HOUSE OF LORDS

Library Note

Debate on 13 June: Government's Priorities at the G8

This Library Note provides background reading in advance of the debate to be held on 13 June on:

"the Government's priorities to be pursued at the next meeting of the G8 in Northern Ireland on 17 and 18 June 2013".

The Note provides a brief summary of the history, role and membership of the G8. It then considers the three priorities Prime Minister David Cameron has publicly announced will be the UK's main focus at the G8 meeting: advancing trade, improving tax compliance and promoting greater transparency.

Matthew Purvis
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1. Introduction

In January 2013 the UK assumed the one-year presidency of the Group of 8 (G8). Prime Minister David Cameron, in a letter sent to G8 leaders, set out the UK's main priorities for the Summit to be held on 17–18 June 2013 at Lough Erne in County Fermanagh, Northern Ireland. These would be:

- advancing trade
- ensuring tax compliance
- promoting greater transparency

(Gov.uk, 'Prime Minister's letter to G8 leaders', 2 January 2013)

Mr Cameron, in a speech to the World Economic Forum in Davos the same month, told his audience that "the idea that the G8 will be driving forward this year, is that competing in the global race is not just about what we do at home, it is about the wider economy we'll operate in, the rules that shape it, the fairness and the openness that characterise it". He argued that "We need more free trade. We need fairer tax systems. We need more transparency on how governments and, yes, companies operate". He explained why he wanted the G8 to focus on these specific issues:

> It's the oldest observation of the modern age that we are all interconnected. Communication is faster than ever, finance is more mobile than ever and yet the paradox of this open world is that in many ways it's still so closed and so secretive. It's a world where trade is still choked off by barriers and bureaucracy. It's a world where some companies navigate their way around legitimate tax systems and even low tax rates with an army of clever accountants. It's a world where, regrettably, corrupt government officials in some countries and some corporations run rings around the letter and the spirit of the law to rip off hard working people and to plunder their natural resources.
>
> There is a long and tragic history of some African countries being stripped of their minerals behind a veil of secrecy. We can see the results: the government cronies get rich, some beyond their wildest dreams of avarice, while the people in those countries stay poor.
>
> So it is clear how devastating this can be for some developing countries. But frankly all this matters, and should matter, to developed countries too. When trade isn't free, we all suffer. When some businesses aren't seen to pay their taxes, that is corrosive to the public trust. When shadowy companies don't play by the rules, that drives more box ticking, more regulation, more interference and that makes life harder for other businesses to turn a profit. That is why I want this year's G8 to bring a new focus on these issues: trade, tax, transparency. Those are the issues we are going to be driving for this year.
>
> (Gov.uk, 'Prime Minister David Cameron's speech to the World Economic Forum in Davos', 24 January 2013)

A recent answer to an oral question in the House of Lords confirmed that other issues would also be discussed at the Summit, for example the situation in Syria (HL *Hansard*, 21 May 2013, cols 738–40). In addition to this a series of events that focus on some of these issues have been scheduled to take place ahead of the meeting on 17–18 June. These are:

6 June—Social Impact Investment Conference

Social impact investments are financial investments that not only have economic benefits, but also focus on generating a positive impact on society. The Social Impact Investment Conference aims to help boost the growing social impact investment market—by exploring issues such as: how we can enable the market to operate effectively on a global scale, and how we can develop the role of social impact investing to help international development. Throughout the day there will be a trade fair to showcase the UK's social investment market, as well as sessions to discuss the latest innovations in the market.

8 June—Nutrition for Growth: Beating Hunger through Business and Science

The UK Government and the Children's Investment Fund Foundation (CIFF) will be co-hosting this high-level international meeting. The event will focus on reducing stunting and improving nutrition for pregnant women and young children. It will see countries, donors, foundations, businesses and civil society come together to accelerate action on ambitious targets. We will work with a range of companies to both assess the progress and expand the reach of the G8 New Alliance for Food Security and Nutrition. The event follows on from the UK-Brazil Hunger Summit held in London last summer, which highlighted the devastating consequences of under nutrition on children.

