

Sun, sea and tax avoidance: Corporations and Finance

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GLOBAL ECONOMIC DYNAMICS
AND THE BIOSPHERE
THE ROYAL SWEDISH ACADEMY OF SCIENCES

Stockholm Resilience Centre
Sustainability Science for Biosphere Stewardship



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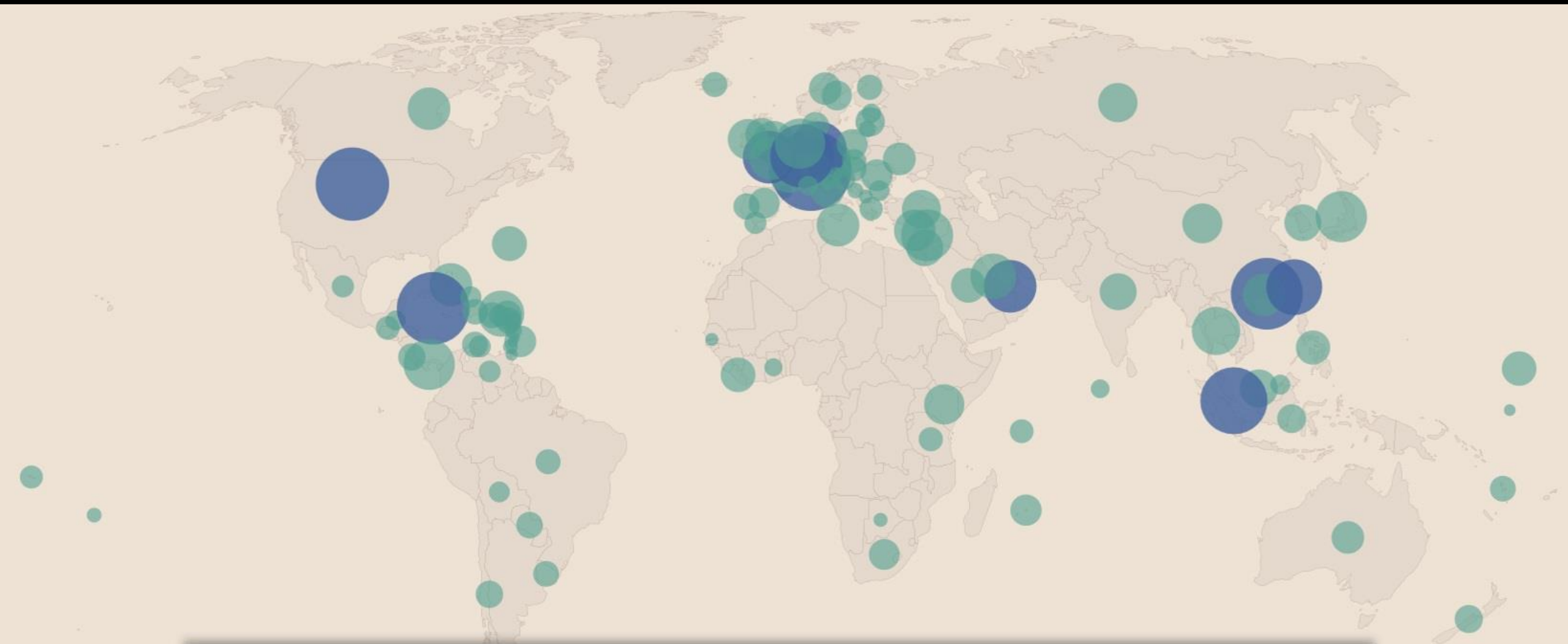
What is a tax haven?

- no or low taxes
- lack of effective exchange of information
- lack of transparency
- no requirement of substantial activity



What are the major tax havens?





Financial Secrecy Index 2018

2018 Secrecy Ranking

See full index [here](#)

1. Switzerland
2. USA
3. Cayman Islands*
4. Hong Kong
5. Singapore
6. Luxembourg
7. Germany
8. Taiwan
9. United Arab Emirates (Dubai)
10. Guernsey*
11. Lebanon
12. Panama
13. Japan
14. Netherlands
15. Thailand

* British overseas territory or crown dependency. If Britain's network were assessed together, it would be at the top.

2019 Haven Ranking

See full index [here](#)

1. BVI*
2. Bermuda*
3. Cayman Islands*
4. Netherlands
5. Switzerland
6. Luxembourg
7. Jersey*
8. Singapore
9. Bahamas
10. Hong Kong

* British overseas territory or crown dependency. If Britain's network were assessed together, it would be at the top.

Bahamas
Bermuda
Cayman Islands
Guernsey
Jersey
Malta
Panama



Tax havens are at the heart of the global finance system

- 50% of all international banking lending is done in tax havens
- 30% of the world's stock of Foreign Direct Investment are registered in tax havens
- 40% of multinational profits are shifted to tax havens each year

