process of wealth creation."*

[1] Vol. 3, Issue 1: First Quarter 2007, p6

"Island tax havens are heavily exposed to boom-bust swings in international finance; if the current international "credit crunch" proves to be as deep and durable as some fear, many havens face a bitter future."

for Ireland and with sinister implications for poor countries elsewhere.

As Christensen describes, when the financial sector becomes dominant in an island economy the result is political "capture" by the lobbyists and cheerleaders for financial services. The dominant sector also sucks skilled personnel out of the others, eroding them further; and by raising prices locally, people in other sectors are effectively poorer and further marginalised.The dominant sector thus becomes yet more dominant.Again, this is a bit like like mineral-rich economies afflicted by the Resource Curse, where the natural resource sectors crowd out other productive sectors like agriculture, manufacturing or tourism, leaving politicians to rail impotently about the receding dream of economic diversification. Like oil-dependent economies vulnerable to world oil prices, island tax haven economies are heavily exposed to boom-bust swings in international finance; if the current international "credit crunch" proves to be as deep and durable as some fear, many havens face a bitter future.

These are not the havens' only vulnerabilities. In the past few months we have noticed a sharp increase in interest in tax justice issues. In the UK, non-governmental agencies and journalists are fast catching on to the scandal of offshore: an example of the awakening is TJN's ongoing campaign against abusive tax privileges being offered to wealthy "non-domiciled" UK residents, which has caught the public imagination and forced changes in the law. At the time of writing this, Barack Obama had just won the first U.S. Democratic primary in Iowa, with John Edwards in second place. Obama has co-sponsored the "Stop Tax Haven Abuse Act" in the U.S. Congress; Edwards has said that "as president, I will declare war on offshore tax havens." The race is still wide open, but more and more Americans would agree with him. Chavagneux and Palan, writing in the last edition of Tax Justice Focus (page 1) describe a palpable mood swing in the European Union in the last two or three years against tax havens and tax abuse.

The global mood is shifting against tax havens, and TJN is working to push it further. Gambling an economic future on being an island tax haven looks like a risky bet.

Nicholas Shaxson is a consultant to TJN and an editor of Tax Justice Focus, an Associate Fellow of Chatham House, and author of the book "Poisoned Wells: the Dirty Politics of African Oil," Palgrave MacMillan, 2007.

news and research

Letter from Geneva

2007 Meeting of the UN Tax Committee: Link with FfD Process?

This year's meeting of the UN Tax Committee between 29 October and 2 November in Geneva disappointed the TJN delegation that attended. The Committee is not driving a development-centred global tax agenda forwards, and is far short of realising its potential. Yet it is, unlike the far more influential OECD, the only multilateral institution dealing with global co-operation on tax.

After the UN conference on 'Financing for Development' (FfD) in Monterrey in 2002, the UN Economic and Social Council decided that the Committee would be administratively and politically linked to the FfD process, and the Committee's mandate was clarified in 2004, stating that the committee "give special attention to developing countries and economies in transition." Its mandate unequivocally allows it to address all major tax issues, such as capital flight and tax havens, exchange of information, the adequate taxation of multinational corporations, and so on.

The Committee (whose full name is the UN Committee of Experts on International Cooperation in Tax Matters) consists of 25 experts, mostly high-ranking officials of their national finance ministries, acting in their 'personal capacity'. Delegates from many UN member states also attend and actively participate in meetings. Yet it was clear that most Committee members (and tens of delegates from UN member states) have little affinity with the FfD process – and representatives from important countries bluntly admitted this when asked how they could contribute to Doha. This is regrettable, since a high-level FfD follow-up Conference is scheduled in Doha, Qatar from November 29 to December 2, 2008, and the Committee could have a substantial positive input.

Instead of firmly addressing political questions, the discussions were highly technical. The Committee traditionally spends most of its time modifying the 'UN Model Double Taxation Convention between Developed and Developing Countries' which guides how taxing rights are allocated between tax payers' home and host countries. (Double taxation conventions or treaties are enormously important: among other things they dictate where multinationals pay tax, and many of them let multinationals shift tax payments out of poor countries where their activities are located and into rich ones or tax havens – depriving poor countries of many billions of dollars in potential revenues.) The Committee holds extensive technical discussions on the wording and phrasing of a document that is important but not binding, and which is

news and research

Letter from Geneva (Cont'd)

Palais des Nations in Geneva, home to the UN Tax Committee

only a small part of a much broader global tax agenda. What is more, if a discussion on a technical issue is not settled, it is simply moved to the next annual session.

