eurodad European network on debt and development

Exposing the lost billions

How financial transparency by multinationals on a country by country basis can aid development

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Acronyms

CBCR	Country-by-country reporting
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
EC	European Commission
EITI	Extractive Industries Transparency Initiative
EU	European Union
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GRI	Global Reporting Initiative
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
LDC	Least Developed Countries
LSE	London Stock Exchange
MCM	Mopani Coper Mine
MEP	Member of the European Parliament
MDG	Millennium development Goals
MNC	Multinational Company
NGO	Non Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
SEC	Securities and Exchange Commission
UNDP	United Nations Development Programme

Acknowledgements

This report has been written by Marta Ruiz and Maria José Romero, with valuable contributions from Mathilde Duprè, Martin Hearson, Maylis Labusquière and David McNair. Clare Birkett and Alex Marriage edited the report.

Thank you also to Diarmid O'Sullivan for his very useful comments and suggestions.

Published in November 2011

This document has been produced with the financial assistance of the European Union and the Royal Norwegian Ministry of Foreign Affairs through the Dialogue project "Capital for Development". The contents of this document cannot be regarded as reflecting the position of the European Union or the Government of Norway. Eurodad takes full responsibility for the contents of this report.

Executive summary

Taxation is essential to development. Tax is necessary for a state to raise predictable revenues, redistribute income and provide infrastructure and basic services such as health and education to its citizens. Taxation also strengthens democracy and government's accountability to its citizens. As citizens demand their taxes are spent wisely and for their benefit this leads to greater public participation in a country's political process.

The international community has repeatedly stressed the need to mobilise domestic resources in developing countries, as the most sustainable way of financing development and ending aid dependency.

Yet, many developing countries are affected by a number of challenges that limit their capacity to collect taxes. Some of these challenges are domestic such as the weakness and in some cases corruption of tax authorities, the difficulty to enforce tax legislation or the large scale of the informal economy. Other obstacles are international ones such as tax competition, weak negotiating power for investment and tax agreements and also multinational companies' lack of accountability regarding their operations and more specifically regarding the taxes they pay.

This report explains how the cross border nature of multinational companies' operations combined with the absence of adequate transparency regulations have very damaging implications for a country's ability to mobilise domestic resources. Although this is relevant for both developed and developing countries, the report focuses on the impacts for developing countries, which have weaker capacities to face this challenge.

Section 2 of the report describes the problem of illicit financial flows with a specific focus on those stemming from tax dodging by multinational companies (MNCs) which account for more than half of the total estimated illicit financial flows from developing countries. While some of the corporate practices described in the report are clearly illegal such as false invoicing and transfer mispricing, the report shows that in many cases these are difficult to prove given the lack of adequate instruments to effectively regulate them. As a consequence, many trade transactions that are incorrectly priced take place despite laws designed to prevent this.

The report also explains a number of legal although ethically questionable tax dodging practices such as the abusive use of tax havens as favorite destination for a large number of subsidiaries' activities such as management, intellectual property, and financial services.

As a result of this, there is a complete disconnection between the geography of MNCs' real economic activities and the story they tell in their financial accounts. Companies use subsidiaries located in tax havens in order to dismantle the added value they are producing, concentrating their profits in tax havens.

> The cross border nature of multinational companies' operations combined with the absence of adequate transparency regulations have very damaging implications for a country's ability to mobilise domestic resources.

The report argues that the implementation of full country-by-country reporting requirements would shed light on these practices. Concrete examples from MNCs operating in developing countries such as brewery SABMiller, the mining company Mopani and others show the usefulness of country-by-country disclosure of information in addressing these practices. For example, ActionAid's investigation on SABMiller found a complex scheme of payments among subsidiaries located in tax havens that explained why the Ghanaian subsidiary did not pay any tax on income for three years between 2007 and 2010. The investigation sheds light on tax dodging operations such as the use of brands located in the Netherlands, management fees paid to a subsidiary in Switzerland, procurement services registered in Mauritius and thin capitalisation which accounted for a total estimated tax loss to the African continent of some £18.2m (€21.5m).

This case concerns some of the most notoriously difficult areas of transfer pricing, and partly as a result of the publication of this case study, African revenue authorities are working together to develop their auditing capacity in these areas. Civil society action has contributed directly to the development of more effective audit capabilities.

Another case relates to the Mopani copper mine in Zambia, which was owned by Swiss company Glencore AG. An audit report found evidence that taxable profits had been reduced through a number of techniques, including the inflation of local costs and transfer pricing abuse. From the audit report the cost to the Zambian government appears to have been as much as $174m (€132.3m) in a single year.

At the country level, country-by-country reporting would help promote a public debate about the effectiveness of the revenue authority but also about the effectiveness of national taxation rules, especially on transfer pricing and tax incentives.

At the global level, a country-by-country reporting standard would provide a global picture of a company's activities and it would help tax inspectors in developing countries identify where they need to investigate.

> The civil society proposal for full country-by country reporting, contributes to addressing taxdodging by MNCs, which the current regulatory initiatives fail to do.

Recent work conducted under the auspices of the OECD task force on tax and development identified a number of other potential uses proposed for country-by-country reporting:

a) To hold governments to account with regard to: The integrity and efficiency of tax collection, the appropriateness of domestic tax policies and the adoption of appropriate international taxation standards.

b) To hold companies to account with regard to: paying the amount of tax due in each country in which they operate; and their tax planning strategy even where the amount of tax due has been paid.

Section 3 of the report analyses the existing regulatory framework for MNCs financial transparency. It explains current regulatory initiatives on country-by-country reporting in the extractive sector such as the Extractive Industries Transparency Initiative (EITI), and the recent stock exchange reporting regulations in the US and in Hong Kong. It explains how the civil society proposal for full country-by-country reporting, contributes to addressing tax dodging by MNCs, which the current regulatory initiatives fail to do.

Section 4 focuses on the European agenda on country-by-country reporting. The political momentum created by the US law has notably influenced European decision-makers and now the political and technical feasibility of implementing country-by-country reporting is no longer questioned in Europe. Implementing ambitious standards is therefore a matter of political will. The European Union has a key role to play by pushing this within the G20, OECD and International Accounting Standards Board (IASB) but also by implementing measures at the European level. The review of the transparency and the accounting directives in 2011 and 2012 provide a unique opportunity to make real progress by proposing ambitious measures on country-by-country disclosure requirements for European companies.

Country-by-country reporting is feasible and desirable for a wide range of stakeholders including tax administrations, investors, institutional investors and NGOs.

Section 5 outlines civil society's proposal for a truly effective country-by-country reporting that would contribute to address MNC tax dodging. Such reporting should require a company to publish the following information: the name of each country in which it operates; the names of all companies belonging to it and trading in each country in which it operates; its financial performance in each country in which it operates; the tax charge included in its accounts for each country; details of the cost and net book value of its physical fixed assets located in each country; and details of its gross and net assets in total for each country.

Section 6 shows that such country-by-country reporting is feasible and desirable for a wide range of stakeholders, such as CSOs, tax administrations and investors, including institutional investors. It shows concrete examples of investors arguing in favor of country-by-country disclosure.

Empirical research shows that requiring strong geographical segmenting requirements (such as country-by-country reporting) would improve the profitability of companies and thus the returns for investors. A study found that when the U.S. introduced an accounting standard which removed a requirement on companies to report on their earnings geographically, there was a negative effect on corporate profits.

There is also evidence that greater transparency can reduce a firm's cost of capital. Another study found that there is a statistically significant association between the lower cost of equity capital and the level of disclosure and securities regulation.

Part two of the report develops in detail two case studies of companies operating in developing countries for which data has been obtained. These are the brewery SABMiller, operating in Ghana and mining company Glencore operating in Zambia. They show how country-by-country reporting would have enabled the identification of illegal and ethically questionable tax practices that deprive developing countries of much needed tax revenues.

Why taxation and transparency matter for development

Taxation is essential to development. Tax is necessary for a state to raise predictable revenues, redistribute income and provide infrastructure and basic services such as health and education to its citizens. Taxation also strengthens democracy and government's accountability to its citizens. As citizens demand their taxes are spent wisely and for their benefit this creates stronger public participation in a country's political process.

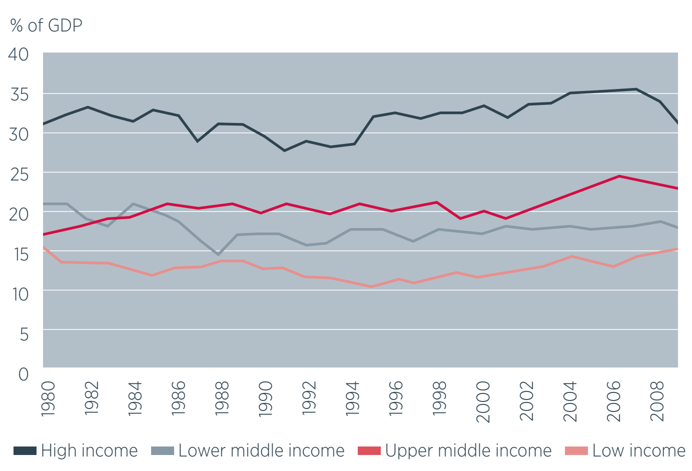
While governments in countries that are members of the Organisation for Economic Co-operation and Development (OECD) tend to raise around 35 % of GDP in taxes, the proportion of tax to GDP is much lower in developing countries (see chart below). In sub-Saharan Africa, the percentage of tax revenue to GDP increased from less than 15% in 1980 to a little over 18 % in 2005. However, this rise was due almost exclusively to the increase in revenues stemming from natural resources.[1] Despite their volatility, natural resources revenues can generate substantial tax income for developing countries. For this reason, governments and civil society organisations (CSOs) have particularly emphasised the need of better revenues management in this area.

But developing countries do not make such decisions in a vacuum. They face external pressures to adopt policies that are not always in the interests of their poorest citizens:

- Conditionalities and advice attached to grants and loans in the last few decades have often encouraged countries to shift the burden of taxation away from large corporations and onto ordinary citizens[4];
- tax competition pushes countries to lower tax rates and offer tax holidays and exemptions in the hope of attracting foreign investment;
- developing countries' capacities to negotiate fair deals with big companies are often weak, as some of the biggest multinational companies (MNCs) have more power and global influence than many of the countries in which they operate[5];
- MNCs' lack of effective accountability regarding their operations and the taxes they pay. This report will focus on this particular concern, which is exacerbated by limited international cooperation in tax matters and the lack of participation of developing countries in (or indeed their direct exclusion from) international fora where tax matters are discussed.

In addition, lack of transparency facilitates corruption. Opacity surrounding the operations of MNCs and the taxes they pay means that companies can easily avoid or evade taxes. Financial secrecy in tax havens makes it easy for individuals and companies to hide financial activities from governments around the world and especially from ill-equipped tax administrations in developing countries.

Trends in total tax revenue



Source: IMF staff estimates, 2011.[3]

Why do developing countries gather fewer taxes?

Many developing countries are affected by a number of domestic challenges that limit their capacity to collect taxes, including the following:[2]

- Revenue authorities are often weak, which makes some types of tax unfeasible to levy, and reduces the effectiveness with which those that are levied are collected;
- tax legislation is drafted in ways that makes it hard to enforce – for example lack of specificity in the area of transfer pricing;
- reluctance to challenge political influence of larger tax payers undermines the fairness and effectiveness of the overall tax mix - for example in the areas of land value taxation and tax incentives for foreign investors;
- the size of the informal sector makes monitoring of economic activities and the collection of taxes a huge challenge;
- they are ill-equipped to monitor and effectively tax international financial flows;
- in some cases there is corruption in governments and tax authorities, undermining trust and diminishing the incentives for citizens to pay tax.

Many developing countries are affected by a number of domestic challenges that limit their capacity to collect taxes.

It is a contradiction to support increased development assistance, yet turn a blind eye to actions by multinationals and others that undermine the tax base of a developing country.

Trevor Manuel, South African Finance Minister, 2008 .

Recent work conducted under the auspices of the informal OECD task force on tax and development identified a number of other potential uses for country-by-country reporting[15]:

a) To hold governments to account for:
i. The Integrity of the tax collection administration;
ii. The efficiency of tax collection;
iii. The appropriateness of domestic tax policies;
iv. The adoption of appropriate international taxation standards.

b) To hold companies to account with regard to:
v. Paying the amount of tax due in each country in which they operate; and
vi. Their tax planning strategies even where the amount of tax due has been paid.

Curbing cross border illicit capital flight is therefore a crucial part of the jigsaw when seeking to boost domestic resource mobilisation as a predictable source of development finance.

Why is corporate transparency needed?

"It is a contradiction to support increased development assistance, yet turn a blind eye to actions by multinationals and others that undermine the tax base of a developing country"
Trevor Manuel, South African Finance Minister, 2008[6].

The first and most obvious reason relates to the scale of multinational operations and their importance for the global economy. While the scale of operations in a particular developing country is often minor for these companies, the significance for the host countries' economies can be huge. An example of this is that in 2010, the combined revenues of the world's 10 largest companies exceed the combined GDP of India and Brazil. This is also true for developed countries. In 2010, revenues of the 50 leading European companies accounted for 22% of the European Union's GDP.[7]

The massive volumes of trade occurring within companies but across borders creates enormous complexities for taxation. This is especially the case for trade in intangible products and services, on which information is scarce, but which has a huge impact on companies' tax bills. The extensive use of tax havens in these transactions makes it very hard to measure the impact of transfer pricing[8] on the distribution of taxable profits within multinational enterprises, because one cannot see how much profit is distributed to tax havens. As developing countries begin to adopt global transfer pricing standards, there is an urgent need to understand this impact.

An NGO investigation analysed the 50 largest European corporations' annual reports and found that at least 21% of their subsidiaries are located in tax havens.[9] Similarly, another NGO study showed that 98 of the FTSE100 largest companies in the London Stock Exchange have subsidiaries in tax havens.[10] **As a result, there is a complete disconnection between the geography of MNCs' real economic activities and the story they tell in their financial accounts.** Companies use subsidiaries located in tax havens in order to dismantle the added value they are producing, concentrating their profits in tax havens. Although this is very difficult to track given the lack of available information, recent investigations – such as the cases explained in part two of this report, show that disclosure of financial information on a country-by-country basis would shed light on such tax dodging schemes.

Such complexities also create power asymmetries: MNCs with expertise and resources can easily exploit this system to their own advantage, while developing countries[11] struggle to monitor and stand up to companies. Even where countries do have the capacity to challenge companies, they may be reluctant to make life difficult for foreign investors.

Another reason relates to social factors such as tax morale (the willingness of citizens to pay tax) which are strongly affected by the perception of equity in the system.[12] In order to change a culture of non-payment of tax, a perception that the big players are paying their fair share becomes crucially important.

Finally, it is a matter of mutual accountability. On the one side developing countries make efforts to provide a legislative framework under which companies can operate efficiently. On the other side, corporations are meant to provide benefits to the country, including the creation of jobs, development of infrastructure, and fair payment of revenue to governments. Yet, while real pressure is put on developing countries' side, including by international financial institutions in order to improve the ease of doing business[13], when it comes to the other side of the equation, companies remain largely free to set the rules.

In this report we argue that a number of challenges faced by developing countries, such as the fact that they are not getting a fair tax return to MNCs, could be addressed by the implementation of full country-by-country reporting:

At the country level, country-by-country reporting would help promote a public debate within countries, in the absence of local accounting regulations that would put the subsidiary accounts in the public domain. But it would only pose questions, not answer them. The debate would be about:

- The effectiveness of the revenue authority in securing companies' compliance.
- The effectiveness of national taxation rules, especially on transfer pricing and tax incentives.

