

End secrecy jurisdictions (commonly known as ‘tax havens’) to clean up the global economy and finance development

A call by global civil society on France as the host of G20 in 2011

Global wealth is created in some countries but often ends up in others. These results in some bizarre facts, such as the leading banana importer into the EU is the murky island of Jersey near Saint-Malo; India received almost half of its Foreign Direct Investment (FDI) over the last 10 years from the tiny island of Mauritius; and the leading destination for captive insurance companies is Bermuda and the Cayman Islands.

This disconnection between real economy and the financial data is predominantly the result of multinational companies (MNCs) and banks artificially transferring their profits from where they do business, to secrecy tax jurisdictions. This can be legal, but frequently is not. Transfer mispricing and abusive debt transfers are common practice. The OECD estimates that 60% of global trade occurs within MNCs. Half of all international financial and trade transactions involve ‘tax havens’.

The main characteristic of ‘tax havens’ is their opacity, which prevents foreign authorities – be they tax, judicial or prudential authorities – to enforce the law. This isn’t just about low tax rates and indeed a much more accurate term is secrecy jurisdiction. Secrecy jurisdictions present a triple challenge to the world political leaders: a) they weaken the sovereignty of every state and jeopardise any attempt at global regulation; b) they create a significant bias in international investment, trade and financial data and statistics, making it very difficult to design appropriate global policies; c) they siphon the world’s wealth away from developing countries, which are estimated to lose one trillion dollars as a result of illicit financial flows annually¹.

While the economies of developing countries, including in Africa, are still reeling from the effects of a global economic crisis for which they bear no responsibility, so far donors have failed meet their commitment to adequately fund the Millennium Development Goals. Alongside the need for the international community to meet their financing commitments to developing countries, making the recent fight against secrecy jurisdictions work for developing countries could make an even more vital contribution towards ending poverty.

Although as civil society organisations we question the legitimacy of 20 countries to govern the entire world economy, we also stress the central responsibility of the 20 leading economies to consider and address the needs of developing countries. They particularly need to do so when discussing global public goods such as financial regulation and transparency, related global standards and measures for their enforcement. Secrecy does not only deny states the information they need to enforce laws and regulation; it also prevents citizens from holding their governments fully to account, and can deprive investors of information they need to make responsible decisions. As the most influential members of international standard-setting bodies (e.g. FSB, IMF, OECD, FATF) and the host of major MNCs that do business in secrecy jurisdictions, only G20 countries have the power to overcome the era of global financial secrecy. This is the only way they can honour the pledges they made “to do whatever is necessary to strengthen financial regulation to rebuild trust” (London, April 2009) and “to turn the page on an era of irresponsibility” (Pittsburgh, September 2009).

As civil society organisations dedicated to international development, environment and human rights, we call on the French government, for its presidency of the G20 (and G8) in 2011, to make financial transparency its top priority for the G20 agenda.

France should take the initiative to make a full declaration recognizing the crucial role of domestic resource mobilisation in achieving the MDGs, in building accountable and democratic states, alleviating poverty and, ultimately, in contributing to the end of aid dependency, while highlighting the dramatic obstacle presented by illicit outflows of capital from developing countries. G20 governments should commit to increase the funding and technical assistance available to developing countries to

¹ In 2005, US academic Raymond Baker published a conservative estimate of illicit financial flows between \$1 and 1.6 trillion, half of which from developing countries. He updated the date for the latter: at the end of 2008, they were estimated to lose between \$850 and 1050 billion illicitly: http://www.gfip.org/index.php?option=com_content&task=view&id=274&Itemid=118

strengthen their tax systems, surveillance and collection, to participate in information exchange conventions and to tackle illicit financial outflows.

More concretely, France should promote three key proposals for transparency in order to shed light on the major disconnection between an accurate picture of the real economy and the version painted by secrecy jurisdictions. This would help fill the gap between the two.

1. Country-by-country reporting - nothing to hide wherever companies do real business

Accounting standards are not merely a technical matter and can level the playing field for all transnational companies. This is why G20 countries should continue to insist on a “*single set of high quality, global accounting standards*” (Busan Declaration of the G20 Finance, June the 5th of 2010), and to challenge the current ability of the International Accounting Standards Board² (IASB), to meet the needs of all stakeholders. Because greater transparency and detail would be of great benefit to tax administrations in developing countries, investors and civil society, the G20 countries should specifically endorse the idea and the implementation of a country-by-country financial reporting standard. Such a standard should include the obligation for each multinational company to report in every country in which it operates:

- The names of all its companies trading in the country in question;
- The details of its financial performance, including :
 - Its sales, both third party and to other group members;
 - Its sales, both third party and with other group members;
 - Purchases, split between third parties and intra-group transactions;
 - Labour costs and employee numbers;
 - Financing costs, including facilitation payments, split between those paid to third parties and to other group members;
 - Its pre-tax profit;
- The detailed tax charges included in its accounts for the country in question;
- The details of the cost and net book value of its physical fixed assets;
- The details of its gross and net assets.