There were positive steps, however. The Committee decided (as the OECD did a few years ago) to make exchange of information requests prevail over bank secrecy rules in the UN Model Double Taxation Convention (Article 26, paragraph 5). A subcommittee will work on a draft 'Code of Conduct on Cooperation in Combating International Tax Evasion', which (it is hoped) will be agreed before Doha. This would be non-binding, but it would set a moral norm that would further isolate tax havens whose secrecy rules prevail over exchange of information requests from other countries.

We would now make several recommendations to UN member states:

- Upgrade the Committee from an expert group to a genuine intergovernmental political body, to give the Committee and its agenda a higher profile. Reform the Committee (an 'International Tax Organisation' may be preferable, but is politically not feasible in the short term) and give the FfD Office, as secretariat of the Committee, considerably more resources and staff for its tax work.

- In a lunchtime lecture at the Geneva meeting, Prof. Vito Tanzi, former head of the IMF Fiscal Affairs Department, urged the creation of a global knowledge centre to provide aggregate data on global tax trends (as the OECD does for developed countries) and to carry out research on global tax issues. A better-equipped tax division in the FfD Office could do part of this work. With more staff and resources, more issues could be thoroughly dealt with: subcommittees could draw more on its own expertise, have more meetings, and engage more experts, and prepare better in advance any modifications to the UN Model Convention, so that the annual five-day plenary session does not get bogged down on technical matters but instead focuses more on the crucial political matters in global tax.

- UN member states should ensure that their officials participating in the Committee are well informed and instructed concerning the FfD process and the overall tax agenda. Hopefully, in the coming months a coalition will be built among UN delegations in New York to achieve a breakthrough on these and other issues in Doha.

The UN Tax Committee should play its role properly in future as a global tax body and pay special attention to the needs of developing countries – which is what its current mandate requires it to do.

Dries Lesage, Political Science Department/ Global Governance Research Group, Ghent University, Belgium. Dries attended the meeting as part of the TJN delegation.

news and research

Jersey presses the self-destruct button

by John Christensen

Look what they have done to my beautiful island: Jersey's waterfront, 2007

Table 1: Jersey's gross national income by sector – 2006

Sector	Share of Jersey's GNI
Financial services	52 %
Hotels, restaurants, etc	3 %
Wholesale and retail	6 %
Construction	5 %
Agriculture	1 %
Public administration	7 %
Transport, storage, etc	4 %
Other, including property services	20 %

Source: States of Jersey Economic Digest, 2007

I am a Jerseyman. When I was appointed economic adviser to the Jersey government in the 1980s, the States of Jersey was committed to economic diversity. For three decades tourism had been the engine of growth, with significant agriculture and light manufacturing alongside it. That was the Jersey that most people wanted: we did not want to put all our eggs into one basket.

Fast-forward to today, and Jersey is transformed. Financial services account for over half the island's economic base (see Table 1) and all other activities, including construction, retailing, public services, even the hospitality sector, depend heavily on offshore finance.

What happened? Why has my beautiful island, once promoted as Britain's "South Sea destination", let tourism wither and die?

Much of the answer lies in local politics. Many Jersey politicians were and are closely involved with banks and law firms linked to offshore finance, and self-interest has frequently been conflated with public interest. In the macho political environment of 1980s Britain, reticence about promoting abusive tax haven activity succumbed to pressures to take 'Jersey PLC' down the profit-maximising route. The island aggressively competed to attract more banks -- and demand for offshore services took off. Money flooded in, and headline economic growth was impressive: what could be wrong with that?

Unfortunately, as any good economist will tell you, things are not so simple. When money floods in, local prices

news and research

Jersey presses self-destruct button *(Cont'd)*

A much-loved historic cinema was torn down to make way for these Citibank offices.

and costs go up. As things get more expensive, other industries cannot compete – and they die out. Tourists find other places to visit, at lower cost. Locally grown agricultural goods are elbowed out by cheaper imports. This is similar to what has happened to many oil producing countries: a phenomenon commonly known as the Dutch Disease (after huge gas discoveries in the Netherlands in the1960s, which led to serious harm for the economy.)

When I started working in the sector in 1987 inflation was twice the UK rate. Unqualified school leavers were earning higher salaries than graduates in the UK. Construction costs were more than twice those in France and south west England. Today Jersey has one of the world's highest costs of living, and average house prices are over 20 per cent higher even than in London – which is really saying something.