At the global level, a country-by-country reporting standard would:

- Provide a global picture of a company's activities. It would give tax inspectors in developing countries much more to go on when investigating companies, including indications of where they need to investigate. Even with the information they can get from tax information exchange agreements (TIEAs) and transfer pricing documentation rules, tax authorities cannot find out as much as they say they would like to about the fellow-subsidiaries of companies they are investigating.
- Help illustrate the distribution of profits and tax revenues that results from the current transfer pricing system. This is important information that would help stakeholders - including CSOs- to evaluate the impact of the current transfer pricing rules on developing countries[14]. At present nobody is able to study this.

Requiring companies to report their financial activities on a country-by-country basis is a crucial step that should be taken at the international level to help both developed and developing countries monitor the activities of companies operating within their borders and challenge abusive behavior.

The European Union has a key role to play by pushing this within the G20, OECD and International Accounting Standards Board (IASB) but also by implementing measures at the European level. The review of the transparency and the accounting directives in 2011 and 2012 provides a unique opportunity to make real progress by proposing ambitious measures on country-by-country disclosure requirements for European companies.

What needs to be done?

Eurodad and many other CSOs in Europe and other regions of the world support the idea of "country-by-country reporting disclosure" of the following information in MNCs' annual financial statements:

1 The name of each country in which it operates;

2 The names of all companies belonging to it, trading in each country in which it operates;

3 Its financial performance in each country in which it operates, without exception, including:

- It sales, both third party and with other group companies;
- Purchases, split between third parties and intra-group transactions;
- Labour costs and employee numbers;
- Financing costs split between those paid to third parties and to other group members;
- Its pre-tax profit;

4 The tax charge included in its accounts for the country in question, as indicated below;

5 Details of the cost and net book value of its physical fixed assets located in each country;

6 Details of its gross and net assets in total for each country in which it operates.

Tax information would need to be analysed in more depth, requiring disclosure of the following for each country in which the corporation operates:

1 The tax charge for the year split between current and deferred tax;

2 The actual tax payments made to the government of the country in the period;

3 The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period;

4 Deferred taxation liabilities for the country at the start and close of each accounting period.

> Even where countries do have the capacity to challenge companies, they may be reluctant to make life difficult for foreign investors.

> In 2010, revenues of the 50 leading European companies accounted for 22% of the wealth created (GDP) in the European Union.[7]

Part 1: Section 2

Illicit capital flight: A massive outflow from developing countries

"Capital flight, where it occurs, is a major hindrance to the mobilization of domestic resources for development....It is vital to address the problem of illicit financial flows"

Outcome of Doha Financing for Development Conference, 2008.

"We commit ourselves to accelerating progress in order to achieve Millennium Development Goal 8, including through (...) Implementing measures to curtail illicit financial flows at all levels, enhancing disclosure practices and promoting transparency in financial information. In this regard, strengthening national and multinational efforts to address this issue is crucial"

Follow up to the outcome of the Millennium Summit, 2010.[16]

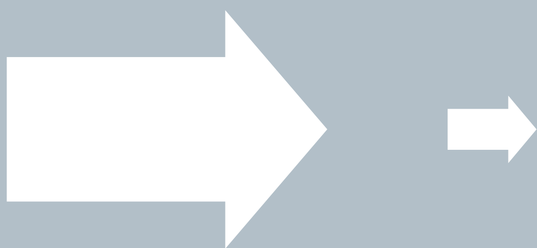
Capital flight usually refers to the deliberate stripping away of the resources of a country and their expropriation overseas, and is a massive problem for developing countries and their efforts to challenge poverty. At both the Monterrey and Doha Financing for Development Conferences, in 2002 and 2008 respectively, and at the Millennium Development Goals (MDG) review conference in 2010[20], capital flight was singled out as a significant barrier to be overcome by developing countries seeking to raise more revenue domestically.

Illicit capital flight is a subset of this, generally defined as including all illegal, unregistered financial flows that leak from developing countries to tax havens including those located within the EU. According to Global Financial Integrity's (GFI) latest estimates, more than half of illicit flows are related to commercial activities, including the manipulation of international trade (often termed trade mispricing). This report will focus on this category which represents the biggest share of the problem.[21]

In this report we suggest a wider understanding of the term "illicit flows", to incorporate not only the illegal ways such as trade mispricing but also legal but ethically questionable practices that companies use in order to minimise their tax bill. We will refer to this broader definition, as it is the one that captures best the challenges developing countries are facing in this area.

Capital flight usually refers to the deliberate stripping away of the resources of the country and their expropriation overseas.

The scale of illicit capital flight from developing countries



Outflows from Africa totaled
US$ 854 billion to US$ 1.8 trillion
between 1970 and 2008

This is four to nine times the level of sub-Saharan Africa's external debt.

According to GFI research, illicit financial outflows from Africa totaled US$ 854 billion to US$ 1.8 trillion between 1970 and 2008.[17] This is four to nine times the level of sub-Saharan Africa's external debt.

In 2009 illicit financial flows from developing countries are estimated at some US$ 1.3 trillion, according to GFI.[18] The same research shows that more than 50 % of these flows, roughly US$ 700 billion in 2009, are related to mispriced trade.

Developing countries lose out on an estimated US$ 160 billion each year as a result of trade-related tax dodging, according to Christian Aid.[19] This is a conservative estimate because only trade in goods was analysed, not in services.

In Sub Saharan African countries alone, almost US$27bn was shifted illicitly between 2005 and 2007, as a result of mispriced trade with European Union Members and the United States.

Tax evasion: the illegal ways to dodge taxes

Making the distinction between tax evasion (which is illegal) and tax avoidance (which is legal) depends on the tax codes of each jurisdiction. These vague distinctions can be exploited by individuals and businesses. However, here we aim to identify a typology of illegal measures.

Trade mispricing: a major vehicle for illicit flows

Trade mispricing involves the manipulation of trade across borders in order to shift capital from one jurisdiction to another. Trade mispricing incorporates two practices. The first, false invoicing, refers to when an importer or exporter defrauds the tax or customs authority by giving a false value to the goods or services being traded. This occurs between independent companies. The second practice is transfer mispricing, when trade within multinational companies is manipulated in order to shift profits.

Christian Aid analysed bilateral data for trade between the US and third countries and between the EU and third countries. This data covers trade in commodities but not services or intangibles. By using the price filter analysis, Christian Aid was able to estimate roughly how much capital may have been lost from third countries as a result of mispriced trade in commodities.[23]

These estimates suggest that in Sub-Saharan African countries alone almost US$27bn was shifted illicitly between 2005 and 2007, as a result of mispriced trade with European Union members and the United States.[24] If tax had been levied on this capital, an additional US$4.34bn could have been collected within those countries.

An estimated US$95bn was shifted out of Latin American countries between 2005 and 2007, as a result of mis-priced trade in goods with European Union members and the United States.[25] If tax had been levied on this capital, an additional US$31bn could have been collected.

According to Global Financial Integrity, trade mispricing accounted for an average of 54.7 % of cumulative illicit flows from developing countries over the period 2000-2008, that is between US$ 397 billion to US$ 443 billion.[26]

The victims of trade mispricing are all too often poorer countries, where the revenue authorities have neither the expertise nor the resources to monitor or prove what is happening. Secrecy and lack of transparency in financial reporting make it incredibly difficult for tax authorities to work out what tax is due to them, because companies are not obliged to report the profits they make in each country where they operate. On the other hand, MNCs have the resources to carry out complicated global transactions and procedures which tax administrators in developing countries can hardly trace.

As explained above, the combination of weak national legislation and the

Defining the ways of dodging tax

"The traditional defence of compliance is dead; the distinction between evasion (illegal) and avoidance (lawful) has dissolved in the eyes of governments, NGOs and citizens."

Corporate Citizenship.

There are different methods, legal and illegal, through which transnational corporations and other businesses dodge tax in order to pay the minimum possible.

Tax evasion activities are the illegal non payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities; it entails criminal or civil legal penalties.

Tax avoidance covers practices of seeking to minimise a tax bill by attempting to comply with the letter of the law whilst avoiding its purpose or spirit or by exploiting loopholes between the tax codes of different jurisdictions. This is usually done by manipulating the levels of profit liable for tax in a particular jurisdiction through shifting this profit to another country, deferring taxation or applying deductions and allowances. While it is not the role of civil society to determine the amount of tax due, these practices, where they deprive countries of revenue, are regarded as ethically questionable - especially in developing countries where legal loopholes are less likely to be closed and borderline activities may be less likely to be challenged.

The dividing line between avoidance and evasion is often unclear, and depends on the ethical standards of the professionals and specialist tax advisers. An avoidance scheme which is found to be invalid entails repayment of the taxes due plus penalties for lateness.

Tax compliance is different from tax avoidance and tax evasion because it is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes. The significant difference between tax avoidance and tax compliance is the intent of the taxpayer. A tax avoider seeks to pay less than the tax due as required by the spirit of the law. A tax compliant tax payer seeks to pay the tax due (but no more).

Tax planning seeks to comply with the spirit as well as the letter of the law; it seeks to reflect the economic substance of the transactions undertaken. Another characteristic is that no steps are put into a transaction solely or mainly to secure a tax advantage. But it can also be used as another term for activities seeking to pay as little tax as possible.[22]

From evasion to compliance

Evasion	Sham	Avoidance	Planning
Always illegal	Illegal with the appearance of legality	Technically legal	Legal

Absolute boundary between illegal and legal (between Sham and Avoidance). Blurred boundary between irresponsible and responsible (between Avoidance and Planning).

Source: Sustainability, Taxing issues: responsible business and tax

The UNDP points at trade mispricing as a major channel for LDC illicit capital flight

A recent United Nations Development Program (UNDP) study[27] estimates that illicit financial flows from Least Developed Countries (LDCs) increased from US$9.7 billion in 1990 to US$26.3 billion in 2008, implying an inflation-adjusted rate of increase of 6.2 % per annum.[28] These flows represent on average nearly 5% of the countries' GDP. The study concludes that trade mispricing accounts for the bulk (65-70 %) of illicit outflows from LDCs, and the tendency for mispricing has increased along with increasing external trade.

Moreover, most existing databases do not include trade in services on a bilateral basis, making the real amount of trade mispricing even more difficult to estimate. "As trade in services increases (related to call centres, back office processing, consulting or knowledge-based services, IT-services, etc.), the opportunities for mispricing also increase," the UNDP report explains.[29]

uncertainty about global transfer pricing standards means that it is hard to draw a definitive boundary between legal and illegal practices. As a consequence, much trade that is incorrectly priced takes place despite laws designed to prevent it.

Transfer mispricing

Research conducted by Simon Pak and John Zdanowicz[30] found that US corporations used manipulated pricing schemes to avoid paying taxes. For example, one appeared to import plastic buckets from its subsidiary in the Czech Republic for US$ 972.98 each and another to export car seats to Belgium for US$ 1.66 each. This would have allowed them to record most of the profits in the subsidiaries, where tax liabilities are lower- thus the company could pay less taxes on the goods produced.

According to OECD, 40-60% of world trade is intra-group – it occurs between related companies.[31] Transfer mispricing implies that companies which are part of the same multinational group trade with each other at prices other than the arm's length price.[32] While trading parties usually seek the best prices for their individual companies in intra-group trade there is an incentive to set the price to get the best overall result for the group. **A company may therefore export or import goods or services at a low or high price in order to shift profits from jurisdictions with higher tax rates to other jurisdictions with lower taxation.** The principle is easy to understand: the group can shift profits from one place to another where there is a minimal amount of taxes to be paid.

Most countries apply the *arm's length principle* as defined by the OECD, in its "Transfer pricing guidelines for Multinational Enterprises and Tax Administrations". Countries applying the OECD principle can consider this transfer mispricing as tax evasion and thus illegal.

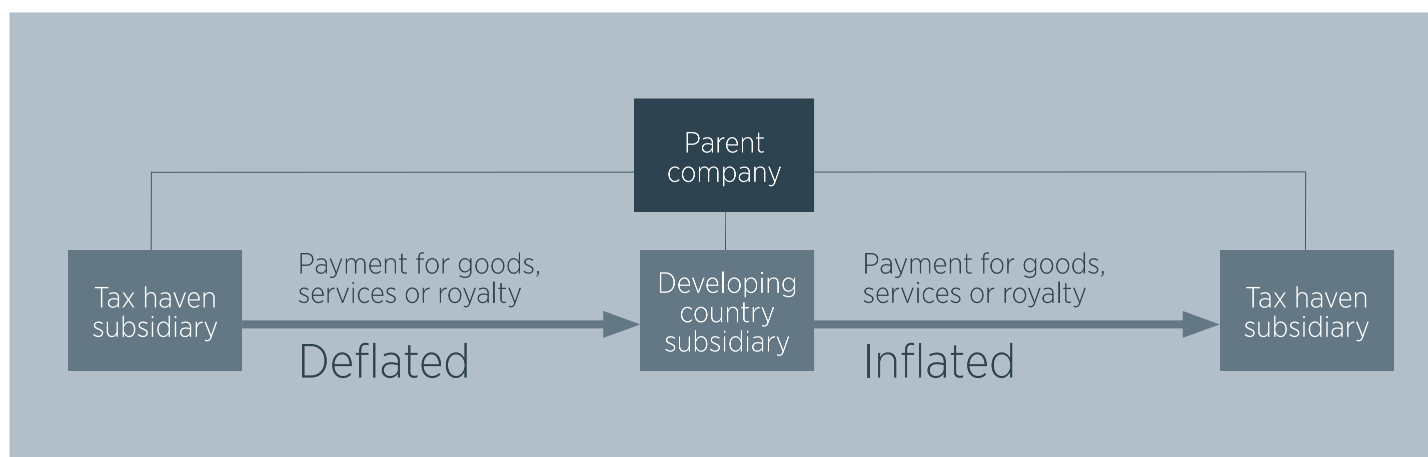
However, the difficulties in implementing the OECD's interpretation are well established. "The taxation of international transactions, in particular transfer pricing, has become increasingly difficult," states the African Tax Administration Forum's founding communiqué.[33] Transfer pricing today typically involves huge and expensive databases and high-level expertise to handle, which developing countries cannot match. The challenge is significant, as a former tax manager at KPMG in Mozambique set out. **"Mozambique is losing a lot of money in tax to international operations. There is no adequate legislation governing transfer pricing... when there is a request for transfer pricing placed with the tax authorities, nobody knows how to deal with the request."**[34]

False invoicing

Like in intra-group trading, overestimation or underestimation of trade transactions can occur between independent companies. While there may be a range of reasons for this, the effect can be to shift profits to low-tax jurisdictions and minimise tax liabilities through the increase of costs in high-tax jurisdictions.

Imports and exports can be falsified either by not being reported truthfully in invoices (i.e. degrading the quality of goods, misreporting the quantities exchanged, under-invoicing the value of exports or over-invoicing the value of imports) or by creating fictitious transactions. False invoicing is very hard to detect by tax administrations as it's often based on verbal agreements and cash flows through secrecy jurisdictions. Yet this is a widespread practice even in developing countries. According to research by Raymond Baker some

Transfer mispricing



45% to 50% of trade transactions are falsified by an average of more than 10% and that 60% of trade transactions in Africa are mispriced by an average of more than 11%.[35]

The extractive sector: the tip of the iceberg

When it comes to addressing illicit flows from multinational companies' operations, most of the public attention as well as the existing political initiatives have focused on corruption fuelled flows in the extractives sector. Yet, Christian Aid estimates that minerals, chemicals and metals account for less than 30% of global mispricing in all cases and in one case (trade with the EU in 2007) it accounted for only 5.17% of global mispricing. The 'Machinery, Instruments and Manufactures' category appears to be much more significant at the global level for trade with both the EU and US.[36]

As the chart below shows bilateral trade mispricing between both the EU and the US and third countries relates substantially to other sectors beyond minerals, chemicals and metals.

Mispricing can be used to shift capital through overpriced exports from the EU and the US to third countries which means more capital leaves the third country than the goods are worth; or through underpriced imports from third countries into the EU and the US meaning they are not gaining the full value for goods they export.

