

Transcript of the Taxcast, edition #106, November 2020

Naomi: “Hello and welcome to the Taxcast from the Tax Justice Network – your podcast on reprogramming our economies to work for all of us. I’m your producer and host, Naomi Fowler. I’m joined each month by John Christensen. Coming up later:”

“Unfortunately your country and America is in many ways assisting this kind of corrupt behaviour this is what I can't tolerate anymore, the lies. This cannot continue.”

Naomi: “We look at the terrible explosion in Beirut in the summer, 2020. The story of tracing those responsible reveals everything that’s wrong with our world. Two things this month to look out for this month: the Tax Justice Network is releasing a new report on the State of Tax Justice in 2020 where we’ll reveal for the first time how much each country in the world is losing to international corporate tax abuse and private tax evasion. One nurse’s yearly salary is lost every second to a tax haven. Check out the report and have a look at your country’s losses on our website www.taxjustice.net

And there’s a great new book out called Bear Markets and Beyond: A Bestiary of Business Terms. You've heard of black swan events - what about the grey swan? Vulture investors you know, how about dragon bonds, bunny markets, and porcupine provision? Welcome to this jungle, full of beautiful illustrations and short, witty explainers. Here’s author Dhruvi Shah:”

“The intent of the book is to help with financial literacy, to make sure that the world of business, the world of economics is demystified, but in a fun way. So it’s suitable for 4 year olds to 110 year olds. There’s a lot of disinformation, misinformation like debunking going on in the book as well. You can go and see what a bear market is, because bear markets and bull markets are being discussed quite a lot right now, especially in these post-covid economy times that we’re in. Money matters affect everybody. You don’t want to be scared and that’s what the whole point of the book is.”

Naomi: “It’s published by Pavilion Books. It’s a brilliant thing. Now we’re going to talk to John Christensen of the Tax Justice Network for his take on this month:”

Naomi: “Okay, John, this month, Joe Biden has won the US elections. That's a win he's probably gonna have to prise out of Trump's cold, dead hands by the looks of it. It's not really hard is it for Joe Biden to look like a serious president when it comes to policy compared to the current administration. Um, and there's so much an Biden administration really needs to do. Um, what does this mean for tax justice and economic policies? We don't yet know what the balance of power is going to be in the all important Senate yet do we? One of the surprisingly easier ones for Biden could actually be the potential to tackle monopoly power with cross party support because there is cross-party support there. What do you think? Do you agree?”

John: “Well, yes. I mean in so many respects this is potentially a massive turning point for the United States. Recent history, the tax cuts and jobs act of 2017, which really provided nothing more than a sugar rush to the, to the US economy, which was already booming at that time after successive waves of economic stimulus from the fed from 2010 onwards but

the big winners from the tax changes have been the billionaire class and they became massively richer as a result of the stock market boom. And of course, big corporations have also done extremely well. Their profits have shot up.”

Naomi: “Yeah..vice president elect Kamala Harris tweeted after their election win quote “Joe Biden and I will eliminate the Trump tax cuts for the biggest corporations and super wealthy then get back to work, building an economy that works for working families.””

John: “Yes I mean if you look at what's happened in terms of corporation tax, for example, the headline rate of corporation tax was cut by that act from 35% to 21% though always bear in mind that most big corporations didn't pay anything like that rate, but those cuts have had a dramatic impact on the federal tax receipts. Despite booming profits, corporate tax receipts have fallen from 9% of total tax revenues in 2017 to 6.6% in 2019. That's close to a 30% fall in just two years, which means that the incoming Biden presidency will be inheriting yet another structural deficit of revenue over expenditure and the gap between rich and poor people can only get even wider unless there's massive transformation across the board. And that means that Joe Biden and his team must address the colossal power of the corporate world, which after decades of mergers and acquisitions has become super concentrated into the hands of monopoly corporations in virtually all sectors and that ranges from pharmaceuticals to meat packing from media ownership to online data collection and advertising. Now, as you say, there is bipartisan support for taking action to improve market quality and push back against dominating monopoly companies. And there's a good reason for this cross party support. If you look at the agriculture sector, for example, which is kind of the heart of the American dream, you'll find swathes of farmers in the Midwest being forced out of business by the dominance of just one or two companies which totally control the meat packing and wholesale sector sector, which might well provide consumers with cheaper products at the checkout, but this is at the expense of deteriorating contractual provisions for the farmers. And that leads to cost cutting, which has negative impacts on environmental protection, on worker protection and on food quality generally. And this is all due to the dominant market power of the monopolist companies which control the industry. And when you factor in the other costs, for example the ways in which super large companies are able to avoid paying tax in the States and they're chasing subsidies, and they're using their political weight to lobby for weaker protections and lower standards, and you can see why there's this need to tackle monopolies and it ranks alongside all the other huge priorities facing the incoming administration, including climate crisis and tackling inequality and restoring trust in democracy.”