12 June—G8 Science Meeting

Science Ministers and Presidents of the Science Academies in G8 countries will discuss the role of science in tackling global challenges. Ministers will consider new and emerging global challenges and identify the key areas that would benefit from future international scientific collaboration. They will also look to identify gaps in global research infrastructure that would benefit from more joined up action from G8 countries.

14 June—Innovation Conference

The Innovation Conference will bring together today's leading innovators and thought leaders across disciplines, from the G8 and beyond. Openness to ideas and technologies from across the spectrum of business and society is essential for us to find solutions to the greatest challenges facing the world. With unique capabilities for taking a broad approach to innovation, the UK's researchers, businesses and social enterprises will have central roles in global initiatives. From public policy to science and technology, this conference will be facilitating conversations that influence the dialogue throughout the UK G8 Presidency.

15 June—The G8 Tax, Trade and Transparency Event

This is a pre-Summit event where wider discussions will take place on trade, tax, and transparency with business, civil society and governments. It will focus on why open

> governments, open societies and open economies are essential for growth, jobs and sustainable development. Discussions will centre on how we can work together to promote and practise fairer trade, proper taxes and more transparent investment in land, minerals, oil and gas.
>
> (Gov.uk press release, 'G8 events', 1 January 2013)

The following section of this Library Note gives a brief summary of the history, role and membership of the G8. In section three the Note then provides background to and information about the three priorities the Prime Minister has promoted in a number of public speeches and statements ahead of the meeting on 17–18 June. These are: advancing trade; improving tax compliance and promoting greater transparency, the latter two being closely connected.

2. What is the G8?

The G8 is made up of Canada, France, Germany, Italy, Japan, Russia, the UK and the US. The European Union (EU) attends its meetings and is represented by the President of the European Commission, José Barroso, and the President of the European Council, Herman Van Rompuy.

The G8 Summit website has described the G8's meetings as "an opportunity for G8 leaders to have frank and open discussions about the important global issues of the day" (Gov.uk, 'What is the G8?', 1 January 2013). The first meeting of what is now the G8 took place in 1975 at Château de Rambouillet in France after an invitation by French President Valéry Giscard d'Estaing. This followed an informal meeting of finance ministers from the US, UK, France and Germany on 25 March 1973 at the White House Library. This informal meeting was necessitated by events at the time: the "collapse of the Bretton Woods system of fixed international exchange rates tied to the price of gold and the 1973 oil crisis, the need for better coordination of economic and financial policy at the highest level became evident" (Gordon Smith, 'G7 to G8 to G20: Evolution in Global Governance', May 2011, CIGI G20 Papers No 6, p 2). At the Rambouillet Summit on 15–17 November 1975, the Heads of States and Governments of France, Germany, Italy, Japan, the UK and the US (the G6) declared that:

> In these three days we held a searching and productive exchange on the world economic situation, on economic problems common to our countries, on their human, social and political implications, and on plans for resolving them.
>
> We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to democratic societies everywhere. We are each responsible for assuring the prosperity of a major industrial economy. The growth and stability of our economies will help the entire industrial world and developing countries to prosper.
>
> (HM Government, *The Rambouillet Summit: Declaration 1975–76*, Cmnd 6314)

Canada joined the following year (G7) and, after the breakup of the Soviet Union, Russia became a full member in 1998 (G8). The EU has been part of the group since 1977 but does not hold a Presidency (Gov.uk, 'What is the G8?', 1 January 2013).

David Cameron has suggested that this year's meeting will mark a return to the format of the Rambouillet Summit:

> The original leaders' fireside chat which inspired today's G8 gatherings took place at the Château de Rambouillet in 1975, organised by the then French President in response to the need to address worldwide economic problems. They held searching discussions, and issued a succinct declaration just 15 paragraphs long.
>
> Nearly forty years on, we will go back to those first principles. There will be no lengthy communiqué. No mile long motorcades. And no armies of officials telling each other what each of their leaders thinks—or should think. Instead we will build on the approach taken by President Obama at Camp David this year: one table and one conversation with G8 leaders holding each other to account and ensuring that good intentions really do become vital actions to advance growth and prosperity across the world.
>
> (David Cameron, 'A G8 meeting that goes back to first principles', 21 November 2012)

The UK Government's website for the Summit provides further history of the G8 and additional information ahead of the Summit at: https://www.gov.uk/government/topical-events/g8-2013. Updates are also available on the Summit's Twitter feed @g8.