Palan, Murphy & Chavagneux 2010; Tørsløv, Wier & Zucman 2019

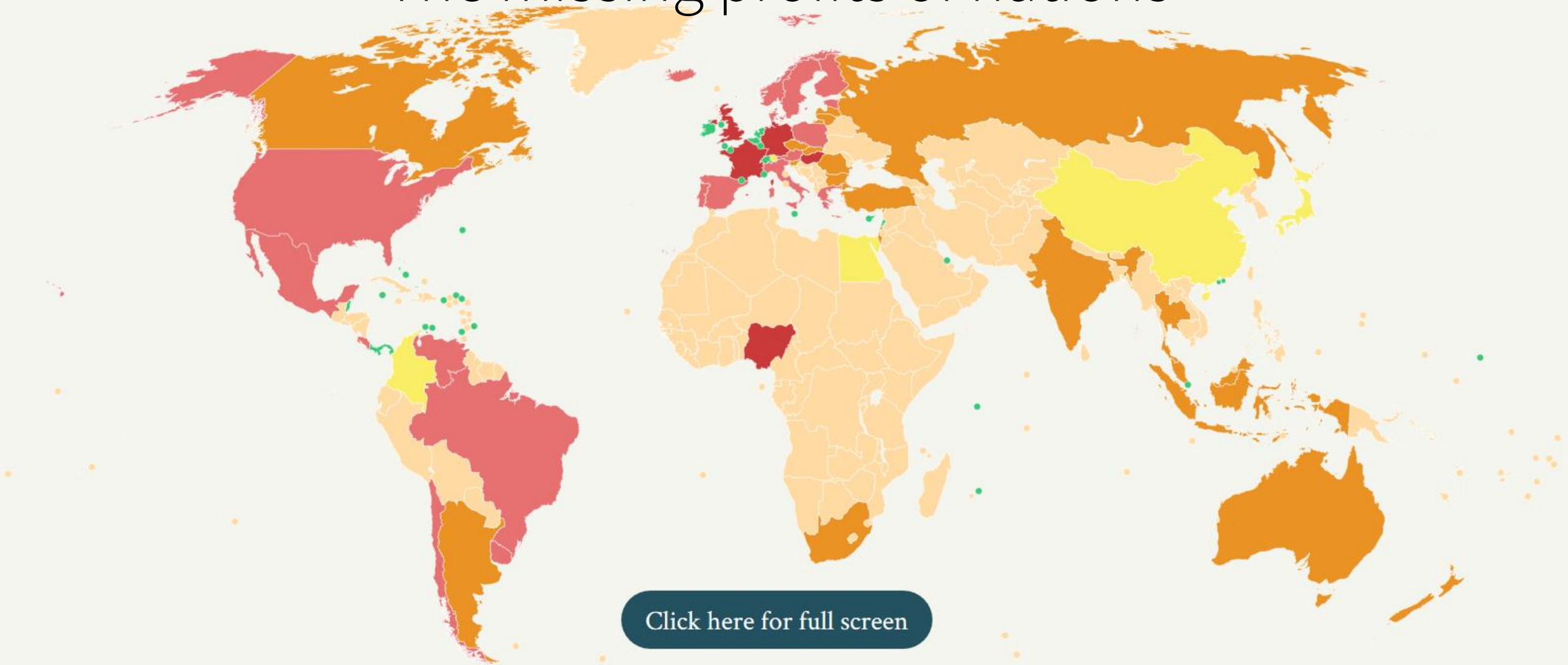


The hidden wealth of nations

- 8% of households' financial wealth is held in tax havens, i.e. USD 7.6 trillion
- This costs USD 190 billion every year to governments, i.e. 1% of global government revenue
- 18% of US corporate profits are 'made' in tax havens
- This reduces US corporate tax liabilities by \$130 billion a year



The missing profits of nations



Non-tax havens (% of corporate tax revenue lost)