Mispricing between both the EU and the US and third countries relates substantially to other sectors beyond minerals, chemicals and metals.

Some 45% to 50% of trade transactions are falsified by an average of more than 10% and that 60% of trade transactions in Africa are mispriced by an average of more than 11%.

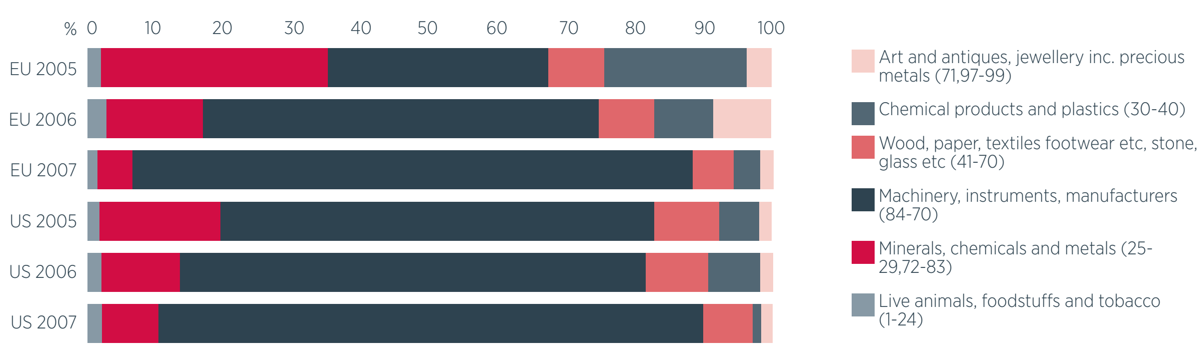
Christian Aid research draws three major conclusions:

1. **The scale of mispricing between the EU and US and third countries is significant.** The motivation may be tax related or due to other factors. However, there is likely to be a tax consequence in each case. Rough estimates of the effects on revenue collection (though subject to a number of caveats) suggest that the scale of losses is likely to be significant.

2. **The extractives industry is not the highest risk sector.** Manufacturing is highly significant, as is chemical production and plastics, and in some cases live animals, food stuffs and tobacco.

3. Analysis of underpriced imports and overpriced exports suggest that **it is not only goods coming out of third countries which are problematic – but also goods exported to third countries.** Analysis of three country contexts[38] demonstrates that the sectors where mispricing may occur differ not only according to country, but also on a year by year basis. **This suggests that if using country-by-country reporting to address trade mispricing, targeting specific sectors may be more complex than simply choosing one or two sectors in which to apply it. An approach which covers all sectors above a particular size would seem more appropriate.**

Chart 1: Sectoral breakdown of mispricing on bilateral trade with the EU and US and third countries (2005-2007)



Source: Christian Aid, 2009[37]

Tax avoidance or legal ways to dodge tax

Historically, multinational companies have created subsidiaries in each country where they operate for tax and other regulatory purposes. They also create non-operating subsidiaries for administrative, legal or tax purposes. This provides large multinational companies with a complex network of hundreds of affiliated companies within which they can artificially allocate the value created by the group to the most favorable jurisdiction. This is how a company can for instance ask a subsidiary to pay fees for the use of the brand in a new country of operation and repatriate that income to the head office of the group.

There are many different ways in which companies can avoid taxes. These include:[41]

The use of tax havens as a base for corporate activity

By applying a zero or near-zero tax rate, tax havens aggravate international tax competition and generate important distortions of investments profitability. Some investments are thus routed through tax havens in order to artificially increase their profitability. By providing banking secrecy, tax havens make it almost impossible to find out who owns an account, how much money it contains, and where this money comes from. As a result of this, tax havens contribute to hiding criminal activities and illicit money flows.

These countries or jurisdictions deliberately create legislation to ease transactions undertaken by non-residents. As a result, there is often very little real economic activity in tax havens, which are sometimes described as "virtual" centres or "legislative spaces". Transactions to tax havens can be referred to as "offshore" because they take place in legal spaces that dissociate the real location from the legal location. Additionally laws to protect bank secrecy mean that it is not possible to see who is responsible for financial transactions carried out in these jurisdictions.

Use of holding companies

Holding companies play the intermediary role between the parent and its subsidiaries. Many multinational companies set up holdings in low tax jurisdictions in order to pay less or no tax on their capital income (royalties, dividends, capital gains). The offshore holding company can indeed own most of the subsidiaries without having actual activities other than collecting the tax-free dividend income from subsidiaries and reinvesting it in the parent company or the head office. The Netherlands[42] is a well known destination for holding companies.

Transfers of debt and thin capitalisation

In most countries' legislation, interest paid on loans is deducted from the taxable profits calculation. This is not the case for dividend payments. Company A can borrow – and therefore deduct tax from the loan interests – and use that money to buy shares of Subsidiary B of the same group located in a low tax jurisdiction. With that capital, subsidiary B can make a loan to Subsidiary C in a third country with higher tax levels. The latter can therefore deduct taxes from the interests paid on the loan. This is called "thin capitalization". As a result of this practice, the parent company will pay less tax than it would have paid using equity and therefore paying dividends. Moreover, the subsidiary will have lower earnings before tax, due to the debt costs.

In some cases interest rates can be overinflated in order to increase the subsidiary's costs in the high tax country, resulting in a sort of transfer mispricing.

Local legislation to counter thin capitalisation often sets a maximum debt-equity ratio, meaning that a company cannot deduct the interest costs for a loan from a related party once it exceeds a certain proportion of the company's equity capital.

Location of intangibles

Some countries have very favourable tax laws on revenues from intangibles such as intellectual property or copyrights and trademarks (royalties or licence fees). As a result of this, many companies register these activities in these jurisdictions in order to avoid taxes:

- Intellectual property
- Management fees
- Procurement services
- Legal and financial fees
- Brand use
- Marketing and distribution services
- Insurance services (captive insurance)
- Debt (see above)
- Commercial risks associated with business activities

In theory, transfer pricing rules protect against the use of such structures to shift profits. Fees paid for the use of intellectual property should be set at arm's length. Furthermore, for transfer pricing purposes, a tax haven company can only become the economic owner of intellectual property if it has a) developed the intellectual property itself, or b) bought the intellectual property from its previous economic owner at an arm's length price, which takes into account expected future earnings. But even if these conditions have been fulfilled (or rather, if the revenue authority is unable to contest the arrangement) companies frequently manage to arrange affairs so that high value functions are located in low-tax jurisdictions in a way that shifts profits from operating companies. For example, the price set for the transfer of an intangible asset must be based on predictions of future earnings, which it is very difficult for a revenue authority to challenge even if it suspects that the company has set these expectations low for tax purposes.

Jurisdictions offering these conditions have generally a well developed network of double taxation treaties that allow them easily distribute money between all the different entities.[46]

Management and technical services

A growing trend among multinational businesses is to centralise business functions across the group. Because this includes functions which represent a large share of a global business's value added, the group companies that provide them can legitimately charge large transfer pricing fees, and make significant profits. Because they are services, a business has a lot of freedom about where to locate them, and will commonly choose to do so in a

A very aggressive tax scheme using debt transfers in Chile

In 1979 Exxon purchased the *Compañía Minera Disputada de Las Condes* copper mine in the Andes for €64 million. During the following 23 years Exxon reported losses on that investment, resulting in a tax exemption for the company throughout this period.

This is particularly surprising given that Chile is the world largest copper exporter. In 2002, Exxon sold the company to Anglo American for €1.04 billion. This is 16 times the purchase price. At the time of the sale, the US company had cumulated a total amount of €460 million in tax credits to be offset against future profits.

A Chilean parliamentary commission investigated this case[43] and found that Exxon located its costs in Chile while its profits were located elsewhere. This was done by indebting *Disputada* vis a vis Exxon Financial Services, the group's financial branch, registered in Bermuda. Interests paid by Disputada systematically offset the profits generated in Chile, while inflating Exxon's profits in Bermuda. Moreover, the US company was also under-invoicing copper and copper derivatives sales to other subsidiaries or to the parent company.[44]

As a result of this investigation, the Chilean Parliament introduced a tax on companies' mining revenues (not on their profits) ranging between 0.5 and 5%, although the company denies wrongdoing.[45]

Source: "An economy adrift", CCFD-Terre Solidaire, December, 2010

By applying a zero or near-zero tax rate, tax havens aggravate international tax competition and generate important distortions of investments profitability.

How the companies in Actionaid's research are related

Home country

Sabmiller PLC UK

Sabmiller Holdings Europe Ltd UK

Sabmiller Holdings Ltd UK

?

Sabmiller (A&A2) UK

Investrat Luxembourg

Sabmiller Europe AG Switzerland

Sabmiller Africa & Asia BV Netherlands

Sabmiller Finance BV Netherlands

SAB Holdings AG Switzerland

Sabmiller Management BV Netherlands

Sabmiller India Holdings Mauritius

Sabmiller Asia BV Netherlands

Sabmiller Africa BV Netherlands

Tax havens

Mubex Mauritius

Sabmiller Int'l BV T/A Sabmark Netherlands

Overseas Breweries Ltd Switzerland

Bevman Services AG Switzerland

Sabmiller Management (INI) BV Netherlands

Sabsa Holdings Pty Ltd South Africa

Heinrich's Syndicate Zambia

Sabmiller Breweries Private India

The South African Breweries Ltd South Africa

Accra Breweries Ghana

Tanzanian Breweries Tanzania

œrvejas de Mocambique

Zambian Breweries Zambia

National Breweries Zambia

Skol Breweries India

Sabmiller India

Developing countries

Ownership

Payments

Source: Company Annual Returns and Accounts

Recent investigations show that country-by-country reporting would help address tax dodging schemes

The two cases developed in detail in part two of this report illustrate how country-by-country reporting would be a powerful tool to:

- help resource-constrained revenue authorities to identify and investigate companies presenting a high risk of tax avoidance;
- allow public scrutiny of the effectiveness of tax policy and administration, and of corporate behaviour; and in so doing
- exert a deterrent effect on corporate malpractice in this area.

Both cases appear to illustrate tax authorities' failure to police transfer pricing effectively and companies' exploitation of this weakness;

Swiss mining company Glencore, operating in Zambia:

The Zambian government commissioned a private auditing firm to conduct a sample tax audit on the Mopani Copper Mine, owned by Glencore AG. The report found evidence that taxable profits had been reduced through a number of techniques, including the inflation of local costs and transfer pricing abuse. The cost to the Zambian government through lost tax revenues and dividend income (the Zambian state owned a 10% share in the mine) appears from the audit report to have been as much as $174m (€132.3m) in a single year.

The main findings of the audit report revealed the following for Mopani Copper Mine:

Dodge 1: overestimates of production costs,

Dodge 2: underestimates of production volumes,

Dodge 3: breach of the *Arm's Length principle* with transfer pricing manipulation, the copper production being sold systematically below market prices to the headquarters in Switzerland.

UK brewery SABMiller, operating in Ghana:

ActionAid research in 2010 found a pattern of payments from SABMiller's African breweries to related companies in tax havens.[39] Total payments of £35m (€41.4m) with a tax loss of £8.5m (€10m) (extrapolated African total: £83m (€98.3m) and £18.2m (€21.5m). As ActionAid's full report shows, there is reason to believe that these payments are for tax avoidance purposes and might have been questioned in a transfer pricing audit. The investigation shed light on the following tax dodging operations:

Dodge 1: use of brands located in the Netherlands (Loss of £210,000 (€248,800) to Ghana)

Dodge 2: management fees paid to subsidiary in Switzerland (Loss of £160,000 (€189,500) to Ghana)

Dodge 3: procurement services registered in Mauritius (Loss of £670,000 (€793,000)to Ghana)

Dodge 4: Thin capitalisation (Loss of £76,000 (€90,000) to Ghana)[40]

These case studies also show that public scrutiny works to hold governments to account for tax policy and enforcement. In both cases the public highlighted ongoing tax avoidance activities that had not yet been corrected by the tax authority. In the first example, the abuses appear to be quite obvious and the most egregious aspects, if correct, could have been detected by the revenue through a simple audit. The second case concerns some of the most notoriously difficult areas in transfer pricing, and partly as a result of the publication of this case study, African revenue authorities are working together to develop their auditing capacity in these areas. Civil society action has contributed directly to the development of more effective audit capability.

tax haven.

Whereas in many cases business will establish large offices in tax efficient locations, there are also cases where companies will set up a skeleton company with minimal economic substance with the main purpose of minimising taxes paid by the group. An example of this practice has been recently found by an ActionAid investigation of the brewery company SABMiller.[47] When asked about the management service fees paid by its operating companies to what appeared to be a skeleton company in Switzerland, the company conceded that the payments were 'routed' through that company, which did not itself provide any services. The company however, refute that they have done anything wrong.

As in the case of SABMiller (see scheme below) management fees are typically paid for strategic management services such as accountancy, human resources and marketing. A recent addition is 'tax-efficient supply chain management', in which procurement services are centralised in the same way: the procurement company, based in a tax haven, uses its global buying power to negotiate low prices for goods and services from external suppliers, then sells them on to the group's operating companies at market rates, retaining a large profit margin.

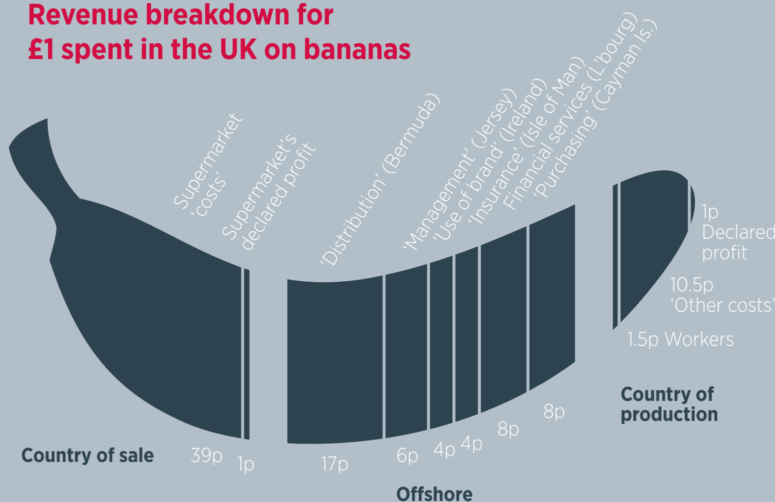
Round tripping

Many countries offer various incentives to foreign direct investment including tax cuts. In order to benefit from tax incentives local companies may move off-shore and reinvest, as foreign investors back in their home country. Doing this, they not only benefit from lower taxes but also from other legal advantages like better financial services and favorable land-use rights.

For instance between 2000 and 2009, Mauritius was the largest investor in India and much of this investment is suspected to be due to round tripping. Since 2006 the Indian government has been assessing the revenue lost due to tax incentives to foreign investors and estimates that the country lost some €10 billion in 2008 and 2009 due to tax incentives for large businesses.[48]

The banana's real journey

Revenue breakdown for £1 spent in the UK on bananas



Source: : I. Griffiths and F. Lawrence, "Bananas to UK via the Channel islands? It pays for tax reasons", The Guardian, 6 November 2007. pp.6-7 and J. Christensen "Taxing Transnational Corporations" in Tax Justice. Putting Global inequality on the agenda, 2009. pp109-111

Channel Island Jersey, well known for offering tax advantages, is also one of the most important banana exporters to Europe. Not that banana boats from Latin America or the Caribbean pass anyway near the island. Bananas typically travel direct from the producer to the consumer countries.

But on paper, bananas loaded in Latin America follow a complex journey stopping at no less than half a dozen offshore financial centers, including Jersey, before being invoiced to the end-users in consuming countries. According to an investigation by the Guardian newspaper, Dole (26% of the market), Chiquita (25%), Del Monte (16%) and Fyffes (8%) hold a large number of subsidiaries in tax havens and locate a significant amount of their profits in these low tax jurisdictions, subsequently reducing profits in producer countries.