3. Government's Main Priorities for the Meeting

3.1 Trade

In his speech to the World Economic Forum in Davos in January 2013, David Cameron reminded the audience that "in late 2008 we saw the steepest fall in global trade ever and the deepest since the Great Depression" and noted that "more than four years on trade has still not fully recovered". He said that this matter "should be at the forefront of the mind of every leader, every diplomat during those long negotiations on trade". Mr Cameron said that there was momentum for possible trade agreements:

> You've got the US leading efforts on the Trans Pacific Partnership. In the European Union we're about to embark on our biggest-ever programme of free trade agreement negotiations. We've got parameters for a deal with Singapore, negotiations with Canada nearly complete, and we're about to launch negotiations with Japan, and of course there's the beginning of negotiations on an EU-US trade deal. Now the EU and the US together, we actually make up about a third of all global trade. A deal between us could add over fifty billion pounds to the EU economy alone. Agreeing all the EU deals on the table could increase our GDP by two percent and create over two million jobs across the European Union.

With regard to developing countries he noted that "trade between developing countries and within Africa is growing and we should work to encourage that further". In addition Mr Cameron stated his support for the multilateral system but said that reform was required. This, he said, meant "working through the WTO to agree a deal to sweep away trade bureaucracy at the ministerial conference in Bali this December. That alone could be worth around seventy billion dollars to the global economy and help trade to flow freely across the world. It is ambitious, but we must seize these opportunities to give a massive boost to free trade across the world" (Gov.uk, 'Prime Minister David Cameron's speech to the World Economic Forum in Davos', 24 January 2013).

In April 2013 the World Trade Organization (WTO) released its latest assessment of world trade. The WTO found that:

- World trade growth of 2.0 percent in 2012 was down sharply compared to the 5.2 percent recorded in 2011.
- Projected trade growth of 3.3% in 2013 is below the 20-year average of 5.3 percent and well below the pre-crisis trend of 6.0 percent (1990–2008).
- Renewed uncertainty about the euro reduced EU imports in 2012 and hit exports of trading partners.
- Falling trade within the EU strongly influenced 2012 results due to the weight of the EU in world trade totals.
- Significant downside risks remain centred on the euro crisis and the pace of fiscal contraction in developed economies.
- Diverging prospects for the US and EU add uncertainty to the forecast.

Speaking of the findings Pascal Lamy, the WTO Director-General, said the "events of 2012 should serve as a reminder that the structural flaws in economies that were revealed by the economic crisis have not been fully addressed, despite important progress in some areas. Repairing these fissures needs to be the priority for 2013". He explained that improving world trade could help provide a remedy to the recurrent economic problems:

> Attempts by developed economies to strike a balance between short-term growth and increasingly binding fiscal constraints have produced uneven results to date, and finding an appropriate mix of policies has proven to be challenging. Similarly, the amount of progress that developing economies have made in reducing their reliance on external demand is still unclear.
>
> As long as global economic weakness persists, protectionist pressure will build and could eventually become overwhelming. The threat of protectionism may be greater now than at any time since the start of the crisis, since other polices to restore growth have been tried and found wanting.
>
> To prevent a self-destructive lapse into economic nationalism, countries need to refocus their attention on reinforcing the multilateral trading system. Trade can once again be an engine of growth and a source of strength for the global economy rather than a barometer of instability. The way is before us, we only need to find the will.
>
> (WTO press release, 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle', 10 April 2013, PRESS/688)

The following WTO table and maps (1 and 2) provide a snapshot of trade imports and exports by region.