● > 20% ● > 8% ● > 4% ● < 4%

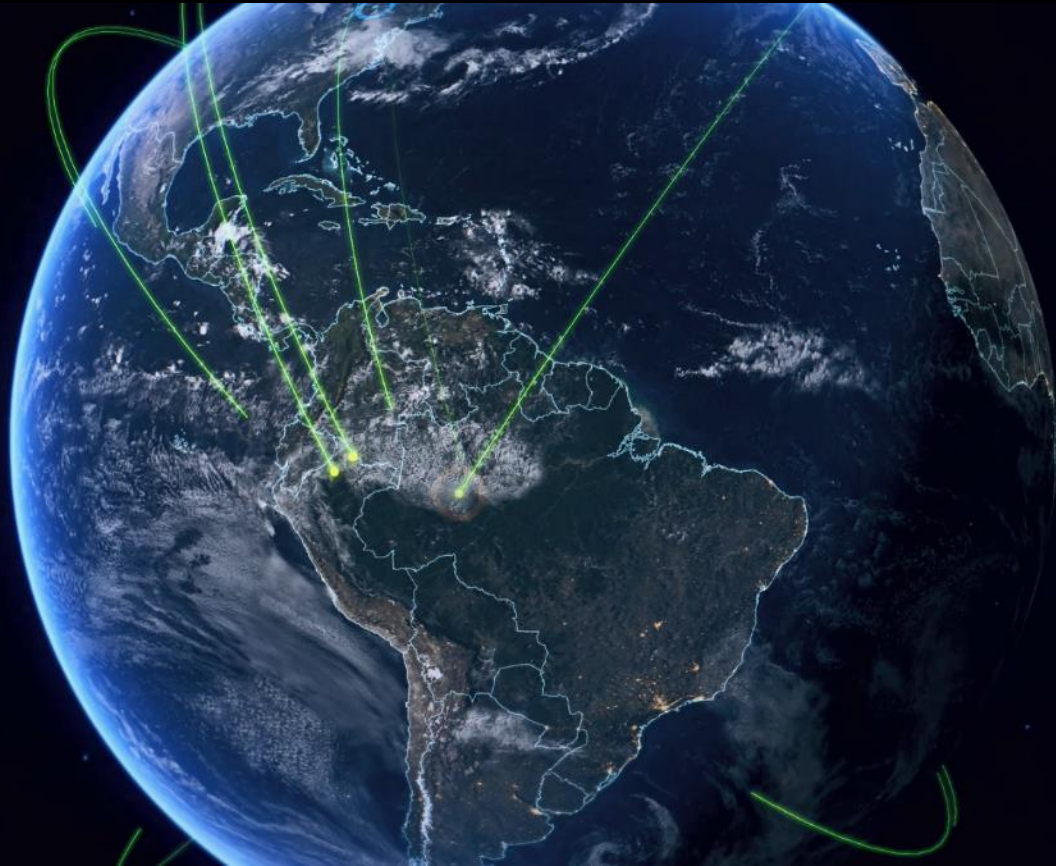
Tax havens



No data



Tørsløv, Wier & Zucman 2019



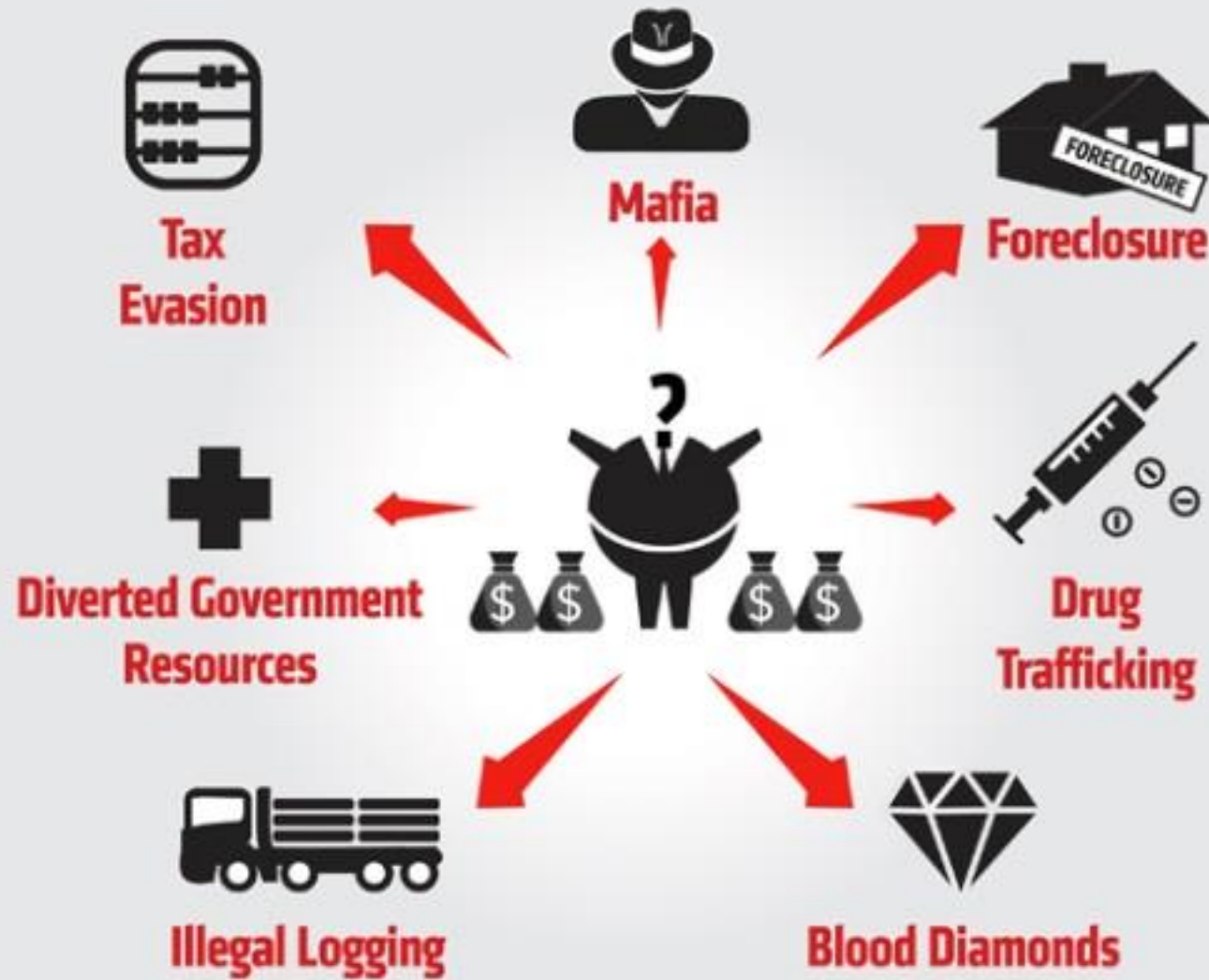
Global Wealth Chains

transacted forms
of capital
operating multi-
jurisdictionally for
the purposes of
wealth creation
and protection

Seabrooke and Wigan 2017

What are some uses of tax havens?
Are they legitimate or illegitimate?





All of the above crimes are enabled by
anonymous companies.