The investigation underlines that these companies earn 48% of their revenues in tax havens, thereby minimising the tax paid, to the detriment of the countries where the bananas are consumed (where 40% of their declared revenues are located), and especially of the producer countries (12% of revenues). At the end of the trip, 80% of the price of a banana sold in Europe stays in a tax haven, compared with only 20% in the producer country. Data for the big banana traders show that for each euro spent in Europe, only one cent of taxable profit is reported in the producer countries "Fresh Del Monte, which generates 48% of its sales in the United States, has lost €28.2 million in that country, while it has made profits of €107 million abroad. It has therefore never paid any taxes in the United States."

The Google affair

Google, a US company, located its European head office in Dublin, where corporate income taxes are low. Google Ireland is owned by a company based in Bermuda, where corporate profits are not taxed. The company is highly profitable, generating total world-wide profits of €4.68 billion on revenues of €17.44 billion in 2008, i.e. a profit margin of 26.8% (post-tax). Google declares 14% of its revenues, or €2.44 billion, in the United Kingdom.

According to tax expert Richard Murphy,[49] if Google's profit margin in the UK were the same as its profit margin world-wide, "Google would have made a profit of €654 million [on which] it ought to have paid €186.4 million in taxes in the United Kingdom" (corporate tax rate of 28.5%).

An investigation conducted by Terry MacAlister in 2009 caused a scandal in the United Kingdom: according to The *Guardian* newspaper, Google is believed to have paid only €880,000 to the UK tax authorities,[50] and even less according to Richard Murphy, who estimates that the payment was only €208,000, and wonders what might have enabled Google to pay so little tax: "I suspect that Google Ireland pays Google Bermuda for use of Google's technology."[51] A more recent investigation confirms this. The method, so called the Double Irish "takes advantage of Irish tax law to legally shuttle profits into and out of subsidiaries there, largely escaping the country's 12,5% income tax."[52] As a result, the company cut its taxes by $3.1 billion in the last three years, moving foreign profits through Ireland and the Netherlands to Bermuda.

Source: "An economy adrift ", CCFD-Terre Solidaire, December, 2010 and: "Google 2,4% rate shows how $60 billion lost to tax loopholes", Bloomberg, 21 October 2010

Part 1: Section 3

How international loopholes allow tax dodging by MNCs

The G20 and the OECD: Guardians of the old order?

Over the last two years, G20 leaders have expressed concerns about the lack of transparency and cooperation from secrecy jurisdictions and the need to regulate them. The fight against non-cooperative jurisdictions took special relevance during the London Summit in April 2009 where G20 leaders announced a number of important steps to combat tax havens.[53] In November 2009 they also committed to *"make it easier for developing countries to secure the benefits of a new cooperative tax environment."*[54]

Since then, little progress has been made. The 2010 G20 Summit in Seoul[55] re-stated previous commitments *"to prevent the erosion of domestic tax revenues"* and committed *"to continue working to strengthen tax regimes and fiscal policies in developing countries"*. While these are welcome commitments, both discussions at the Global Forum and the OECD have been moving slowly since last year, and have failed to establish global regulations to clamp down on tax havens and tax dodging by multinational companies.

The G20's development working group asked International Organisations to report on how developing countries' revenue mobilisation could be improved and committed to "Identify ways to help developing countries' tax multinational enterprises (MNEs) through effective transfer pricing." The report issued a number of recommendations including: analysing the impact of G20 tax systems on those of developing countries and taking into account the current debate on country-by-country reporting and developments in national legislation (e.g. Dodd Frank in the US).[56] Yet, the G20 only made a vague reference welcoming voluntary participation in the Extractive Industries Transparency Initiative.

In short, the measures agreed at the London Summit have proven incomplete, and in subsequent summits G20 leaders have expressed good intentions but have not taken concrete measures.

The Organisation for Economic Cooperation and Development (OECD) is the dominant organisation in international taxation. OECD members[57] naturally prefer this forum, in which they have more influence, as the standard-setter and evaluator of compliance in most matters of international taxation, including transfer pricing and tax information exchange. Its technical capacity in these areas is unrivalled. Yet these standards and accompanying initiatives are open to challenge on both a technical level and also a political one. Like the G20, the OECD is ultimately a political entity, with the content and direction of its work influenced by its more powerful members.

As tax and development has become a more important issue in international taxation, the OECD has sought to position itself as the leading organisation on this, in the face of competition from the United Nations committee of experts, and in some areas the IMF. It created an informal task force, which included non-OECD developing countries, civil society and business, as well as OECD members themselves. The task force's agenda contains many issues of major concern to developing countries, including transfer pricing, and brings together an impressive range of stakeholders. But the agenda is defined by the OECD members themselves, through their Fiscal Affairs and Development Cooperation committees. These states' interests do not always coincide with those of developing countries, and so the task force offers a partial solution at best.

The international nature of companies means that they can either play countries off against one another or use their international operations to shift profits between jurisdictions to achieve a low effective tax rate.

In mid 2011 developing countries sought to strengthen the United Nations tax committee – the committee of experts on international co-operation in tax matters – which could potentially represent and advance the interests of developing countries far better than the OECD ever can. As Chile's permanent mission to the UN noted recently, the UN tax committee "is the only body with global membership in which these issues can be discussed." More than a quarter of G20 member states – including Mexico, its next chair – are on record in favour of a stronger committee. "The day is gone," said a speaker at UN meeting in New York, "when there are rule makers and rule takers."[58]

Why are current standards to tackle MNC tax dodging not enough?

One of the challenges of addressing MNCs tax dodging is that taxes are levied at the national level but companies operate at an international level. While countries may have weak tax legislation or poor capacity to implement this legislation, the international nature of companies mean that they can either play countries off against one another for lower effective tax rates or they can use their international operations to shift profits between jurisdictions to achieve a low effective tax rate. Without a supranational tax authority (something which seems politically unlikely), international cooperation and transparency are required to ensure developing countries have the information they need to hold companies to account for their distribution of profits and redress some of these power imbalances.

In Guatemala, between 2001 and 2003, out of 1295 tax evasion cases that were presented before the courts, only four resulted in the defendants being found guilty.

Strengthening tax administrations in developing countries: a necessary but insufficient step

Tax authorities of many developing countries do not have sufficient resources to examine the facts and circumstances of each and every case so as to determine the acceptable transfer price for intra group transactions according to the arm length's principle.

In Guatemala, between 2001 and 2003, out of 1295 tax evasion cases that were presented before the courts, only four resulted in the defendants being found guilty.

In Honduras, a tax authority director went public about receiving anonymous threats over ongoing tax evasion investigations.

Many developing countries do not even have a large taxpayers unit, which can reduce tax compliance costs and ensure uniformity in determining tax duties, nor a dedicated team to track tax evasion cases.

But even though there is general consensus on the need to strengthen tax administrations in developing countries, this measure alone will not be enough to tackle the problem of illicit flows. International rules are needed to oblige economic and financial actors with cross border activities to increase transparency and ensure taxes are paid where profits are made.

Source: Tax Justice Advocacy: A toolkit for civil society. Tax Justice Network, Christian Aid, SOMO, ActionAid et al 2011

Even though there is general consensus on the need to strengthen tax administrations in developing countries, this measure alone will not be enough to tackle the problem of illicit flows.

IASB standards do not ensure national level transparency

At present, international accounting standards set up by the International Accounting Standards Board (IASB) do not require MNCs to provide information about their activities, economic performance or taxes paid in each country where they operate. Instead, they are allowed to present this information in an aggregated manner. At the international level, this is regulated through the IASB's financial reporting standard dealing with geographical disclosure of operating segments, the so called IFRS-8. Yet, in practice, businesses decide the way they define reporting segments and as a result of this most of them are defined so that they are very large, generally at the regional level or even at the global level.

IFRS-6 relates to the extractive industry activities. In 2010 the IASB launched a consultation process for its review that considered the possibility of introducing country-by-country reporting requirements. This would be a crucial step as IASB accounting standards are the most widely applied worldwide.[59]

International Accounting Standard (IAS) 24 is another reporting standard that requires disclosure of intra-group sales but there are exemptions to this for wholly owned subsidiaries.

At the EU level, the existing Accounting Directives[60] do require issuers to identify subsidiaries, jointly controlled entities and associates. But in practice many issuers fail to make such disclosures.

A 2011 study from ActionAid[61] showed that of the 100 largest companies registered on the London Stock Exchange, fewer than half had fulfilled a legal obligation to disclose the names of each of their subsidiaries and the country in which they were located. ActionAid used a series of complaints submitted to Companies House to force companies to disclose full lists of subsidiaries, revealing over 8000 companies based in tax havens. This deficiency could be overcome if such information were to be included in audited financial statements. Similarly, a CCFD-Terre Solidaire investigation showed that in 2009 Total only published a list for 217 subsidiaries out of its 712, without giving any information about their location.[62]

The arm's length principle: a piecemeal approach

Under the existing international framework, transactions within subsidiaries of a multinational company must comply with the Arm's length principle. This valuation principle is commonly applied to commercial and financial transactions between related companies. The OECD definition says that under this principle "transactions should be valued as if they had been carried out between unrelated parties, each acting in his own best interest".[63]

Transactions should therefore be valued at the price that would have been agreed in the open market. But in practice, as explained above, this can be very difficult to apply. While for commodities, it can be simply done by looking up comparable pricing from non-related party transactions, when it comes to proprietary goods and services or intangibles, arriving at an arm's length price can be a much more complicated matter.

EITI model: voluntary disclosure focused on the extractive sector only

The Extractive Industries Transparency Initiative (EITI)[64] was launched in 2002 aiming at improving governance in resource-rich countries by promoting public reporting of revenue flows to governments from oil, gas and mining companies. The EITI is based on a principle of partnership between governments, the private sector and civil society[65] Fifty of the world's largest oil, gas and mining companies have officially endorsed the EITI to date, showing their willingness to publish what they pay to governments. The EITI is voluntary for governments to join, though once a country has joined, all extractive companies in that country, and all government agencies that receive extractive revenues, must participate in order for the country to comply with the rules of the initiative. A number of countries are considering adopting the EITI's reporting requirements into domestic law and certain countries, including Nigeria, Liberia and Niger, have already done so.

EITI requires companies to publish their payments to governments and governments to disclose what they receive. After a slow start, there is a growing number of countries that have signaled their intent to implement the initiative. Yet, a number of concerns remain in terms of EITI's actual implementation. Of the 35 EITI implementing countries, only 11 have produced reports that include company-specific information. There have also been concerns about the sustainability of the process in countries where government support for the initiative appears to fluctuate over time, leading to delays and gaps in the production of reports.

One could argue that EITI is not a voluntary initiative, in that all companies operating in EITI compliant countries must comply with EITI rules. However, this process depends on the political will of governments in resource-rich countries to commit to the initiative. Some significant oil producers, including Angola, Libya and Algeria have not joined to date, showing the voluntary status of the initiative. Furthermore, implementing countries decide: what to include within the scope of the extractive industries, which companies to include or exclude from EITI reports, the definition of the materiality threshold, and whether to aggregate or disaggregate data.[66] These decisions are formally taken by national EITI steering committees including representatives from domestic civil society groups as well as governments and the private sector. There have been concerns in certain countries, however, that these committees are dominated by the views of governments, and sometimes industry, and that civil society groups lack the specialised knowledge and resources to push for the most effective definitions of scope and materiality.

One of the main critiques CSOs make of this initiative relates to the

If companies are truly committed to transparency and social responsibility, a "doing tax" sustainably approach has to be integrated into their corporate governance and ways of doing business.

variable quality and usefulness of EITI data: as data is not standardised it is very hard to use for comparative purposes.[67] The EITI rules allow countries to set their own definitions of materiality, which is designed to create flexibility but has the effect of undermining the comparability of the reports. Data quality is also a concern. The EITI Rules do require that company and government data should be taken from accounts that have been audited to international standards. In practice, however, it is often unclear whether figures have been rigorously audited to a recognised standard. There is now debate within the EITI about the possible addition to the rules of provisions for an independent audit of the figures. Civil society groups are also arguing for extractive industry contracts to be routinely published, in order to allow greater scrutiny of the fiscal relationship between companies and governments.

Another concern raised by CSOs is that with data quality unverifiable, civil society and even investors are unable to assess the fairness of contracts agreed between the government and extractive companies.[68]

For all these reasons CSOs have maintained since the launch of the EITI in 2002 that, while a welcome step, the initiative is not sufficient in its scope, depth or political weight to meet the need for an efficient global reporting standard. They therefore call not just for the expansion of the EITI itself, but for more binding measures enacted by regulation. The following legislative initiatives address partially some of these concerns although the level of disclosure and scope of implementation remain restricted. Civil society's proposal for a country-by-country reporting standard, as outlined in section 5 of this report, would not only more comprehensively address these shortcomings but it would also contribute to addressing MNC tax dodging.

US and Hong Kong stock exchange regulations: tackling corruption but failing to address MNC tax dodging

Natural resources-rich countries have a long history of poverty and corruption, partially due to the exploitation of these resources. Citizens have little or no information about the terms of deals signed between extractive companies and their governments, and the same goes for revenues the country gets from the extraction of its resources. This lack of transparency is one of the major contributing factors to what has been called "the resource curse".

In July 2010, the United States Congress passed the Wall Street Reform and Consumer Protection Act (Dodd-Frank bill)[69] requiring all companies operating in the extractive sector registered with the Securities and Exchange Commission (SEC) to disclose their revenue payments to governments on a country-by-country and project-by-project basis. This is expected to come into effect in 2012. This requirement will apply to all extractive companies not only to those operating in EITI countries, thus it will provide a level playing field ensuring that all of them disclose comparable data.

This act is seen to be of value both to investors (in valuing companies and assessing risk) and to citizens and governments in producing countries, who will be able to use this information to improve accountability and governance. Any provision in a local mineral extraction agreement prohibiting publication of the data would be overridden by the international obligation to publish, imposed upon the parent multinational company that is responsible for producing the information as part of its annual financial statements.

Under the new US law, the data should:

- Be presented on a country-by-country and project-by-project basis (requiring more detail than EITI)
- Be presented electronically in an "interactive data format" by each company, tagged for ease of analysis and accessible to the public through a website
- Include all commonly recognised revenue streams for the commercial development of oil, gas, or minerals: royalties and taxes paid in cash or in kind, dividends, bonuses, license and concession fees. The legislation's definition of payments excludes only those that are *"de minimis."*

The public disclosure of such information would reduce the level of secrecy surrounding payments to governments and therefore would help fight corruption and conflict, and increase resource revenues in some of the world's poorest countries. For companies, the effect of corruption

Corporate Responsibility: necessary but not sufficient

"large companies, if they have not already done so, should start to think about where tax fits into their approach and strategy on corporate responsibility. Not all companies will want to be a leader in this area, but not to have a position could well be a risk."

Scheiwiller, T. & Symons, S. Corporate responsibility and paying tax, OECD Observer, January 2010.

If companies are truly committed to transparency and social responsibility, a "doing tax" sustainably approach has to be integrated into their corporate governance and ways of doing business. Eurodad and some of its members have produced publications examining how and why businesses should do this.[74] The OECD's guidelines for multinational enterprises recommend that companies comply with both the letter and spirit of the law.

The lucrative search for ways to pay less described above may well provide many legal avenues to reduce tax liabilities, especially in developing countries where the law often lacks precision, but it is ethically questionable, as Action Aid's study on SABMiller[75] concludes. The argument that compliance with the letter of the law is business's only responsibility is questionable in an environment of financial crisis and fiscal retrenchment; it certainly does not hold in developing countries where businesses have considerably more latitude to avoid tax than in their home states.