The G20 leaders should then act on their endorsement by:

- Urging the IASB to include a full, mandatory country-by-country reporting standard within International Financial Reporting Standard (IFRS) 6 for extractive industries, as part of its current review.
- Demanding the IASB to revise the IFRS8 standard, for segment reporting, to mandate country-by-country reporting by all multinational companies.
- In addition, the inclusion of such a standard within the OECD Guidelines for Multinational Enterprises, currently being updated, and in the OECD Principles of Corporate Governance, would be welcome as a first step towards a mandatory standard.

2. Registers of beneficial ownership – zero tolerance for shadow companies and secrecy vehicles

G20 countries should ensure that the information on beneficial ownership of all companies, trusts, foundations, and charities is made available in a record, in each jurisdiction. Similarly registers of bank accounts must be readily accessible to tax, financial and judicial authorities in every jurisdiction. This is a central piece of transparency on which there has yet to be sufficient progress. To do this, G20 leaders should:

- Instruct the Financial Action Task Force (FATF) to amend recommendations 33, 34, and VIII to provide for the disclosure of such information, and to enforce compliance, as part of the FATF 40+9 recommendations’ review in 2011, in advance of the next round of mutual evaluations.

² The International Accounting Standards Board is a private organization which enacts international accounting standards applying in 110 countries.

- Make the availability of information concerning the beneficial ownership of financial assets a clear-cut criterion in progress reports on jurisdictions by the Peer Review Group of the Global Forum on Tax Information Exchange.
- Plan strong and coordinated counter-measures against jurisdictions that do not comply with these specific recommendations within a specific timeframe. Ensure that FATF and the Peer Review Group conduct public consultations, with adequate scope for the participation of all stakeholders, as part of their review.

3. **Effective tax and judicial cooperation** – ensure economic and financial crime isn't swept under the carpet

The incentives for corruption, tax evasion and other financial crimes would become much less attractive when impunity ceases.

This is why G20 countries should together:

- Commit to tighten and implement sanctions against tax evaders and the authors of financial crime.
- Unify the legal definition of tax evasion amongst the G20 and require the FATF to make it a predicate offence for money laundering.
- Expand and deepen the recent move initiated in favour of tax information exchange, so that it becomes effective and developing countries can benefit from it.
 - Commit to participating in a multilateral convention³ allowing for effective exchange of tax information and use their leverage to get their dependencies and secrecy jurisdictions to join.
 - Ask technically competent bodies, in particularly the OECD and UN Committee of Tax Experts, to develop the technical standards necessary to facilitate comprehensive automatic exchange of information, which is more effective than the “on request” model. They should set a timetable for the development of this standard and its eventual incorporation into the multilateral convention.
- Reiterate the need for all jurisdictions to help recover the proceeds of corruption, increase resources to investigate and prosecute corruption cases, provide coordinated, timely and effective mutual legal assistance (as promised by the G8 in May 2004) and require the FATF to publish an annual list of jurisdictions that have refused to cooperate with foreign legal systems.

³ The UK made such a proposal. The updated Council of Europe-OECD Convention on Mutual Assistance in Tax Matters could also be instrumental to that end, provided the participation of developing countries is facilitated and if it allows for automatic exchange of information.

List of signatories

International networks

ActionAid international	International
Christian Aid	International
CIDSE	International
Eurodad	Europe
Greenpeace International	International
Latindadd	Latin America
Tax Justice Network	International
Tax Justice Network Africa	Africa

Organisations and national networks

Aitec	France
Alliance Sud, Swiss Coalition of Development NGOs	Switzerland
Anticor	France
ATTAC Hungary	Hungary
ATTAC Jersey	Jersey
ATTAC Norway	Norway
Both ENDS	Netherlands
Campagna per la Riforma della Banca Mondiale (CRBM)	Italy
CCFD-Terre Solidaire (Comité catholique contre la faim et pour le développement)	France
CFDT	France
CNCD 11.11.11 – Coalition of Development Organisations	Belgium
Flemish Coalition of North-South movements 11.11.11	Belgium
CRID	France
Déclaration de Berne	Switzerland
Eau Vive	France
Fastenopfer	Switzerland
Forum Syd	Sweden
France Amérique Latine	France
FSU	France
Global Financial Integrity	United States
HELIO International	France
Les Amis de la Terre	France
Ligue des Droits de l'Homme	France
LOKOJ Institute	Bangladesh
New Rules for Global Finance Coalition	United States
Oxfam France	France
Peuples Solidaires	France
Réseau Foi et Justice en Afrique	France
Revenue Watch Institute	United States
Ritimo	France
Secours Catholique	France
Sherpa	France
SNUI (Syndicat national unifié des impôts)	France
Survie	France
Syndicat de la Magistrature	France
Transparence International France	France
War on Want	United Kingdom
WEED	Germany
Woman Health Philippines	Philippines