Compliance

Planning

Avoidance

Evasion



2 main tax
cheating
strategies
used by
multinational
corporations

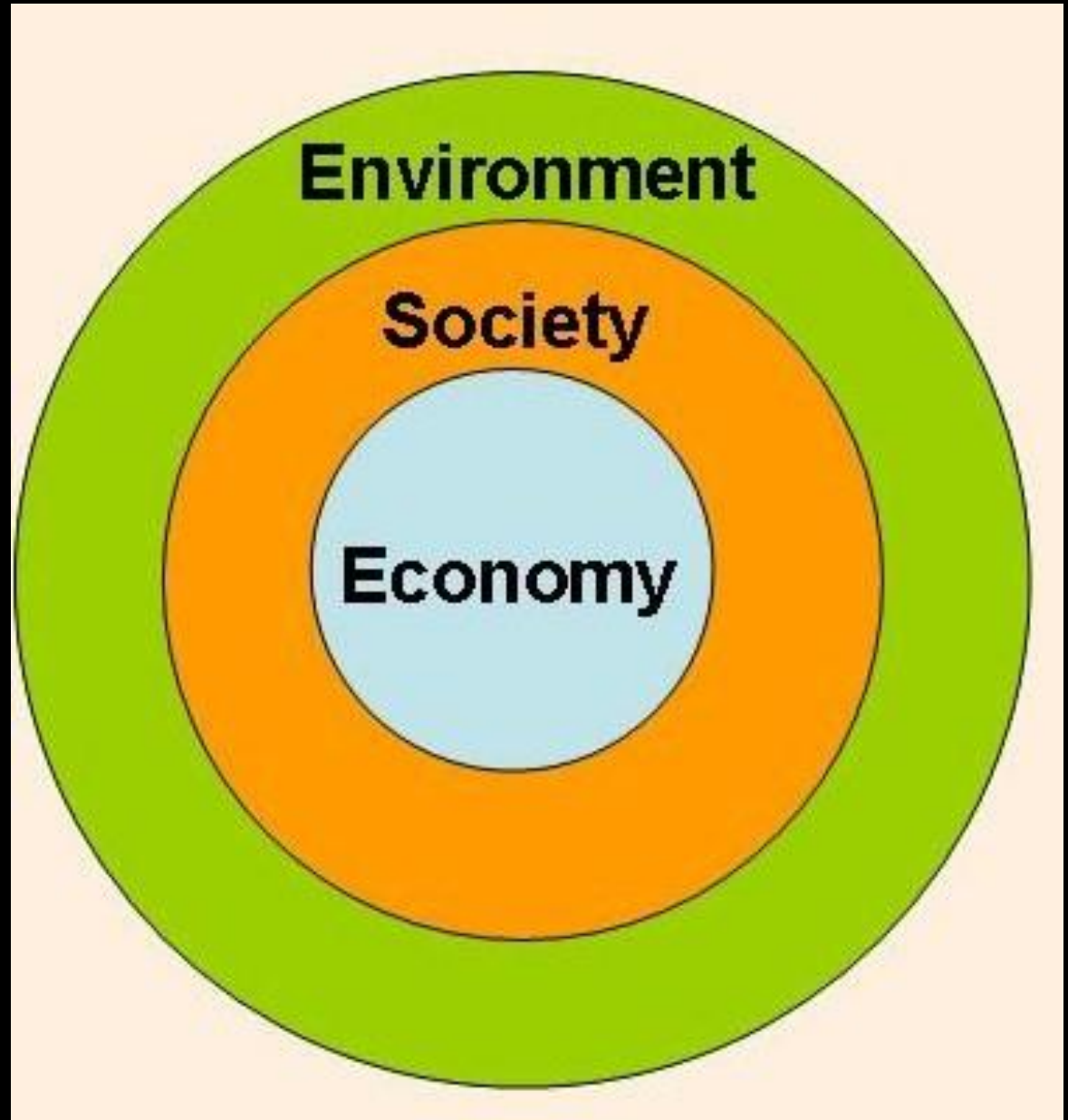
Transfer
(mis)pricing

Earnings stripping,
thin capitalization

Sources of data

- International organisations
- Tax havens themselves
- Banks and accounting firms
- Company reports
- National accounts, tax authorities and central banks
- Civil society organisations
- Leaks

Why are tax
cheating and
financial
secrecy a
problem?



Addressing tax avoidance globally



Information exchange between countries



Registration of ultimate owners



Country-by-country reporting



Unitary taxation



Financial secrecy and the biosphere

Politics and Society | Iceland Monitor | Wed 27

Panama Papers

Vast hidden profits: from Asia's palm oil giants to a tiny British tax haven

Indonesian court helps to tear down
which huge corporations open



THE PANAMA PAPERS ▾

JOURNALISTS

BLOG

DATA ▾

ABOUT

SHRIMP SHELLS

Panama Papers reveal offshore payments by
Madagascar's seafood king

Panama Papers' put Pacific Andes at
center of Namibian tax cheat allegations




PESCANOVA

EU

Pesca
false

to hit Iceland

Tax havens and global environmental degradation

Victor Galaz ^{1,2*}, Beatrice Crona^{1,2}, Alice Dauriach², Jean-Baptiste Jouffray ^{1,2}, Henrik Österblom¹ and Jan Fichtner ³

Recent releases of classified documents in the past years have offered a rare glimpse into the opaque world of tax havens and their role in the global economy. Although the political, economic and social implications related to these financial secrecy jurisdictions are known, their role in supporting corporate activities with potentially detrimental environmental consequences have until now been largely ignored. Here, we combine quantitative analysis with case descriptions to elaborate and quantify the connections between tax havens and resource degradation both in global fisheries and the Brazilian Amazon. We show that while only 4% of all registered fishing vessels are currently flagged in a tax haven, 70% of the known vessels implicated in illegal, unreported and unregulated fishing are, or have been, flagged under a tax haven jurisdiction. We also find that on average 70% of all investigated foreign capital to focal companies in the soy and beef sector directly impacting the Brazilian Amazon was transferred via known tax havens, representing as much as 90–100% of foreign loans for some companies. We highlight key research challenges for the academic community that emerge from our findings and present a set of proposed actions for policy that would put tax havens on the global sustainability agenda.