Tax avoidance is clearly incoherent with principles of responsible investment, and an aggressive tax stance creates significant risks for businesses and their investors, as many are now beginning to realise. Lack of transparency about corporate tax payments, and a culture of secrecy and complexity fuelled by tax havens, means that in most cases it is currently very difficult for stakeholders to assess the risks faced by a company, or the responsibility of its approach.

"… companies should consider how their chosen approach to CSR applies to all aspects of their activity, including the management of their tax liability. They should then be in a position to give a reasoned justification of their approach to key tax issues such as the use of tax minimisation techniques, which is consistent with their approach to other CSR issues"

Williams, D. Tax and corporate social responsibility. KPMG, 2007

Some companies, especially in the extractive sector, have taken voluntary steps to increase their financial disclosure. Global Reporting Initiative standards also suggest the disclosure of tax information on a country-by-country basis. But the patchy performance of businesses demonstrates that the only way of achieving common EU reporting rules and obtaining comparable, consistent and credible data for users of financial data, is to require the reporting of country specific information in the financial statements of multinational corporations.

Summary of existing proposals for MNCs country-by-country reporting requirements

	Status	Activity scope	Geographical coverage	CBC-disclosure level	Quality and comparability of the disclosed information	Ability to shed light on corporate tax dodging
CSOs' proposal	Binding	all	All countries where company operates	Name of subsidiaries, staffing information, economic performance indicators, assets, taxes paid and deferred taxes	High/audited in the annual accounts	High Disclosure of relevant information to help identification of abusive practices
IASB current standards	Binding	all	All countries where company operates (i.e. group consolidated accounts)	Currently no country by country disclosure (i.e. IFRS8)	High/Audited	NA
IASB future standards	Binding	extractives	NA	Currently under discussion for the extractives only (i.e. IFRS 6)	High/Audited	NA
Hong Kong SE	Binding	extractives	Countries where the company has extractive operations	Payments to governments, only once when they get listed		Low/ Payments are not contextualised, e.g. with production volumes, benefits or special tax arrangements of contracts confidential clauses
Dodd Frank	Binding	extractives	Countries where company has extractive operations	Payments to governments at both country and project levels (i.e. royalties and taxes paid in cash or in kind, profit taxes, dividends, bonuses, license and concession fees)	Not audited (i.e. either filed or furnished) But tagged online	Low/ Payments are not contextualised, e.g. with production volumes, benefits or special tax arrangements of contracts confidential clause
EC proposal	Binding	extractives and forestry	Countries where company has extractive operations	Payments to governments at both country and project levels (i.e. without pre-tax profits, production volume, staffing information)	Payments to governments published in a separate report on an annual basis. No mention of auditing information.	Disclosure comparable to Dodd Frank. Payments are not put in context e.g. with production volumes, benefits or special tax arrangements of contracts confidential clauses
EITI	Voluntary for countries to join, then compulsory for companies in each country	extractives	Countries where company has extractive operations	Payments to governments, but in practice the disclosure varies from one country to another (often aggregation of different payments or companies)	Variable. Data is reconciled nationally but audit requirements are unevenly applied Low comparability between countries.	Low / Payments are usually not contextualised e.g. with production volumes, benefits or special tax arrangements of contracts confidential clauses
CSR- GRI A+	Voluntary	all	All countries where company operates	Payments to governments only on a country basis (i.e. indicator EC1, Economic value generated and distributed)	Low/ self declaration	low because not binding

is also damaging. According to the United Nations, corruption adds 10% or more to the costs of doing business in many parts of the world and adds as much as 25% to the cost of public procurement.[70]

The world's largest companies operating in the extractive sector, such as Royal Dutch/Shell, British Petroleum, PetroChina, ExxonMobil, Total, BHP Billiton, Vale and Petrobras, will be subject to this Act. However, numerous European companies will not be covered by the US rule. Research by Revenue Watch Institute[71] has identified that out of the 350 oil, gas and mining companies listed on the London Stock Exchange, 336 do not have listings in the US (only 14 companies are listed both with LSE and SEC[72]. This is why international regulation is necessary to ensure broader coverage.

Opponents to such regulations in the US and the EU argue that greater transparency would impose a competitive disadvantage on companies regulated in the US or European Union, compared to those from other jurisdictions. Yet other key players are also moving in the same direction. The Hong Kong Stock Exchange announced a country-by-country disclosure regulation on 20 May 2010. Such regulation came into force in June 2010 and applies to listed extractive companies.[73]

While this is a very necessary step in the right direction, it remains limited in its scope as it only applies to the extractive industries sector, meaning that illicit practices in other activity sectors will not be covered.

Furthermore only a limited amount of information will be disclosed, namely payments to governments in resource rich countries (subsidiaries in secrecy jurisdictions are not covered). This information will be hard to interpret as the bill does not include disclosure of other economic indicators such as sales or profits. Therefore, it will be impossible to assess whether companies are paying taxes according to their real benefits and economic performance in the countries where they operate. As a result, transfer pricing abuse by MNCs, one of the major drivers of illicit flows from developing countries will remain largely unchanged.

This is why European CSOs call on the EU to take bolder measures at the European level to address these challenges, namely through the forthcoming review of the "transparency obligations" and the "accounting" directives.

Part 1: Section 4

Europe should be ambitious on country-by-country reporting

"The EU and its Member States should enhance the coherence of their development policies and work towards exploring [the option of] reporting on a country-by-country basis as the standard for multinational companies (…) and encourage the IASB to look beyond the extractive sector"

European Foreign Affairs Council conclusions. June 14th 2010.[76]

During the Spanish Presidency of the European Union in the first half of 2010, European leaders confirmed that tackling illicit financial flows from developing countries was a priority and committed[77] *to "pushing for a more development-friendly international framework"* in order to address tax evasion and harmful tax practices, and to increase cooperation and transparency. They recommended for the first time that *"country-by-country reporting (should be established) as a (reporting) standard for multinational corporations."*

The European Parliament has been a crucial actor moving this agenda forward by calling for stronger commitments to combat illicit flows in various resolutions since January 2009.[78] Essentially, these call on the EC and Member States to clamp down on tax havens through the adoption of more stringent criteria than that of the OECD for the identification of tax havens, and to work towards an internationally binding multilateral automatic tax information exchange agreement envisaging countermeasures or even sanctions in cases of non-compliance.

The political momentum created by the US law has notably influenced European decision-makers and now, the political and technical feasibility of implementing country-by-country reporting is no longer questioned.

In the first quarter of 2011, the EU Competitiveness Council called upon *"the Commission to come forward with initiatives on the disclosure of financial information by companies working in the extractive industry, including the possible adoption of a country-by-country reporting requirement, International Financial Reporting Standards (IFRS) for the extractive industry, and the monitoring of third-country legislation."* [79] Such measure would be an important first step towards a standard for all companies in all sectors.

The Ministers' decision follows strong calls by the European Parliament for greater tax justice at home and abroad. The report – *"Cooperating with developing countries on promoting good governance in tax matters,"* led by MEP Eva Joly, calls on the *"European Commission to integrate a country-by-country reporting standards for multinational companies in forthcoming revisions of EU accounting laws which spell out what type of financial information European companies must report in their annual consolidated accounts."*

Moreover, the report considers that ***"country-by-country reporting is of the utmost importance for extractive industries, but recalls that it would equally be beneficial for investors in all sectors, thereby contributing to good governance globally****; therefore asks the Commission to promote the inclusion of a requirement within the International Financial*

The political and technical feasibility of implementing country-by-country reporting is no longer questioned.

Norway and the fight against illicit flows

In 2009, a governmental Norwegian Commission released the report "Tax havens and development", which contains an extensive analysis of the tax havens industry and its impacts on developing countries.[84] It concludes that secrecy and virtually zero tax regimes provided by tax havens have very damaging effects on development and sets out key recommendations to the Norwegian government which other European countries could also follow.[85] Some of these are:

Advisors and facilitators registry: to establish a national registry with all operators who facilitate and conduct operations in tax havens.

Information duty and annual accounts: to require multinational corporations to present in their annual reports key figures of taxable profit and tax payable as a proportion of taxable profit in each of the countries where they operate.

Transfer pricing: to investigate a set of instruments to determine transfer pricing and promote them at the global level.

Tax treaties: Signing a tax treaty does not lead to the establishment of official company and owner registries with a duty to keep accounting information, or the introduction of genuine audit provisions, nor will a tax treaty prompt a tax haven to change its practice of ring fencing part of its system so that foreigners obtain more favorable tax conditions than locals. Therefore, the report calls for new rules for 1) when a legal entity can be regarded as domiciled in a tax haven (requiring real economic activity in that jurisdiction) and 2) assigning taxation rights between countries.

Convention on transparency in international economic activity: to develop a new international convention in order to prevent states from developing secrecy structures which are likely to cause damage to other countries. Such a convention should be general, apply to all countries and be directed against specific damageable structures rather than specific states or states systems.

Some of these recommendations go beyond the scope of this report. Yet all of them are necessary steps that should be taken in order to effectively tackle illicit flows and their damaging impact on developing countries.

Reporting Standard of the IASB that multinational corporations report their income and tax paid on a country-by-country basis".[80]

These developments have proved that increasing cooperation and financial transparency is a matter of political will. It is also a matter of commitment to policy coherence for development on an issue that has wide implications for developing and also for European countries.[81]

Following the call of the EU Council the European Commission published a proposal for the review of the Accounting and the Transparency directives[82]. The proposal requires for European companies to report on a country-by-country basis. This is a crucial step, as European companies will be obliged to provide information on their activities on a country-by-country and on a project-by-project basis. The Commission's proposal appears to be very similar to the Dodd Frank Act explained above. One particularity is that it will not only apply to the extractive sector but also to forestry. Another difference is that the US proposal only applies to listed companies while the EU proposal also applies to large non listed companies.

The review process that will be conducted in 2011 and 2012 through the Parliament and the Council will provide a unique opportunity for the EU to show leadership and take concrete measures to build pressure on MNCs to pay their fair share of taxes. This would not only benefit developing countries but also European ones, in a context where most MNCs do not pay enough taxes at home either.[83]

Secrecy and virtually zero tax regimes provided by tax havens have very damaging effects on development.

Part 1: Section 5

CSO proposal for country-by-country reporting would contribute to address tax dodging

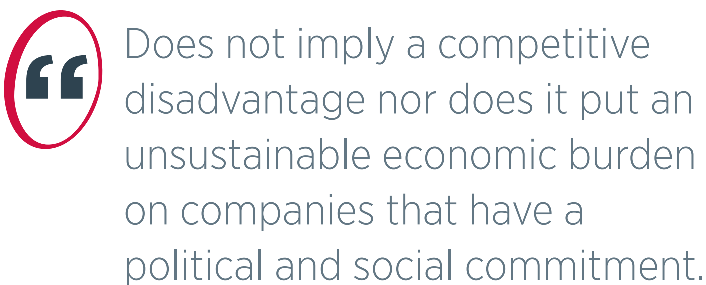
Eurodad and many other CSOs in Europe and other regions of the world believe that none of the legislation currently in existence or under consideration can fully tackle the problem of tax dodging. A meaningful country-by-country reporting disclosure of MNCs' annual financial statements should include the following elements:[86]

1. The name of each country in which it operates;
2. The names of all its companies trading in each country in which it operates;
3. Its financial performance in every country in which it operates, without exception, including:
   - It sales, both with third party and other group companies;
   - Purchases, split between third parties and intra-group transactions;
   - Labour costs and employee numbers;
   - Financing costs split between those paid to third parties and to other group members;
   - Its pre-tax profits.
4. The tax charge included in its accounts for the country in question split as noted in more detail below;
5. Details of the cost and net book value of its physical fixed assets located in each country;
6. Details of its gross and net assets in total for each country in which it operates.

Tax information would need to be analysed by country in more depth requiring disclosure of the following for each country in which the corporation operates:

1. The tax charge for the year split between current and deferred tax;
2. The actual tax payments made to the government of the country in the period;
3. The liabilities (and assets, if relevant) owing for tax and equivalent charges at the beginning and end of each accounting period;
4. Deferred taxation liabilities for the country at the start and close of each accounting period.

In addition, if the company operates in the extractive industries, it should disclose information on reserves and production, and should give a full breakdown of all benefits paid to the government of each country in which it operates.



Does not imply a competitive disadvantage nor does it put an unsustainable economic burden on companies that have a political and social commitment.

This proposal is not only put forward by NGOs. In July 2011 an act has been introduced in the US Senate calling for such disclosure requirements for all listed companies in the US.[87]

The SABMiller example developed in part two of this report shows that full country-by-country reporting as CSOs call for would have exposed tax dodging schemes such as:

- Low corporation tax payments in African operating subsidiaries (taxes, profits, sales);
- Low corporation tax payments and high profitability in tax haven companies (taxes, profits, sales);
- Small workforces and large stores of intangible assets in tax haven companies, indicating that they are tax planning vehicles (staff, assets);

Why country-by-country should be embodied in an accounting standard with audited information

Audited information: a guarantee of reliability

The issue of auditing the information disclosed has been debated in the US during the SEC draft rules process, to ensure that disclosure of payments by listed extractive companies complies with the highest transparency standard. According to the American law, there is penal liability if companies deliver incorrect information.

Possible threats around penal liability are key to ensure the quality of the information and prevent non-compliance with the law.

Recital 14 of the Transparency Directive 2004/109/EC encouraged issuers in the extractive industries *"to disclose payments to governments in their annual financial report"*. Furthermore, the European Commission's Declaration in relation to the Omnibus amendment on the Transparency Directive: country-by-country reporting noted that the Commission would evaluate *the feasibility of requesting certain issuers of shares(…) traded in a regulated market and which prepare consolidated accounts, to disclose in the annual financial report key financial information…"*.

In the extractive sector, the EITI requirements stipulate that company and government reports must be based on accounts that are audited to international standards.

Governments, companies and civil society have agreed on this requirement in a consensual fashion.

Only an accounting standard will minimise avoidance possibilities

Under stock exchange regulation alone, there are still possibilities for companies to avoid reporting requirements. This can be done by listing only some parts of a company's extractive activities, while leaving unlisted the more controversial activities on which they would not like to disclose information on a country-by-country and project-by-project basis. In recent years the Chinese Oil group CNPC has managed to get only some parts of their activities listed in the US. This was done through the creation of Petrochina inside their group.

Another way companies can avoid disclosure requirements under stock exchange regulations is by using a different definition of "extractive activities".

In order to prevent this, stock exchange regulation should be replicated in as many stock exchanges as possible, while in the medium term seeking to implement the disclosure regulation through accounting standards. Only regulation changing accounting standards would overcome these two risks, as compliance on reporting requirements would apply to the whole group

- A large volume of related party payments from Africa, and large volumes into tax havens, which are highly suggestive of profit shifting (related party transactions).

The disclosure of all this information on a country-by-country basis, based on those locations in which the company has a permanent establishment for taxation according to international definitions, should be done in the consolidated audited financial report, for the MNC as a whole, following standards to ensure comparability. For listed companies, this information should also be publicly presented by the stock market regulator in electronic form and tagged to ease access for all users.

Country-by-country reporting is feasible and does not harm competitiveness: some examples of its practical implementation

Lately, there have been some voluntary initiatives disclosing payments on a country-by-country basis by companies active in the extractive sector, such as, Statoil Hydro[88] (Norway), Talisman Energy[89] (Canada), Newmont Mining (U.S.) and Anglo Gold Ashanti[90] (South Africa), Rio Tinto[91] (UK-Australia), AngloAmerican[92] (UK) and BHP Billiton (Australia).[93]

Anglo Gold Ashanti seems to be the most advanced mining company in terms of payments disclosure. It discloses payments in all countries in which it is active regardless of EITI status of said country. Rio Tinto's last sustainability report (not its financial statements) includes data on their payments in thirteen different states, including non-EITI, countries. However, this does not cover every country in which they are active, such as Argentina, Ghana Guinea or Zimbabwe, nor the secrecy jurisdictions where the company has subsidiaries.