Naomi: “Yeah, and that's not just the United States that suffers from this monopoly power problem, is it?”

John: “Yeah. I mean, it's interesting that the debate around concentrated corporate power is raging in the United States, but it's not raging in other parts of the world. It's not raging for example, in Europe. And whilst in the United States we can see that measures are now actively being pursued in the Congress. And as you said, with bipartisan support, we really don't see anything happening on a similar level in Europe, where the competition

authorities continue to think that monopolies are okay provided they bring lower prices to consumers and there's little attention being played to the way in which monopolies are using their power to squeeze suppliers, to squeeze workers conditions, to harm environmental protections and so on. In many respects this should be a wake up call for civil society in Europe to start paying attention to these matters and perhaps look to what's happening in the United States.”

Naomi: “So there's easier stuff, there's harder stuff for the Biden administration to pass. Let's talk about corruption because we've had lots of politicians claiming they're going to tackle corruption. I mean, remember the British prime minister, Gordon Brown proclaiming the end of tax havens. But President-elect Biden has for a while been explicitly supportive of beneficial ownership, transparency, so no secretive owners of companies, and he's been, uh, supportive of transparency in real estate, for example. So, he's quite keen as well to strengthen judicial independence, which is a good thing. And what really stands out to me is that he said, and I'm quoting, I will also take steps to tackle the self-dealing conflicts of interest, dark money and rank corruption, but as serving narrow private or foreign agendas and undermining our democracy, that starts by fighting for a constitutional amendment to completely eliminate private dollars from federal elections. Wow.”

John: “Yeah. Wow. And so important because, you know, if you just look at what's happened in the course of the US elections this time round, I think it's fair to say that the entire world has been reeling in horror at the speed with which the confidence in democracy in the United States has been undermined. And by the way, I don't think it just applies to the United States, I think it applies equally to Brazil, to Britain, to Hungary, to Italy, Poland, several other countries could be added to that list. And I think it's recognised that these dark money flows are threatening the core institutes of democracy to the extent that we really should regard them as national and international security threats. And I think that the incoming Biden administration recognises that confidence in democracy needs to be restored and they'll be working urgently to restore confidence and the, you know, not just in, in democracy, but also in the independence of the judiciary and against widespread public perceptions that democracy has been corrupted by big players who can game the system to their personal advantage, leaving the honest Joes and Josephines to suffer. So there's a lot that needs to be done. And here are a few of the measures that I think might help restore public confidence in both the state and in the judiciary. First, United States can resume what I think was its previous leadership position by taking immediate measures to strengthen corporate transparency and reduce dark money flows into politics, banning anonymous shell companies in every state in the United States and requiring full disclosure of information, that is ownership information - that's just the start. I think the United States also needs to re-engage with its partners in Europe and in other democracies and push for greater cooperation with information sharing between national authorities. For example, now they can sign up to the common reporting standard for automatic information exchange, which until now they haven't signed up for, that wasn't the Trump administration that didn't sign up, it was the Obama administration that didn't sign up to the common reporting standard. But now is the moment to do that.

Second whilst I used to think of the United States internal revenue services as providing the gold standard for tax authorities around the world, the cuts of recent years to the internal revenue services have massively eroded capacity and capability. They've just lost too many of their really capable staff. And that especially applies to the specialised units set up to tackle tax cheating by the super rich people and by large corporations. We all know that this didn't happen by accident. The rich and powerful have been lobbying for cuts to the internal revenue service for decades. Uh, and we as tax justice campaigners need to push hard for revenue authorities to be properly funded and totally rejuvenated. Now third we'd like to see the United States take a more positive role more generally at the United Nations, especially in reinvigorating the United Nations efforts to create a new set of rules for taxing multinational companies on the basis of unitary taxation, and also work with UNCTAD, the United Nations conference on trade and development to set new rules for corporate behaviour. Now, of course there are loads of other measures which did love to see the incoming administration push for wealth taxes, for example, financial transaction tax. They could perhaps follow Britain's lead in applying unexplained wealth orders to all the assets held by oligarchs in the United States. And more generally, it would be great to see the US working in tandem with the rest of the world to put an end for once and for all to the secrecy jurisdictions which represent such a threat to democracy. And international security."

Naomi: "Briefly, the fact that 70 million-odd US Americans did actually vote for Trump despite knowing he hadn't paid his taxes for many years, among many other things - what does it say about the permissibility of corruption in the US today? I mean, Biden's appeal to decency didn't convince so many millions of voters. And I mean, on the one hand you can see there's been so many generations of polished politicians who've changed very little for ordinary people for far too long, we have the corporate capture of information, of course, but in the end, the old sort of die hard attitudes about tax cuts boosting growth and misrepresentation of the centrality of tax and the misrepresentation of economics - it still really seems to connect with people, doesn't it?"