Tax havens and environmental sustainability

Two complementary case-studies representing Global Environmental Commons

Financial fraud and
evasion of regulation



Aggressive tax planning
as 'hidden subsidies'



Data

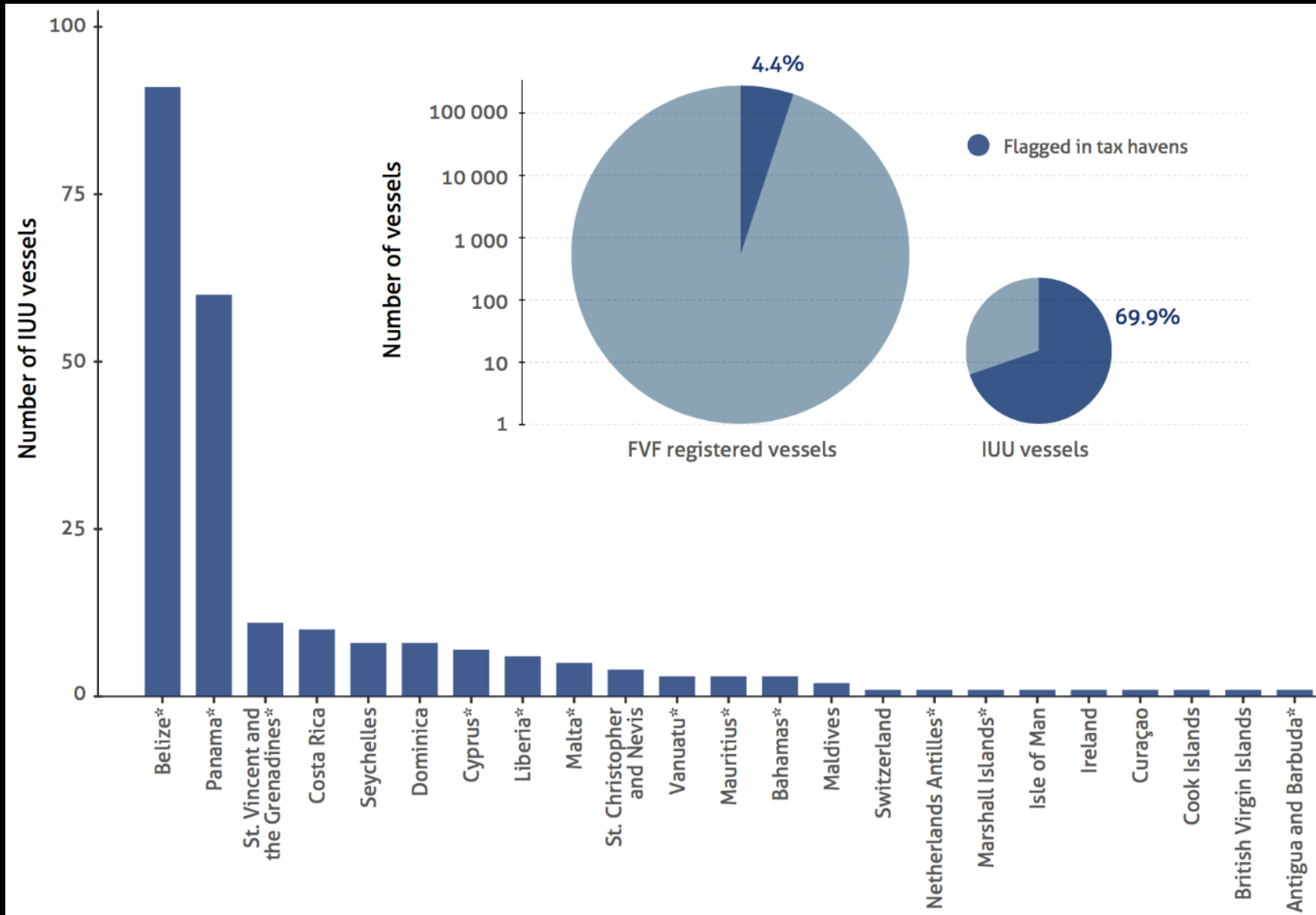
Fishing vessels convicted for illegal, unreported and unregulated fishing