In 2010, BHP Billiton, the world's largest mining company, started publishing in its sustainability reports payments they made to twelve countries. They argue that such payments constitute over 99% of all the taxes it pays. The company reveals there are sixteen other countries for which they are not disclosing figures, arguing that the taxes paid to these 16 countries equates to US$ 54 million.

These examples show that country-by-country disclosure of payments does not imply a competitive disadvantage nor does it put an unsustainable economic burden on companies that have a political and social commitment. Quite the opposite, they have been able to disclose information without suffering any negative externalities. But disclosure of financial information beyond payments is also feasible and a number of companies have acknowledged this. Over the course of 2010, Christian Aid conducted a confidential survey of all FTSE100[94] companies, to obtain companies' views on tax issues, the tax and development agenda and country-by-country reporting. Of the 100 companies surveyed, 20 responded by completing the survey and a further 16 responded by letter. Seven firms agreed that "reporting of tax payments by multinational companies may be beneficial to the development agenda" and twelve respondents agreed that their firm is "persuaded of the need for greater transparency for developing countries".

As stated by Christian Aid[95] "it is clear that country-by-country reporting is possible." According to its survey, eleven firms agreed that "this information is already recorded within our company and nineteen firms agreed, or did not deny, that it would be possible for the company to collate this information". Seven firms agreed that "it would be reasonable for this information to be audited" and seven firms were neutral on this point. On the willingness to support country-by-country reporting, six firms agreed that they would "be willing to explore piloting a country-by-country accounting standard," nine firms would be willing to "support the introduction of country-by-country as part of its corporate social responsibility (CSR) reports," and three supported the introduction of such reporting as an international accounting standard.

The above mentioned initiatives and the survey show that tax is seen as a growing area of risk and that there is a reputational risk attached to the way in which companies operate.

"it is clear that country-by-country reporting is possible." eleven firms agreed that "this information is already recorded within our company and nineteen firms agreed, or did not deny, that it would be possible for the company to collate this information".

Country-by-country reporting would improve MNCs' governance and accountability

"Clarity around tax is not just about reputation; there is a wider business case too. Reducing long-term uncertainties, avoiding sudden changes in regulation and minimising costs from legal challenge are in the company's interests. The efficient and orderly collection of taxes makes for a better company and a stronger society."
Corporate Citizenship. Hardyment,R., Truesdale, P. & Tuffrey, M

If data cannot be used to compare one company to another, within countries, industries or regions, the data is more or less useless.

Country-by-country reporting will benefit tax administrations

Tax administrations in developing countries are often ill-equipped when it comes to tracking MNCs tax dodging. South African Finance Minister Pravin Gordhan introduced a new bill to strengthen the South-African tax administration in June 2011 and expressed this clearly while explaining the need for cooperation between tax authorities in Africa, saying that large multinational firms and international tax planners are repeatedly showing themselves to be "so far ahead of government tax administrators".

The opacity of global consolidated accounts is one of the main barriers to fighting abusive tax planning strategies by MNCs. Disclosure of relevant information at country-by-country level would have a powerful deterrent effect on the most abusive practices. More transparency would also help tax administrations both in developed and developing countries better understand the complexity of MNCs operations and therefore enforce the law.

Revenue officials who are introduced to the idea of country-by-country reporting usually remark that it would make their jobs much easier. At the recent OECD taskforce on tax and development meeting, four developing countries spoke in favor of country-by-country reporting. At present, low-income countries operate in a context of extreme lack of capacity and experience in this area. In the long term, once this is addressed, revenue officials would use country-by country reporting as an accompaniment to other sources of information:

- As an easy risk management tool to identify high-risk taxpayers for audit, helping resource-constrained revenue authorities identify and investigate companies presenting a high risk of tax avoidance;
- As contextual information during a transfer pricing audit – as it covers all jurisdictions and not just trading partners, providing a global picture of companies' activities;
- As the basis of information requests made through double taxation treaties or tax information exchange agreements with other countries, to easily identify the jurisdiction where profit-shifting mechanisms might happen;[96]
- To provide comparable data on transaction's prices to help enforcing the existing transfer pricing rules in one country;
- To allow public scrutiny of the effectiveness of tax policy and administration, and of corporate behaviour; and
- To exert a powerful deterrent effect on corporate malpractice in this area, thus reducing the audit burden of tax administrations.

Public scrutiny works to hold governments to account for tax policy and enforcement. The cases of SABMiller and of Glencore – developed in part two of this report, highlight ongoing tax avoidance activities that have not yet been corrected by the tax authority. The Wall Street Journal reported that Action Aid allegations[97] concerning SABMiller prompted discussions among revenue authorities in five African countries, which may lead to tax audits of the company.[98] The discussions happening under the aegis of the African Tax Administration Forum even mentioned possible reform of the current bilateral tax cooperation standards: *"Logan Wort, executive secretary of the forum, said that tax authorities in Africa agreed that they would begin work on a multilateral agreement to exchange information on taxpayers, such as multinational companies, for tax purposes.[...] Mr Wort said there was no legal instrument to take collective action against such companies."*[99]

Country-by-country reporting will also benefit investors

"Tax is becoming an important source of reputation risk. Increasingly, businesses are weighing up whether they are vulnerable to attack and how they should respond if they become the target of a campaign".
Houlder, V. Tax claims hit reputation as well as coffers, Financial Times, November 8 2010.

The disclosure of financial information on a country-by-country basis paves the way for effective decision making by capital providers on a range of issues, including on a variety of risks, as degree of exposure to geopolitical and reputational risks by company's presence in certain locations (e.g. some deregulated jurisdictions such as tax havens or jurisdictions with high instability) and the balance between short and long term rewards, where good governance issues have special influence.

As capital providers, investors need to be sure that the companies they invest in do not engage in illicit or unethical activities as they have fiduciary responsibilities to their clients. Furthermore, most investors would be interested in knowing more detail about trends in the geographic spread of a company's activities over time, as this indicates diversity or absence thereof.

Empirical research shows that requiring strong geographical segmenting requirements (such as country-by-country reporting) would improve the profitability of companies and thus the return for investors. This is because managers of multi-nationals, when left without public scrutiny, tend to build 'empires' in foreign countries that may increase turnover while profits fall.[100]

A study found that when the US introduced an accounting standard which removed a requirement on companies to report on their earnings geographically, there was a negative effect on the corporate profits that are booked abroad.[101] The study explains *"Firms that no longer disclose geographic earnings have lower foreign profit margins even though they have greater foreign sales growth. This result supports our contention that non-disclosure reduces monitoring of managerial decisions, allowing managers to inefficiently expand foreign companies, which reduces foreign profitability."* In a nutshell, more transparent information on a company's activities encourages more efficient decision-making by managers, boards and owners.

There is also evidence that greater transparency can reduce a firm's cost of capital. A study by Christian Leuz

and Luzi Hail examined the tangible benefits of stricter disclosure rules and stronger legal requirements to firms in 40 countries. The authors found that there is a statistically significant association between the lower cost of equity capital and the level of disclosure and securities regulation.[102]

These findings imply that greater corporate transparency, such as country-by-country financial reporting, would not only safeguard against the risk that companies lose legitimacy and even commercial opportunities in developing countries through associations with official corruption or unethical behavior, but it could also improve the financial performance of companies.

Institutional investors: advocates for country-by-country reporting

"Arrangements that minimise the amount of tax paid in the short-term may be detrimental in the longer term if they prejudice the company's relationship with tax authorities and additional costs are incurred in complex dispute resolution, or if the company's wider reputation is harmed."

Henderson Global Investors. Tax, risk and corporate governance, 2005.

Lately, institutional investors have called for increased transparency and even the support of country-by-country disclosure in different fora.

In 2008, Railpen Investments, the corporate trustee of the various UK railway industry pension funds, wrote to the IASB noting that: *"The proposal for a new international accounting standard, requiring companies to report their payments to government, their reserves, production data and costs, and key assets on a country-by-country basis, are important in order to increase transparency in a high risk industry. We believe that such disclosure is very much part of mainstream financial reporting and will provide investors with better information to judge company exposure in different country contexts."*

In 2009, 80 institutional investors representing US$ 16 trillion actively supported the development of international mechanisms to address payments transparency as part of EITI. In May 2010, Calvert Investments published a paper strongly endorsing country-by-country reporting of payments in each country of operation. In which they state that country-specific reporting, *"could be used by investors to account for material, country-specific, tax/regulatory, reputational risks and would substantially improve investment decision making regarding the extractive industries sector."* Calvert Investments also argued against leaving decisions on materiality to companies.

In January 2011, some investors also supported mandatory country-by-country reporting for all sectors in response to the European Commission consultation on the issue. Calvert Asset Management Company, Domini Social Investments LLC, Harrington Investments, Inc., and Interfaith Center on Corporate Responsibility, among others, argued that "*this would enhance the information available to us [investors] to assess risk arising within the corporations in which we invest and would assist us [investors] in making decisions on the allocation of the capital under our management to corporations operating in the world's financial markets.*"[103]

According to them, country-by-country reporting "would provide investors with information on the following issues, currently unavailable, but which would impact the decision making processes if available:

- where corporations trade;
- the relative importance of different jurisdictional markets;
- where they do and do not pay their taxes;
- where they earn their profits;
- how they structure their businesses;
- how they structure their internal supply chains;
- where they allocate their resources;
- where they expose investors to geo-political risk."

Others, such as the KLP-group – one of Norway's largest life insurance companies and pension funds – also advocate for standardised and predefined formats to allow for comparing information across companies. They argue that *"if data cannot be used to compare one company to another, within countries, industries or regions, the data is more or less useless. This is very often the challenge with corporate responsibility (CR) data and also with EITI. CR data is subject to many deficiencies because it is voluntary and not standardized."*[104]

Country-by-country reporting will improve corporate governance

Transparency also means greater certainty and assurance for all stakeholders involved. It is a way to improve good governance of companies, therefore promoting trust and reducing risk. High-profile cases of financial troubles, such as those at Enron and Tyco, showed that managers employ financial tricks and complex business structures to hide unpleasant news.

Given information asymmetry and potential self-interested behaviour by managers, pressure from external investors and other stakeholders such as board members and trade unions, as well as formal contracting arrangements, are needed to encourage managers to pursue responsible investment policies.[105]

It is essential that country specific, rather than consolidated data, is available for the use of the board of directors of a multinational corporation. This is both for tax governance purposes and for compliance with relevant legislation e.g. Sarbanes Oxley in the U.S., that requires senior executives to take individual responsibility for the accuracy and completeness of corporate financial reports.

Greater corporate transparency, such as country-by-country financial reporting, could also improve the financial performance of companies.

Empirical research shows that requiring strong geographical segmenting requirements (such as country-by-country reporting) would improve the profitability of companies and thus the return for investors.

Conclusion

There is a general consensus in the international community that domestic resource mobilisation is the best way for developing countries to end aid dependency and to ensure sustainable financing for poverty reduction. However, poor countries are facing serious challenges to domestic resources mobilisation. While some of these challenges are directly linked to domestic constraints, there are some other reasons for this, on which developing countries' influence is extremely weak. Out of the many challenges this report has focused on MNCs lack of accountability for their cross border operations and the taxes they pay in developing countries, which is facilitated by the lack of adequate regulation on transparency requirements.

The report has shown, that companies use subsidiaries located in tax havens in order to dismantle the added value they are producing, concentrating their profits in tax havens. As a result of this, there is a complete disconnection between the geography of MNCs' real economic activities and the story they tell in their financial accounts.

Disclosure of relevant financial information on a country-by-country basis would have a powerful deterrent effect on tax dodging by MNCs. It would help tax administrations identify potentially suspicious cases of abusive practices, such as those discussed in the cases of SABMiller and Glencore, outlined in part two of the report. At the very least, it would help tax administrations identify where further investigation would be needed.

Given the high reputational risk associated with tax dodging, other stakeholders such as investors would also benefit from country-by-country reporting.

Furthermore, greater transparency can reduce a firm's cost of capital. A study found that there is a statistically significant association between the lower cost of equity capital and the level of disclosure and securities regulation.

The report explained the main existing regulatory proposals for country-by-country reporting and provided a summary of their main strengths and weaknesses. While these regulations are a very welcome step in order to improve governance in resource rich countries and tackle corruption, they fail to address the biggest driver of illicit flows, corporate tax dodging. The report argues that the CSO proposal for full country-by-country disclosure is the most effective one to address this challenge. According to CSOs a truly effective country-by-country reporting standard should include the following data for each company: The name of each country in which it operates and the names of all companies belonging to it; its financial performance in each country (including sales, purchases, labour costs and employee numbers, financing costs and pre-tax profits); the tax charge included in its accounts; the cost and net book value of its physical fixed assets and details of its gross and net assets.

Such disclosure is feasible as all the information already exists. Implementing such regulation is therefore a matter of political will.

Part 2:

Case studies

This part of our report uses concrete examples to illustrate how country-by-country reporting would be a powerful tool to help resource-constrained revenue authorities to identify and investigate companies presenting a high risk of tax avoidance; allow public scrutiny of the effectiveness of tax policy and administration, and of corporate behavior; and in so doing exert a deterrent effect on corporate malpractice in this area.

Both the cases highlighted in this section appear to illustrate tax authorities' failure to police transfer pricing effectively, and companies' exploitation of this weakness, summarised by PriceWaterhouseCoopers as follows: "Transfer pricing legislation was first introduced in Zambia in 1999 and was subsequently amended in 2001 and 2002 respectively...The enforcement of the legislation by the ZRA has however not been as aggressive as expected."

Transfer pricing enforcement

Under OECD guidelines, which need to be translated into national legislation, the tax authority can require, for each company involved in the transaction: an outline of the business, the structure of the organisation; ownership linkages; sales and operating results; related party transactions. In addition, 'contemporaneous documentation' should show the working behind each transfer price calculation. The taxpayer must provide enough information to justify any transactions. Otherwise they can be adjusted or voided by the revenue authority. However in practice, there are a number of challenges:

- This legislation is not in place in many developing countries.
- When it is in place, it often places a very heavy burden on all sides.
- Transfer pricing documentation is provided selectively, within the cat-and-mouse game played between tax authority and taxpayer:
  - The taxpayer will present only the information that supports its case.
  - The taxpayer will conceal relevant information.
  - The tax authority may not have access to alternatives (eg comparables).
- The tax authority is rarely entitled to access information from third parties.
- Building a legally watertight case to challenge a transfer pricing transaction can be difficult for tax authorities, given the power and capacity asymmetry with multinational taxpayers.

The role of public scrutiny

Public scrutiny works to hold governments to account for tax policy and enforcement. In both cases the public highlighted ongoing tax avoidance activities that had not yet been corrected by the tax authority. In the first example, the abuses appear to be quite obvious and the most egregious aspects, if correct, could have been detected by the revenue through a simple audit. The second case concerns some of the most notoriously difficult areas in transfer pricing, and partly as a result of the publication of this case study, African revenue authorities are working together to develop their auditing capacity in these areas. By raising awareness of these issues, civil society action has contributed directly to the development of more effective audit capability.

Introduction to the simulations

Real data has been used where possible – from the leaked audit report and EITI report in the case of Mopani, and from published accounts in the case of SABMiller. Where this was not available, illustrative figures, shown in italics, have been used. The full country-by-country data has not been used, but rather it has been abridged based on data availability and relevance to the case. For example, information on intra-group financing has not been included.

Case study 1: Mopani[106]

The Zambian government commissioned a private auditing firm to conduct a sample tax audit on the Mopani copper mine, which was owned by Glencore AG. A draft of the report, which is described as "flawed" and "incomplete" by Mopani, was leaked to civil society groups in late 2010.[107]

The report found evidence that taxable profits had been reduced through a number of techniques, including the inflation of local costs and transfer pricing abuse. The cost to the Zambian government through lost tax revenues and dividend income (the Zambian state owned a 10% share in the mine) appears from the audit report to have been as much as $174m.