John: "Yes, it does seem to connect with people and, and it's been tragic watching how people have been duped - there's no other word, they've been duped by all the lies and the false facts being circulated by lobbyists and special interests. But this goes back a long, long way long before President Trump. Part of the problem lies with all the bogus thinktanks in Washington and the for-hire economists sponsored by big businesses. Um, you picked the example of how tax cuts stimulate economic growth - that's just such a nonsense, it's been disproved and not just for years, but for decades, there's been no evidence to support that assertion. So one of the major challenges facing the incoming president lies with resetting public awareness of how economies really work and helping people to understand that the underlying programme, that's the programme that's run the US economy for the last half century or so, that is the programme of tax cuts for the rich and rolling back the state and cutting regulations and privatising public assets - that programme has turned a few millionaires into billionaires, but it has left the vast majority of people massively worse off."

Naomi: "Thanks John. Now it's time for the Taxcast special feature. Secrecy kills. Governments around the world continue to allow the real owners of companies to hide their identities. Those people know if they break the law, or end up hurting anyone, they're unlikely to face justice in the courts. This month, we look at the terrible events on August 4th 2020 in Beirut, Lebanon."

[Clip explosion, screaming]

Naomi: "You're hearing the terrible sounds of one of the largest non-nuclear explosions ever recorded. It killed more than 200 people, injured many thousands and made 300,000 people homeless. People as far away as Cyprus heard the blast of nearly 3,000 tonnes of ammonium nitrate igniting. It had been left sitting in a warehouse in Beirut's port for more than six years. It was obviously dangerous, but there it was anyway. The story of tracing those responsible tells us everything that's wrong with our world."

Rana: "I remember the explosion happened on the 4th of August. And I wrote an email to my boss..I said, there's a big story here."

Naomi: "This is Rana Sabbagh of the OCCRP, the Organised Crime and Corruption Reporting Project and founder of the Arab Reporters for Investigative Journalism. The OCCRP oversaw a huge collaboration on the Beirut explosion with journalists across the world in many languages. There are some terrible personal stories:"

Rana: "we did a very sad story on a silo worker, you know, the grain silo because that worker had taken refuge in that silo during the war in Lebanon, the civil war for 20 years. And he was always worried about his family that lived in a flat nearby. And the family found out that the silo that protected him during the civil war ended up to be his graveyard, so that the guy died there."

Naomi: "As well as personal tragedies like these, this was a *national* tragedy for a population that's endured long years of civil war and economic trauma. Lebanon's president had been warned of the danger by the security services:"

Rana: "the successive ministers of public works under whom the port lies, the successive security people, successive prime ministers, and the president of Lebanon, definitely these people should all be sued for negligence, at least."

Naomi: "Right. And this story goes far beyond the national context in terms of Lebanon itself, bad management at the port, a ship that brought the explosives that wasn't really seaworthy, and low accountability, doesn't it?"

Rana: "Yeah, we basically exposed the true owner of the vessel, the complicated web of players and how they were hiding under this enormous global network of safe havens and company registrations and maritime registrations and different countries using different flags. Every story we are looking now today..in the Arab world will have a connection to one of those safe havens, and God knows..how can you find the real owners if every jurisdiction says, sorry, we can't give out any data...helping people that should be exposed."

Naomi: “Journalists and investigators of all kinds come up against the same wall of secrecy worldwide. With *this* story, there’s a huge number of countries involved in complicated ownership structures and transactions. The OCCRP discovered the ammonium nitrate was purchased from the country of Georgia by an explosives factory in Mozambique that produces commercial explosives. It’s also part of a network of companies that’s previously been investigated for weapons trafficking and explosives violations. Now stay with me, *that* factory bought the ammonium nitrates through a UK-based company with links to Ukraine. At the time the UK company acted on behalf of the Mozambicans, it reported no official business activity to UK authorities and has remained dormant ever since. When it comes to the ship that carried the ammonium nitrates, well there’s a whole lot of untangling that OCCRP did to work out who the owner *actually* was. The ship was supposed to just be calling in at the port in Beirut to collect more cargo before setting off again but it was in such poor condition it never left the port. It was impounded and eventually sank. It’s still there underwater. The British registered company started a process to claim the cargo of explosives taken out and left in the warehouse, but then abandoned it. The Mozambican factory never tried to directly claim the explosives.”

Thom: “There is a systemic failure that doesn't start or end in Lebanon, but crosses the world and intersects with a whole number of different industries.”