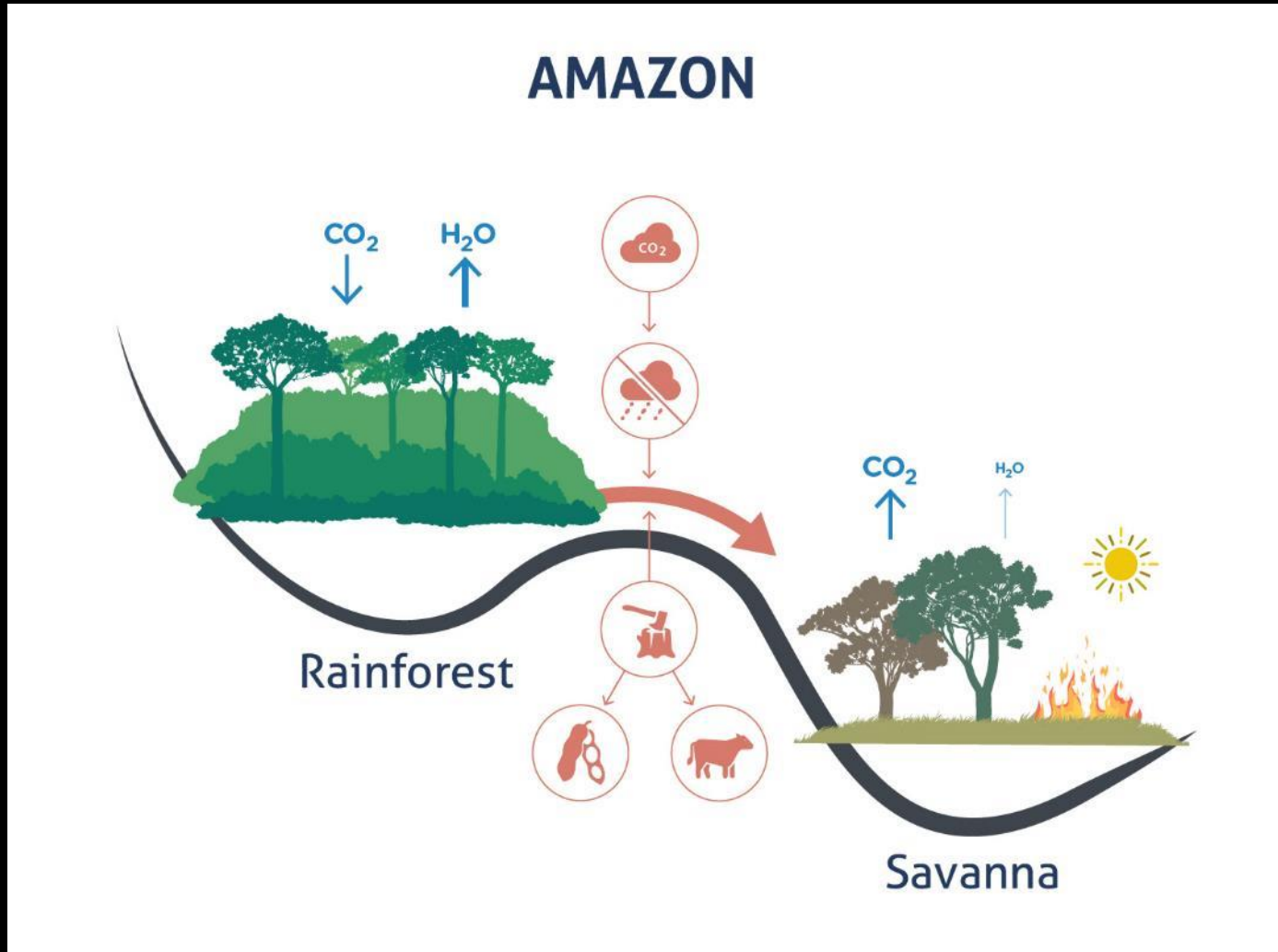
Flows of foreign capital to selected companies in the soy and cattle sectors