Loss to Zambian government through...	Transfer pricing abuse	Local cost inflation
Tax revenue	$29m	$95m
Dividend income	$12m	$38m
Total	**$41m**	**$133m**

The Glencore and First Qantum companies accused of practising tax evasion in Zambia[108]:

The Mopani Cooper Mine in Zambia is owned by the commodities trader, Glencore, in majority and also by the Canadian extractive company, First Quantum. While the Mopani Copper Mines (MCM) is said to be Zambia's second-largest miner by installed capacity with an output capacity of 250,000 metric tons of copper a year[109], the EITI report for Zambia[110] revealed that the company was not paying any corporate taxes on profits in 2008, nor the windfall tax. Beyond that, MCM payments are exceptionally low in comparison with similar mines. No specific control seemed to have been undertaken against this company, until an external audit report commissioned by the Zambian administration has been leaked in February 2011 with overwhelming indications of tax dodging practices by the group.

Five non-governmental organisations launched a complaint against Glencore and First Quantum for violation of the Multinationals guidelines of the OECD because of their alleged tax evasion practices.[111] The specific instance document summarises the main findings of the leaked report revealing for MCM:

- overestimates of production costs
- underestimates of production volumes
- breach of the arm's Length principle with transfer pricing manipulation, the copper produced was being sold systematically below market prices to the headquarters in Switzerland

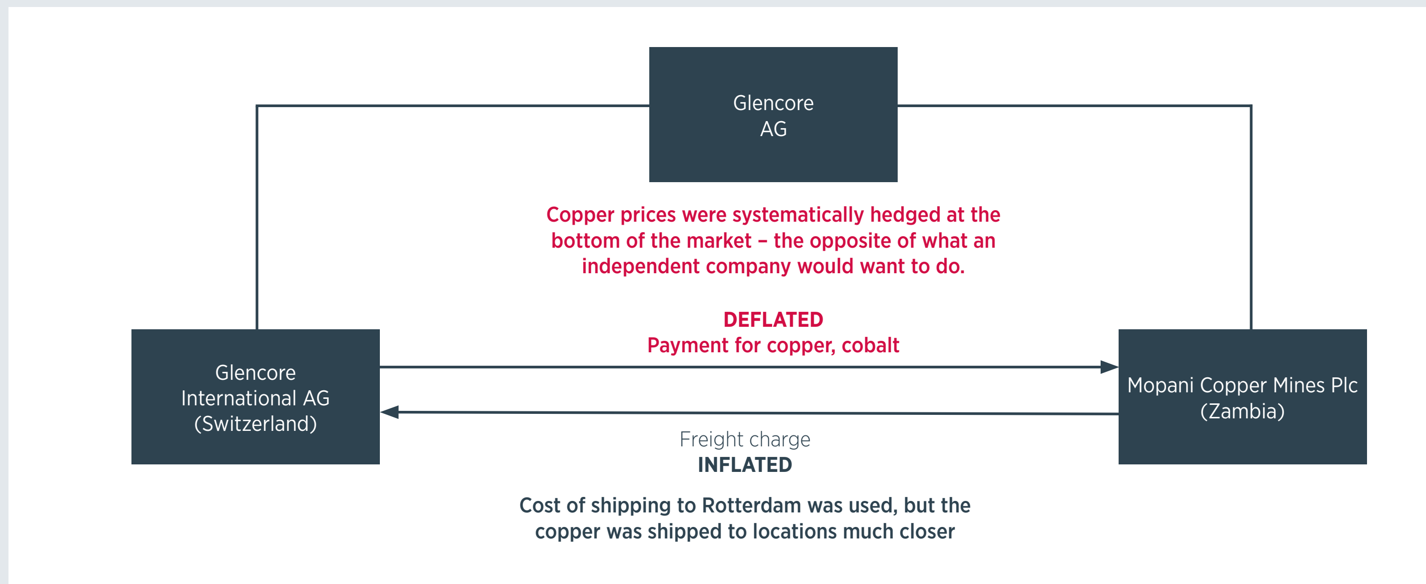
The cost to the Zambian government through lost tax revenues and dividend income (the Zambian state owned a 10% share in the mine) could appear from the audit report to have been as much as $174m.

Copper was exported to a sister company in Switzerland. According to the report, the terms of this transaction were effectively decided by the purchaser, which an independent company would never agree to, leading the auditors to suggest that the transaction was not arm's length on these grounds alone. They further noted that the copper price was lower than would be expected, while freight charges were excessive.

How Country-by country reporting would have helped

Zambia's EITI report breaks down tax information by type of tax and by country. This is not the case in most EITI countries. Nor is this the case for all for non-EITI countries or for any sectors other than extractives. Yet the breakdown is essential to see that Mopani's corporation tax payments are much lower than those for a comparable mine, which is the first indicator of possible tax avoidance.

ZMK million	Mineral royalty	Corporate tax	Other	Total
Kashanshi	72,023	372,571	365,592	810,186
Konkola	58,226	883	256,713	315,882
Mopani	76,012	0	108,979	194,991



USD million	Basic financial info				Staff		Related party transactions	
	Sales	Purchases	Profit	Corporation tax paid	Costs	Numbers	Sales	Purchases
Mopani	710	0	0	0	209	9000	710	0

Year	Mopani Staff		Kashanshi Staff	
	Costs (USD million)	Numbers	Cost (USD million	Numbers
2005	104	9000	*80*	*7000*
2007	209	9000	*100*	*7000*

Full country-by-country reporting disclosures add further context. The Zambia figures allow us to identify two more risk factors at Mopani:

- 100% of sales are to a related party

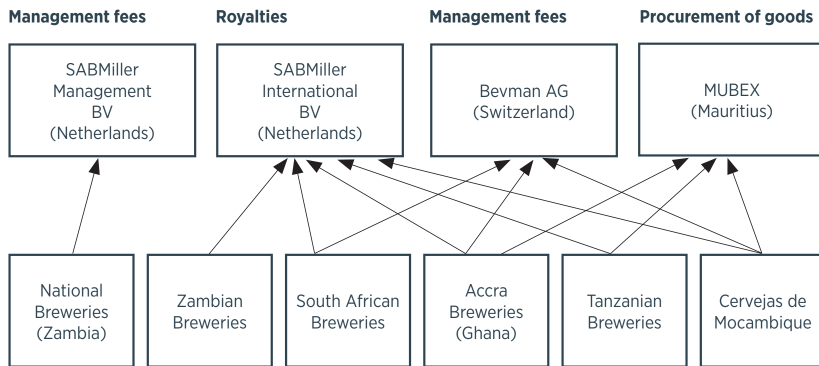
- Zero profit and corporation tax

Country-by-country reporting information for a comparable mine further adds to this information. It shows that the dramatic increase in average staff costs (a component of the apparent cost inflation described in the report) is not consistent with the comparator.[112]

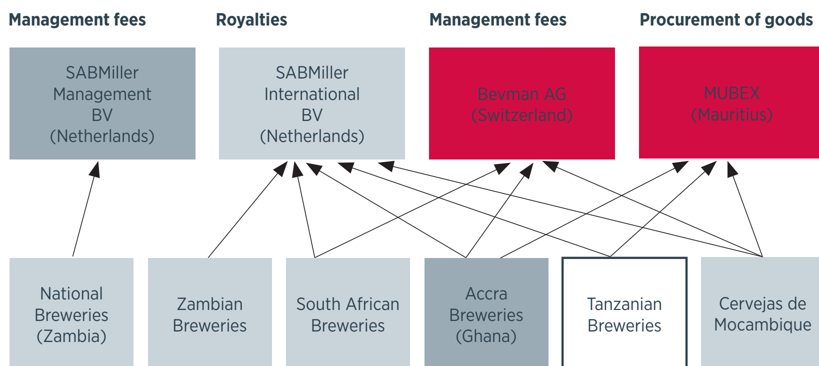
The information on Switzerland has not been included here, as it would be an aggregation of several companies, including the parent: this makes it hard to simulate and limits the conclusions that could be drawn from it.

Case study 2: SABMiller

ActionAid research in 2010 found a pattern of payments from SABMiller's African breweries to related companies in tax havens.[113] There were total payments of £35m with a tax loss of £8.5m (extrapolated African total: £83m/£18.2m). As ActionAid's full report shows, there is reason to believe that these payments are for tax avoidance purposes and might have been questioned in a transfer pricing audit. There is no suggestion that the payments were illegal. In its response to the report, SABMiller stated that it "does not engage in aggressive tax planning in any part of its operations, and the report includes a number of flawed and inaccurate assumptions."[114]



Due to certain aspects of the corporate structure it was possible to obtain accounts for several subsidiaries. This may not be the case in many of the countries studied – and was certainly not the case for the other African countries in which SABMiller had a presence.



No accounts available

Accounts only available for publicly listed companies

Accounts available but abridged as these companies are wholly owned subsidiaries

How country-by-country reporting would have helped

We can simulate the country-by-country disclosures in more detail for SABMiller because we have a number of sets of company accounts. The first step is to consolidate the subsidiaries' results into one set of figures for each country.

The consolidation was conducted for the Netherlands, because it plays a tax haven role in these transactions but it also makes company accounts publicly accessible, and Ghana, the focus of the case study's research. These two jurisdictions are linked by the information publicly available in Ghana that many of the brands sold by Accra Brewery are owned by the Dutch company SABMiller International BV. Royalty payments can therefore be expected.

While the information used was (aside from the illustrative figures) publicly available at the time of research, that would not be the case for many other relevant jurisdictions (not least Switzerland and Mauritius) and is unlikely to be the case for Ghana from now on, following the de-listing of the subsidiary from the stock exchange.

The relevant information for several Dutch SABMiller companies was consolidated into one national figure. This includes a large amount of the company's Dutch operations, but as some of the finance company accounts were abridged, disguising the figures, it is not comprehensive. Still, it allows us to conduct a useful simulation.[115]

This shows that country-by-country reporting would have exposed:

- Low corporation tax payments resulting from low profitability in African operating subsidiaries (taxes, profits, sales);
- Low corporation tax payments and high profitability in tax haven companies (taxes, profits, sales);
- Small workforces and large stores of intangible assets in these tax haven companies, indicating that they are tax planning vehicles (staff, assets);
- A large volume of related party payments from Africa, and large volumes into tax havens, which are highly suggestive of profit shifting (related party transactions).

SABMiller's consolidated accounts reveal little useful information, other than that the Africa & Asia segment is less profitable than the group average.

Switzerland
Bevmam Services AG
Mancom AG
Newark Investments Limited AG
Overseas Breweries Limited
SAB Holdings AG
SABMiller Europe AG

Netherlands
SABMiller Africa & Asia B.V.
SABMiller Africa & Asia BV
SABMiller Africa BV
SABMiller AfricaII BV
SABMiller Asia BV
SABMiller Botswana BV
SABMiller Europe BV
SABMiller Finance BV
SABMiller International B.V.
SABMiller Management (IN) BV
SABMiller Management B.V.
SABMiller Management Czech Republic B.V.
SABMiller Management Zambia B.V.
SABMiller Management Netherlands BV
SABMiller Netherlands Cooperative W.A
SABMiller Management Poland B.V
SABMiller Management Zimbabwe BV
+ 31 others

Mauritius
Ambo International Holdings Ltd
CREB Licensing Limited
MUBEX
SABMiller Africa
SABMiller Angola 1
SABMiller Angola 2
SABMiller Angola North
SABMiller India Holdings
SABMiller Investments Ltd
Strategic Alliance JV

Mozambique
Cervejas de Moçambique S.A.

Ghana
Accra Breweries Ltd

South Africa
Ambo International Holdings Ltd
SAB Ltd
SAB Secretarial Services (Proprietary) Limited
SABFIN (Proprietary) Limited
SABMiller A&A (Pty) Ltd
Sabsa Hldgs (Pty) Ltd
South Africa Breweries Limited
+55 others

Tanzania
Kibo Breweries Ltd
Mountainside Farms Ltd
Tanzania Breweries Ltd
Tanzania Distillers Ltd

Zambia
Heinrich's Syndicate Limited
Zambian Breweries plc
Copperbelt Bottling Company Ltd
Northern Breweries plc
Zambia Bottlers Ltd

Liquid Packaging Limited
Mageu Number One Limited
National Breweries plc
Zambezi Soft Drinks Ltd

USD million	2010	2009	2008	2007	2006
Group financial information					
Revenue	26,350	25,302	23,828	20,645	17,081
Operating profit	2,619	3,367	3,348	3,448	2,575
Taxation	(848)	(801)	(976)	(976)	(779)
Africa & Asia segment					
Revenue	4,457	4,132	3,367	2,674	2,221
Operating profit	282	352	**330**	272	257

EITI-type disclosures may reveal the following cash payments made to governments each year. They appear quite healthy…

Ghana -USD 000	2010	2009	2008	2007	2006
Tax payments to government	14 983	13 383	15 084	14 683	12 713

…but a breakdown by type of tax shows that corporation tax payments are actually negligible over a long period of time:

Ghana -USD 000	2010	2009	2008	2007	2006
Excise duty	8 813	8 244	9 274	9 324	8 057
Sales tax/VAT	6 170	5 639	5 376	5 359	4 616
Corporation tax	0	0	434	0	40

Full country-by-country disclosure reveals an interesting picture.

2009 USD 000	Basic financial info				Assets			
					Physical		Intangible	
	Sales	Purchases	Profit	Corporation tax paid	Cost	Net book	Cost	Net book
Netherlands	1,399,368	569,519	884,143	11,811	521,578	296,383	212,754	7,970
Ghana	4,457	25,890	2,033	(157)	42,333	32,878	-	-

2009 USD 000	Staff		Related party transactions	
	Costs	Numbers	Sales	Purchases
Netherlands	105,073	875	1,101,982	181,416
Ghana	3,073	200	-	12,089

The information revealed here is best interpreted by performing some simple calculations, shown in the table below. The Ghana information highlights three risk factors:

- Low (negative) profitability
- Low (negative) tax
- High related party purchases.

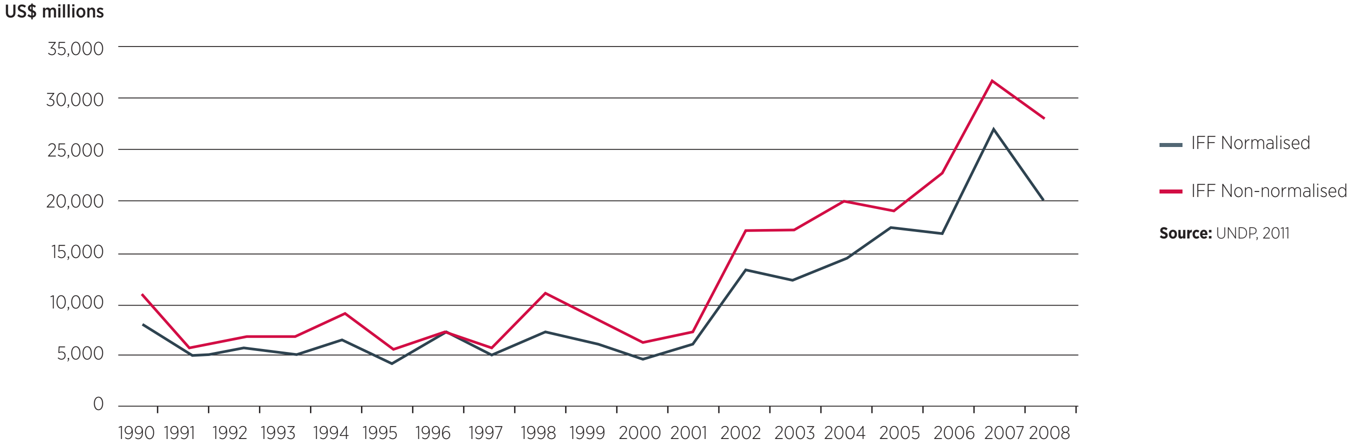
We can see some key risk factors in the Netherlands, too:

- High intangibles
- High profitability
- High productivity
- High related party sales
- Low effective tax.