Naomi: “Thom Townsend of Open Ownership:”

Thom: “the..issue around shipping and ownership around ships, actually that becomes a transnational issue, but of course also becomes an issue that takes place in ungoverned spaces within the law of the high seas. And in this case the ships that can do business in those spaces, which themselves are hidden behind, as currently conceived entirely legitimate opacity and flags of convenience - that is being able to register a ship, in a country of choice that perhaps has a lax regulatory regime, or will allow you to sort of invest less in safety or staff protection, and so on and so forth. It is not okay anymore in 2020 to own a business, to own a ship that you have deliberately hidden the ownership of through hugely complicated structures to either avoid tax or minimise your tax liability or reduce your safety standards.”

Naomi: “Yeah. And it's interesting - ships using flags of convenience, we know they formed the template for the development of tax havens themselves. The ship that carried the explosives to Beirut and then sank is called the Rhosus. At first it *looked* like the owner was a Russian man living in Cyprus. But he seems to have been a kind of agent with a history of acting as a corporate officer in companies run by *other* people. Rana Sabbagh again:”

Rana: “Unfortunately the sad thing is that, you know, there was this big hype, the government was the first to start that big hype about launching the investigation. Nothing has happened, now they are basically, they have issued a statement through the Interpol, you know, wanting to talk to the owner of that vessel, who is not the original owner, as we have been able to prove.”

Naomi: “Charalambos Manoli is a Cypriot shipping magnate. He denies he owned the Rhosus but OCCRP’s investigations seem to show he owned the ship through a company

registered in the secretive jurisdiction of Panama. The ship itself was registered in Moldova (notorious for loose regulations for ships that aren't really seaworthy, among other things). The point of all this is the complexity. This really does makes your head spin doesn't it?!"

Thom: "It, it does, it does. And I think, I think part of the challenge in, in wrapping your head around this is how we collectively come up with a kind of modern understanding of what a company is and what complex company structures are designed for. They are designed to create a beneficial ecosystem of businesses that trade with one another, that move liability to jurisdictions that benefit them. And of course the extreme complexity that sits at the heart of it is the very outcome that people are designing these structures to achieve because it is that complexity that makes it so hard to pin accountability to a person, to bring action, to seek justice."

Naomi: "Right. And there's another part of this, which really jumped out at me. And that was the outsourcing aspect of this, so many governments around the world outsource the inspection of maritime vessels to private companies rather than the state performing those functions. And it's pretty horrifying that it appears in this case that the same person that seems to have owned the ship that wasn't really fit to sail seems to have owned a firm conducting inspections of ships. So, a clear conflict of interest there that wasn't evident since he hid his ownership of both, you know, that's really, really dangerous."

Thom: "It is absolutely. As you look across the world, what you see in, in public procurement, in, in a lot of, of government practice, very basic due diligence just simply doesn't take place. You know, a lot of this information can be found and it can be found, you know, at not insubstantive cost. We are campaigning for free, completely free, publicly accessible information about company ownership, but you have to use it and you have to want to use it and you have to do something with that information once you have it, you know, we've all in this space, in the transparency and accountability space become very used to the idea that, you know, transparency alone will not change anything. There has to be some action taken."

Naomi: "Yeah, enforcement is often so weak, it's so underfunded and not taken seriously enough by governments, that's an essential ingredient for change. Rana Sabbagh again:"

Rana: "Unfortunately your country and America is in many ways assisting this kind of corrupt behaviour, this is like the worst realisation that, you know, your country and US and all these offshore are providing all the secrecy and the ability to shield the beneficial ownerships and the structures of these companies. I mean these people don't work alone you know, it's part of the global network - you have the attorneys that register these companies, you have the people that sell their names to the owners of these companies. And you have the jurisdictions that are protecting all the investments there. Every government is looking at the amount of money this industry is creating but as I said you know, these people are not working in isolation. They are part of a global system of attorneys, of facilitators. In many instances, you have, you know, 1000 people running like a hundred thousand companies, wherever you look, it's the same people that keep popping up. And someone has to stop that. It's not me. It's not you. It's the countries that have the

clout. And that's the first world, you know, this is what I can't tolerate anymore, the lies by these people that all day long are talking about free speech and the fight against corruption. This cannot continue."

{Music}

Rana: "When I look today at the Lebanese, you know, half of the population is living below the poverty line. And there's like, people don't have food anymore. I have friends in the middle class their son, for example, does not want to grow up in Lebanon, why should these people pay the brunt of this? Lebanon, it's got an amazing landscape. It's got these beautiful restaurants. Imagine, this is a country that basically has, has provided expertise around the world, wherever you look, there will be a Lebanese banker or a Lebanese lawyer or a Lebanese doctor. I mean, they're amazing people. This cannot continue. This cannot continue."

Naomi: "I don't know if Lebanese families will get the justice they deserve, either nationally, or internationally. But one thing that shouldn't stand in their way is the global system that lets people do things that endanger the lives and wellbeing of others while hiding who they are. Because secrecy kills. Nations everywhere *must* now create public registers of the real owners of companies, and they must properly fund their tax and law enforcement authorities to use that information. Thanks for listening. We'll be back with you next month."