Illegal Unreported and Unregulated (IUU) fishing



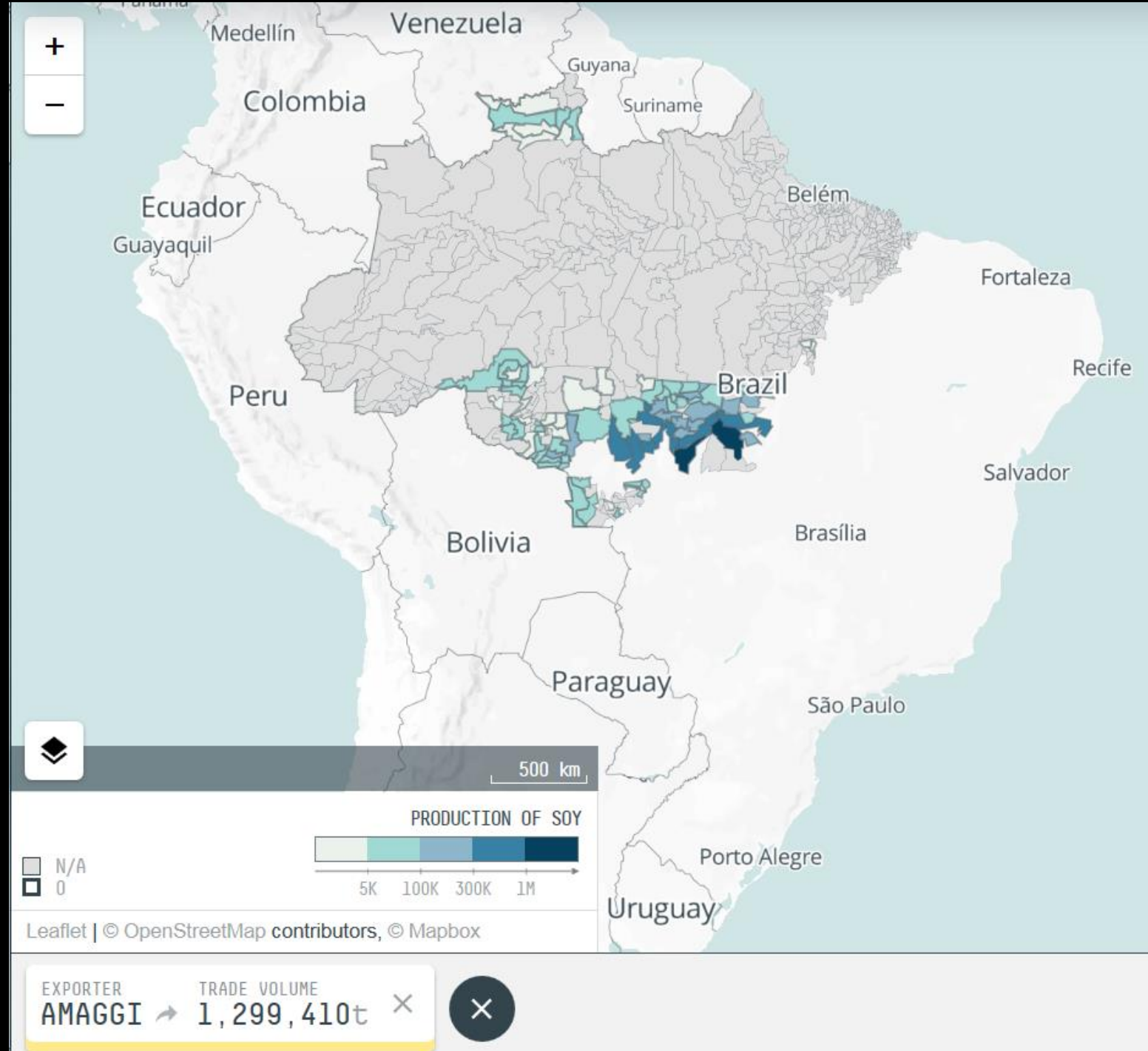
Tax havens and deforestation in the Amazon



Credit availability linked
to increased
deforestation

Nepstad et al. 2014

Dalla-Nora et al. 2014



Trase platform,
Global Canopy and
SEI, 2018



BANCO CENTRAL DO BRASIL

Departamento de Monitoramento do Sistema Financeiro e de Gestão da Informação
Divisão de Capitais Internacionais e Câmbio

Registros Efetuados

Objeto: Registros de Capitais Estrangeiros Emitidos ou Cancelados/Encerrados, Referência: Maio/2010 Base Legal: Decreto nº 55.762, de 17.02.1965 Artigo 66, Com a Redação Dada Pelo Decreto nº 4.842, de 18.09.2003.

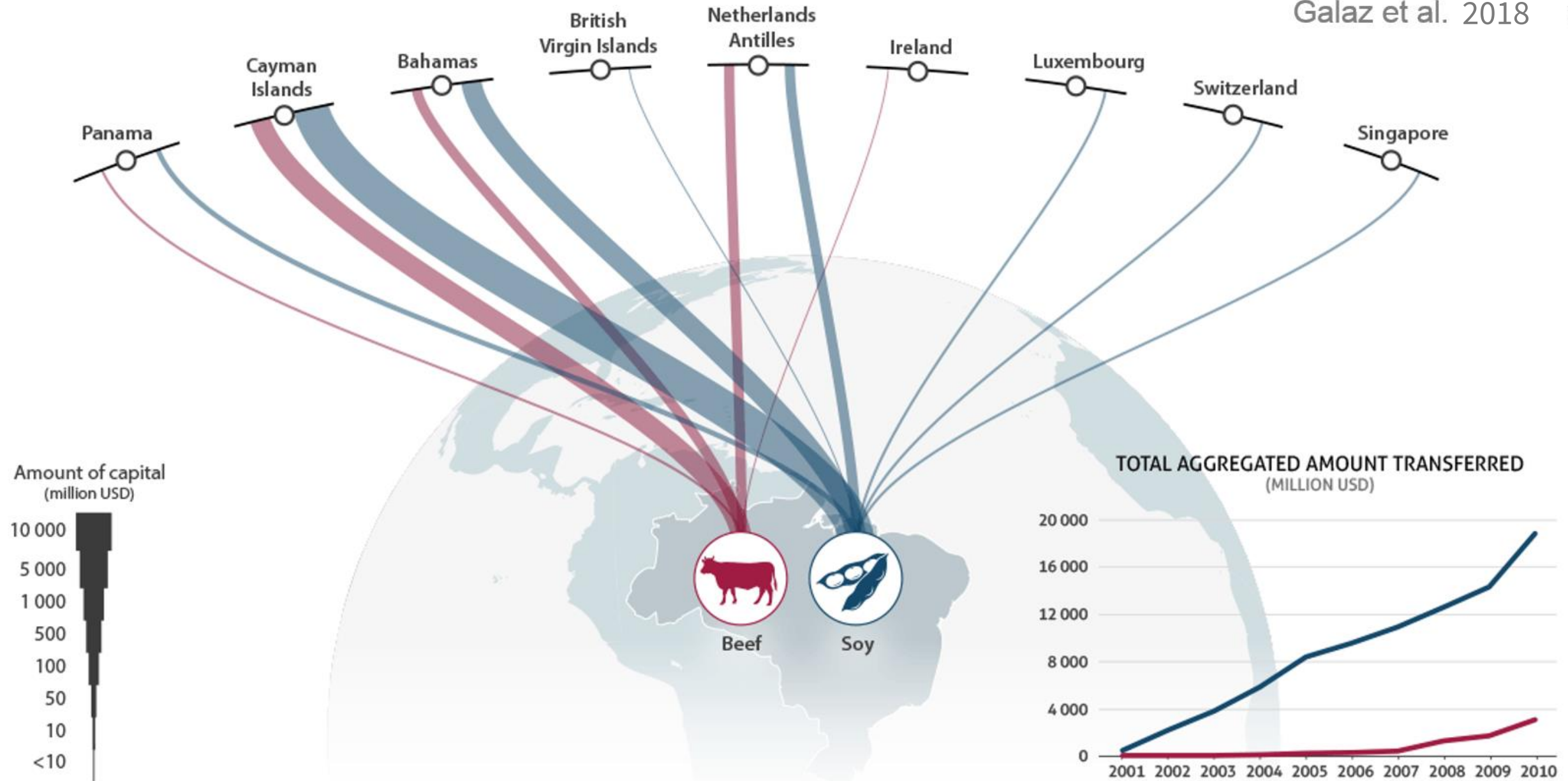
ROF - REGISTROS APROVADOS EM: MAIO/2010
IMPORTACAO FINANCIADA