The Dutch figures are a consolidation of the Grolsch brewery (real economic activity) with the group services companies (suspected tax avoidance vehicles). As the right hand columns show, had there been no consolidation, the risk factors would have been much more visible. This might be expected to be the case in jurisdictions for which accounts are not available at all, and in which there appears to be little real economic activity, such as Mauritius and Switzerland.

	Country totals		Netherlands split (for info, would not be visible in CBCR)	
	Ghana	Netherlands	Grolsch	Group services
Intangibles (USD 000)	-	22 754	7 534	205 220
Fixed assets (USD 000)	42,333	521 578	521 000	578
Profit ratio (profit/ sales)	(4.8%)	63%	1.3%	80%
Effective tax (tax/ profit)	-	1.4%	95%	1.0%
Staff productivity (sales/staff) (USD)	210	1 599 000	341 000	110 437 000
Related party purchases %	47%	32%	0%	73%
Related party sales %	0%	79%	0%	100%

Appendix 1:
Illicit financial flows from LDCs between 1990-2008



Source: UNDP, 2011

Appendix 2:
Christian Aid trade mispricing estimates

Table 1: Estimated lost tax revenue from African Countries to EU and US (million US$)

Sub-Saharan Africa	Status	Activity scope	Geographical coverage	CBC-disclosure level
Greatest Tax Losses	2005	2006	2007	3 Year Total
South Africa	305.03	671.67	740.58	1717.28
Nigeria	325.11	186.59	444.59	956.29
Angola	128.35	64.31	142.07	334.73
Ivory Coast	65.66	66.07	174.75	306.48
Cameroon	28.82	40.73	172.82	242.37
Ghana	21.39	55.30	64.09	140.78
Gabon	38.82	13.91	61.34	114.07
Kenya	19.23	21.46	18.13	58.82
Chad	8.72	20.64	28.32	57.68
Senegal	18.36	16.42	18.26	53.03

Table 2: Estimated lost tax revenue from Latin American countries to EU and US (million US$)

Latin America	Status	Activity scope	Geographical coverage	CBC-disclosure level
Greatest Tax Losses	2005	2006	2007	3 Year Total
Mexico	5,360.59	6,177.97	8,403.13	19,941.69
Brazil	1,112.35	1,372.16	3,964.44	6,448.95
Venezuela	446.43	266.88	384.6	1,097.91
Costa Rica	128.84	126.26	530.11	785.21
Colombia	243.22	230.66	282.82	756.70
Argentina	185.39	170.04	185.31	540.74
Chile	134.16	121.92	163.82	419.90
Peru	146.69	72.98	135.76	355.43
Guatemala	65.47	58.06	81.58	205.11
Honduras	56.47	49.06	76.03	181.56
Ecuador	64.2	38.67	47.95	150.82
Panama	29.38	36.98	61.05	127.41
Nicaragua	15.01	19.55	70.35	104.91
El Salvador	29.02	29.09	32.19	90.30
Uruguay	8.93	12.31	10.77	32.01
Paraguay	3.73	11.55	2.66	17.94
Bolivia	7.94	3.68	5.49	17.11
TOTAL	**8,037.82**	**8,797.82**	**14,438.06**	**31,273.70**

Chart 2: Sectoral breakdown of underpriced exports from and overpriced imports to the EU from third countries

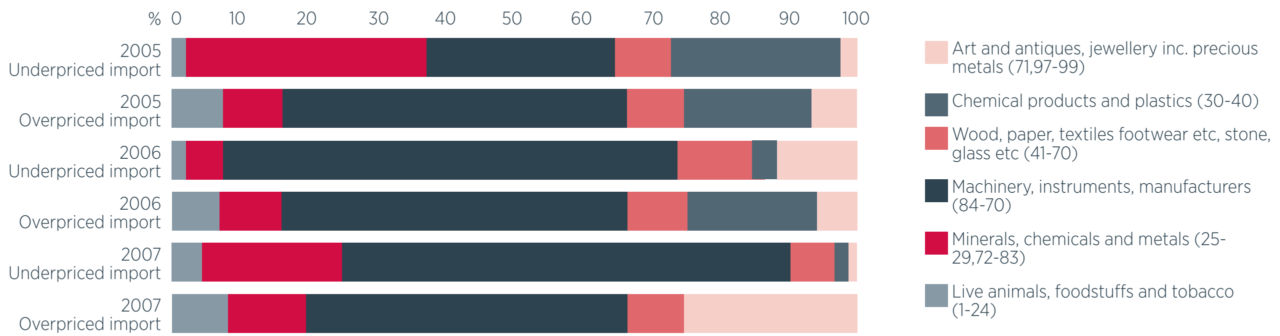


Chart 3: Sectoral breakdown of underpriced exports from and overpriced imports to the EU from Peru

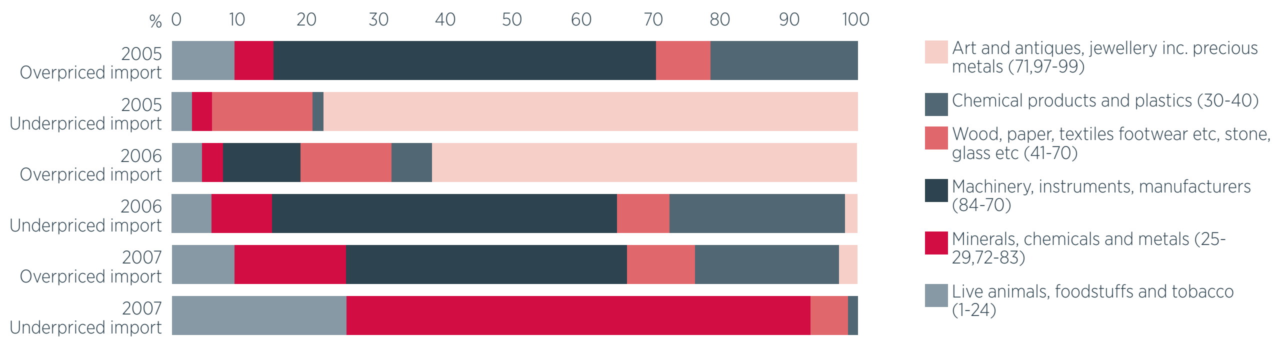


Chart 4: Sectoral breakdown of underpriced exports from and overpriced imports to the EU from Ghana

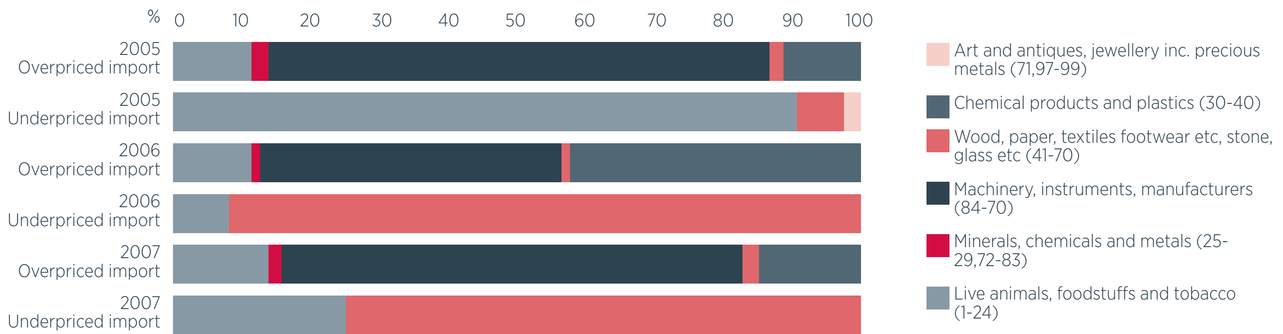
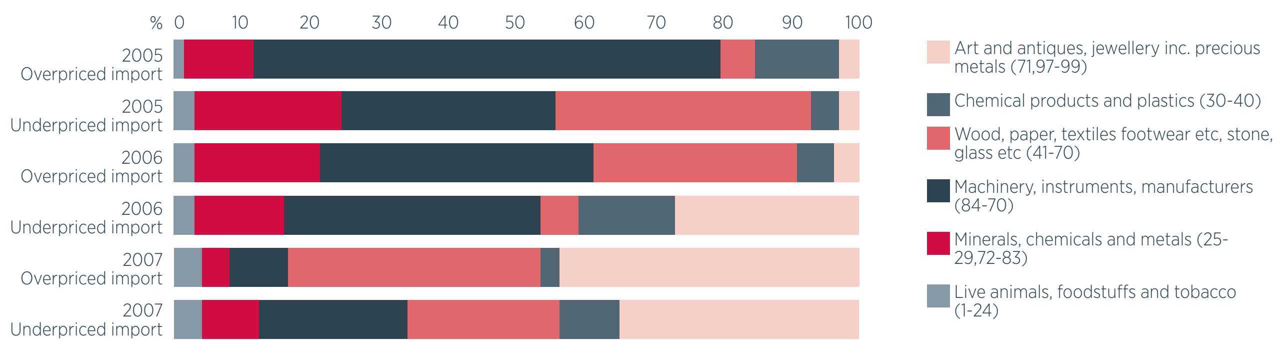


Chart 5: Sectoral breakdown of underpriced exports from and overpriced imports to the EU from India



Appendix 3:
CCFD-Terre Solidaire table of 50 Leading European Companies subsidiaries in tax havens

	Allianz	ArcelorMittal	Assicurazioni Generali	Aviva	AXA	Barclay's	BASF	BMW	BNP Paribas	BP	Carefour	Crédit Agricole	Daimler	Deutsche bank	Deutsche Post	Deutsche Telecom	Dexia	E. ON	EADS	Electricité de France	ENEL	ENI	FIAT
Andorra																							
Anguilla																							
Antigua & Barbuda															1								
Aruba															1								
Austria	3		52				3	3	4	19		2		1	11	11	1	15		1		2	10
Bahamas			10			2			2	31		1			1							3	
Bahraïn									1								1						
Barbados			1	1						4					1								
Belgium	1	3	17	1	8		16	2	77	17	48	9	2	3	26	3		5	1	4	2	8	13
Belize															1								
Bermuda			1	1	1		2		4	15		4			1							4	
British Virgin Islands			1			4			1	21				3	1							1	
Brunei															1								
Cayman Islands						168	1		27	3		1		137	3		1	1	3		2		
Cook Islands																							
Costa Rica							1								7						9		
Cyprus									2	2		3		7	1	4						4	
Dominica																							
Gibraltar						3				2				8									
Grenada																							
Guernsey			8			19			1	3				17	1								
Hong Kong			1	2	3	11	7		21	10	4	4	1	14	15	1	1	49					
Hungary	1		11	2	1		4		27	3		1		3	7	37		2		2	1	5	3
Ireland	4		4	6	4	15	2	1	24	3	1	7		42	30		5		11	1	3	1	4
Isle of Man						29				1									1				
Israel			51											9	2		1						
Jersey						36			6	1				53	1			2	1			1	
Latvia															1			2					
Lebanon															2	1							
Liberia						2									1								
Liechtenstein			2																				
Luxembourg	2		22	1	4	16	2		62	24	1	22		75	10	2	11	7		1	3	7	4
Macao															1		1						
Malaysia (Labuan)					1	19			2	19	2			3					2				
Maldives																							
Malta			2			2	3	2	2						1			7					
Marshall Islands																							
Mauritius					1	5	1			3				10	3								
Monaco			5			2			2			2											
Montserrat																							
Nauru																							
Netherlands Antilles								1	1						2								
Panama			2				3			6					7						3		
Philippines			3			1	2			3				4	8								
Portugal (Madeira)			4			26			17	26	1	8		1								5	
Samoa																							
Seychelles						1																	
Singapore	1		3	2	3	9	8		8	7	2	3	1	18	9	1	2	1	3			1	
St Kitts and Nevis																							
St Lucia															1								
St Vincent & the Grenadines																							
Switerland	8		26		3	6	24		10	4	3	6	1	8	12	7	2	6		2	1	7	16
The Netherlands	5		37	8	1	7	48	3	45	96	19	33	3	25	45	15	3	38		3	16	49	10
Turks and Caicos Islands																							
United Arab Emirates (Dubaï)							7		1		1				8				1				
United States Virgin Islands				3										2									
Uruguay			1				1			9		1		3	2								
Vanuatu																							
Total number of subsidiaries	131	33	780	101	144	1064	521	41	1417	2155	498	595	50	1587	1033	283	84	951	239	80	870	559	520
Total number of subsidiaries in secrecy jurisdictions	25	3	264	27	30	383	135	12	347	332	82	107	8	446	225	82	29	135	23	14	40	98	60
Percentage of subsidiaries in secrecy jurisdictions	19.1	9.1	33.8	26.7	20.8	36.0	25.9	29.3	24.5	15.4	16.5	18.0	16.0	28.1	21.8	29.0	34.5	14.2	9.6	17.5	4.6	17.5	11.5

France Télécom	GDF Suez	HSBC	ING Group	Lloyds Banking Group	Metro	Munich Re Group	Nestlé	Nokia	Peugeot	Repsol YPF	Robert Bosch	Royal Bank of Scotland	Royal Dutch Shell	RWE	Saint-Gobain	Siemens	Société Générale	Statoil	Telefónica	Tesco	Thyssenkrupp	Total	UBS	UniCredit Group	Vodafone	Volkswagen	TOTAL
										1																	1
																											0
																											1
																											1
1					54	22	6		4			3	1	3	5						15		1	241		4	498
												1											3				54
1							1																				4
							1						2											1			11
7	8		1		25	13	8		7			2	1	9	20	2	5				9		1	1	1	9	395
																											1
		2	1			5	4			1		2	10											2			60
												4								1							37
																											1
										11		72					3			12			4	4			453
																											0
							2			4				1		1											25
						1											1										25
1																											1
												3															16
																											0
												9								1				2	1		62
2		3	1				4					2	2			2	2			29	6		4		1		202
	2		1		28	11			5					41	2	1				6	5			63	1	6	282
1						3	2			2		68	3	4	6	2	5	1		22	1		2	9	7	3	309
												5															36
1							3					8				1					2			1			79
		2										22								7			4		9		145
						8			1						1			1								1	15
1																	1										5
																											3
1												1									2		1				7
2					7	8	5		3	2		4	3	8	1	1	10		1	5	1		3	9	10	3	362
																											2
1		1	1									1	4		1												57
																											0
		1				5	1		3					4											1		34
																											0
8						1	2													1					7		42
																					1		1				13
																											0
																											0
			1									2					1				1		1				10
		1					5			7						1					1		1				37
							4			1			1			2							1	3			33
3										17							1		1	2							112
																											0
																											1
3	1					5	5					1	6	1	1	2					8		5	1	1	4	126
																											0
																											1
																											0
3	1	1			25	6			6	1		4	2	5	7	1	2	1		2	13			1	3	6	242
5	6				51	26	5	2	8	16		18		104	14	4	9		8	3	21		2	7	7	33	858
						1																					1
						4	6									30											58
																											5
																			2		1					4	24
1																											1
257	95	28	62	8	589	508	526	18	372	492		1110	189	471	425	110	259	39	77	356	575	217	111	1300	264	430	22624
42	18	11	6	0	190	119	64	2	37	63		232	35	180	58	50	40	3	12	91	87	0	34	345	49	73	4748
16.3	18.9	39.3	9.7	0.0	32.3	23.4	12.2	11.1	9.9	12.8		20.9	18.5	38.2	13.6	45.5	15.4	7.7	15.6	25.6	15.1	0.0	30.6	26.5	18.6	17.0	21.0

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- synthesise and exchange NGO and official information and intelligence
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