Visitors to Jersey are often shocked by the high incidence of poverty amongst local people. This is partly because of the high cost of living, but also because of the paucity of social protection. Wage levels are depressed for semi-skilled and unskilled workers. The minimum wage is set low at £5.40 per hour, below the level of all EU states when adjusted for cost of living. Many workers are forced by low wages and high rents to work multiple jobs and accept very poor accommodation. Taking the EU's benchmark for assessing relative poverty (60 per cent of median income), 45 per cent of single pensioners in Jersey, and 64 per cent of single mothers and their children, are currently living in relative poverty.

Tourism in Jersey has crumbled under the weight of high labour and construction costs. Tourism's local defenders were no match for the well-connected and amply resourced representatives of the finance industry. Although lip service was (and still is) paid to the quest for economic diversity, the number of tourist bedspaces has more than halved just in the last decade, and tourist volumes have fallen below the critical mass needed to sustain many retailing and leisure activities.

The accepted wisdom of the 1970s and 1980s was that tourism and financial services were compatible on small islands. Jersey shows that resource constraints induce huge competitive pressures between the industries, and financial services end up crowding out pre-existing activities.

I challenged the wisdom of this development strategy in the 1980s, to no avail. Now the tables have turned: confronted with stiff competition from other tax havens, and external pressure to remove some of its abusive tax practices (see Richard Murphy's article on What Future for the Crown Dependencies?), Jersey faces a precarious future. To make matters worse, financial market instability in the second half of 2007 has exposed high levels of risk associated with securitised debt instruments, one of the few areas of expertise in which Jersey is a world leader. Demand for securitisation services has fallen flat.

Economic concentration is no accident: tourism's demise in Jersey links directly to political decisions taken in the 1970s and 1980s, at which time the island became captive to the global ambitions of the offshore financial services industry.

Other small island tax havens – Beware!

"Competing Industries in Islands" by Mark Hampton and John Christensen was published in Annals of Tourism Research, volume 34, number 4, November 2007.

Invitation to Participate in a Workshop on

TAX JUSTICE, TRANSPARENCY AND ACCOUNTABILITY

Essex University, 3–4 July 2008

The role of transparency and accountability in creating tax justice will be the main theme of the sixth annual research workshop in the current series jointly organised by the Association for Accountancy & Business Affairs (**www.aabaglobal.org**) and the Tax Justice Network (**www.taxjustice.net**).

Having explored the themes of tax and poverty and tax and finance for development in our last two workshops, we thought a different perspective appropriate in 2008. In focussing on accountability and transparency we wish to highlight the fact that the supply of honest information to taxing authorities is a prerequisite of a just tax system.

The themes that might be explored within this remit are wide, and might cover:

1. Problems of taxation of mobile capital;
2. International cooperation and transparency for tax purposes;
3. Accounting and tax transparency;
4. Secrecy, tax havens and offshore finance centres;
5. Relationship of tax to trade and investment agreements;
6. Are national governments losing the power to tax?;
7. The accountability of government for taxation revenues.

No doubt others will emerge as the workshop agenda develops.

The aim of this workshop is to bring together researchers, academics, journalists, policy staff of civil society organisations, consultants and professionals, elected politicians and/or their researchers, and government or international organisation officials to explore issues on these and related themes. The purpose of the workshop is to facilitate research through open-minded debate and discussion, and to generate ideas and proposals to inform and shape the political initiatives and campaigns already under way.

There will be a small charge for attendance at the Workshop. Participants are usually expected to finance their own travel although applications from students and others with limited means for bursary support will be considered. Accommodation at Essex University will be available at modest cost.

Anyone interested in participating should provide details of the nature of their interest, affiliations and any relevant research or publications to:

Richard Murphy FCA, Director, Tax Research LLP
The Old Orchard, Bexwell Road, Downham Market,
Norfolk PE38 9LJ United Kingdom

+44 (0) 1366 383500 / +44 (0) 777 552 1797

richard.murphy@taxresearch.org.uk

Offers of papers are especially welcome and early submission is encouraged as applicants have exceeded available spaces in recent years. Any submissions will be actively considered by the organising committee which comprises:

- John Christensen (Tax Justice Network)
- Jo Marie Griesgraber (New Rules for Global Finance)
- Prem Sikka (Essex University)
- Richard Murphy (Tax Research LLP)
- Ronen Palan (Birmingham University and IDS, Sussex)
- Sol Picciotto (Lancaster University)

AABA

tax justice network