REGISTRO	EMPRESA NACIONAL	UF
EMPRESA ESTRANGEIRA	PAIS	MOE
		VALOR
TA520319	JOSE PUPIN	MT
HENCORP BECSTONE CA	EUA	USD 5.637.951,00
TA520565	BANCO DO BRASIL S.A.	SP
BANCO DO BRASIL S/A	FRANCA	USD 164.414,65
TA521365	TRAUMINAS DISTD. DE MAT. CIRURG.HOSPITALARES	MG
ZIMMER, INC.	EUA	USD 164.966,05
TA521501	VANGUARDA DO BRASIL S.A.	MT
AIR TRACTOR INC.	EUA	USD 763.340,00
TA521708	BANCO DO BRASIL S.A.	SP
BANCO DO BRASIL S/A	FRANCA	USD 38.000,00

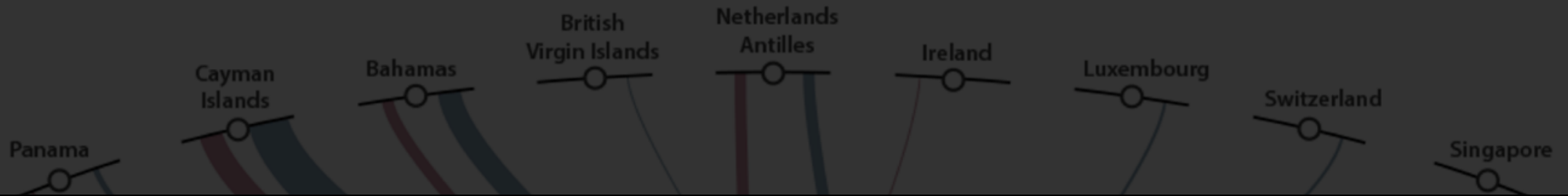
Central Bank of
Brazil, 2010

Foreign capital from tax havens to the beef and soy sectors in the Brazilian Amazon (2000–2011)

Galaz et al. 2018



Foreign capital from tax havens to the beef and soy sectors in the Brazilian Amazon (2000–2011)



68% of all analysed foreign capital is transferred through tax havens

Amount of capital

TOTAL AGGREGATED AMOUNT TRANSFERRED
(MILLION USD)

A few large multinational companies receive 90-100% of their foreign capital through their own subsidiaries located in tax havens such as the Cayman Islands.

500
100
50
10
<10

Beef

Soy



Focal company	Loans received (million USD)	Loans from subsidiary in a tax haven (% total loans)	Cash in advance received (million USD)	Cash in advance from subsidiary in a tax haven (% total cash in advance)
Amaggi	162	0	272	0
Archer Daniels Midland	1,666	100	0	NA
Bertin	1,032	33.9	844	0
Bunge	307	54.1	6,830	100
Cargill	4,321	91.6	2,734	82.7
JBS	1,776	63.4	1,628	54.9
Louis Dreyfus	0	NA	704	0
Marfrig	764	0	1,070	0
Minerva	3	0	504	49.6

So why is this a problem?

- Potentially large losses of tax revenues from extractive/natural resource intensive activities
- Hidden subsidies with detrimental ecological consequences on the ground
- Lack of transparency reduces accountability, ability for policy-makers to address problems, data gaps for researchers



Take-home messages



1

Financial secrecy jurisdictions are at the heart of 21st century capitalism. Global wealth chains are made opaque in order to create and protect wealth.



2

Multinational corporations use sophisticated strategies to pay less tax. This raises inequalities and erodes governments' tax revenue. Secrecy also facilitates corruption.



3

Financial secrecy allows companies to obfuscate their ownership, thus enabling illegal fishing. Tax avoidance also creates 'hidden subsidies' to resource exploitation.



Thank you!

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**Stockholm
University**

Questions

- Can you think of examples of companies which are famous for evading tax? How do these examples relate to what you learned in this lecture?
- In a world of globalisation of capital, is it possible to effectively fight tax evasion?
- Should we worry about the sustainability impacts of financial secrecy? Why/why not?
- Should we rely on leaks as a data source?