Table 1: Real GDP and merchandise trade volume growth by region, 2010–12

Annual % change

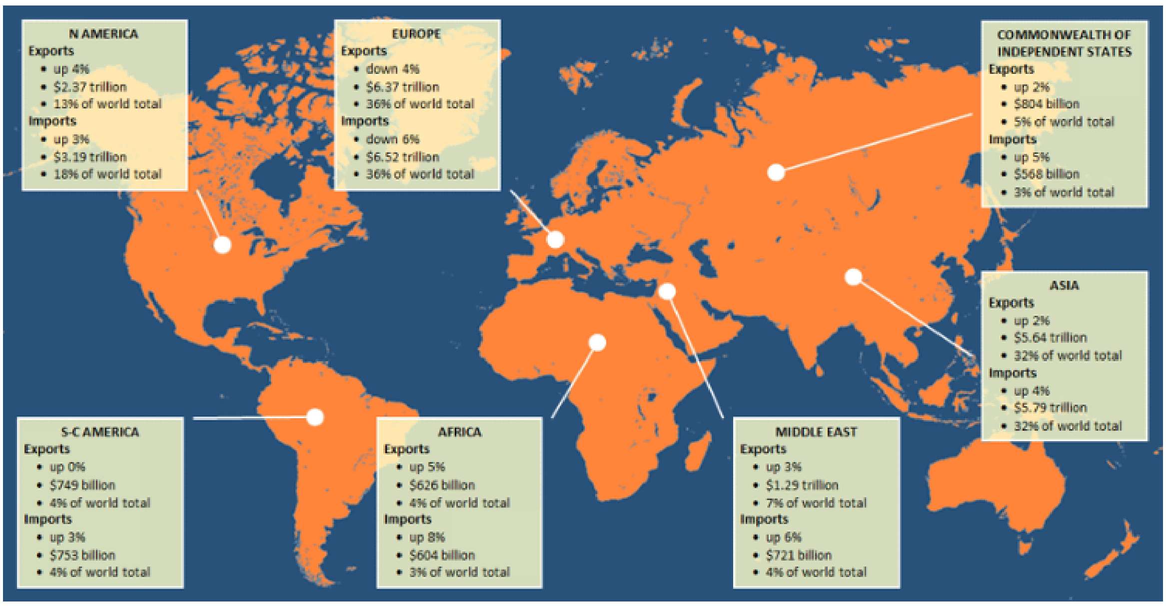
	GDP			Exports			Imports		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
World	3.8	2.4	2.1	14.1	5.2	2.1	13.6	5.1	1.9
North America	2.6	2.0	2.3	15.0	6.6	4.5	15.7	4.4	3.1
United States	2.4	1.8	2.2	15.4	7.1	4.1	14.8	3.8	2.8
South and Central America[a]	6.2	4.3	2.6	5.2	6.1	1.4	22.7	12.0	1.8
Europe	2.3	1.7	-0.1	11.0	5.5	0.6	9.4	2.8	-1.9
European Union (27)	2.1	1.5	-0.3	11.7	5.7	0.3	9.1	2.4	-2.0
Commonwealth of Independent States (CIS)	4.7	4.8	3.7	6.1	1.8	1.6	18.8	17.1	6.8
Africa	4.5	0.7	9.3	5.4	-8.5	6.1	8.1	4.5	11.3
Middle East	4.9	5.2	3.3	7.5	5.5	1.2	8.2	5.1	7.9
Asia	6.7	3.3	3.8	22.7	6.4	2.8	18.2	6.7	3.7
China	10.4	9.2	7.8	28.1	8.8	6.2	22.0	8.8	3.6
Japan	4.5	-0.6	1.9	27.5	-0.6	-1.0	10.1	4.3	3.7
India	10.1	7.9	5.2	25.7	15.0	-0.5	22.7	9.7	7.2
Newly Industrialised Economies (4)[b]	8.2	4.0	1.8	20.9	7.8	1.6	17.9	2.7	1.5
Memo: Developed economies	2.7	1.5	1.2	13.1	5.1	1.0	10.7	3.1	-0.1
Memo: Developing and CIS	7.3	5.3	4.7	15.3	5.4	3.3	18.2	8.0	4.6

[a] Includes the Caribbean

[b] Hong Kong, China; Republic of Korea; Singapore and Chinese Taipei

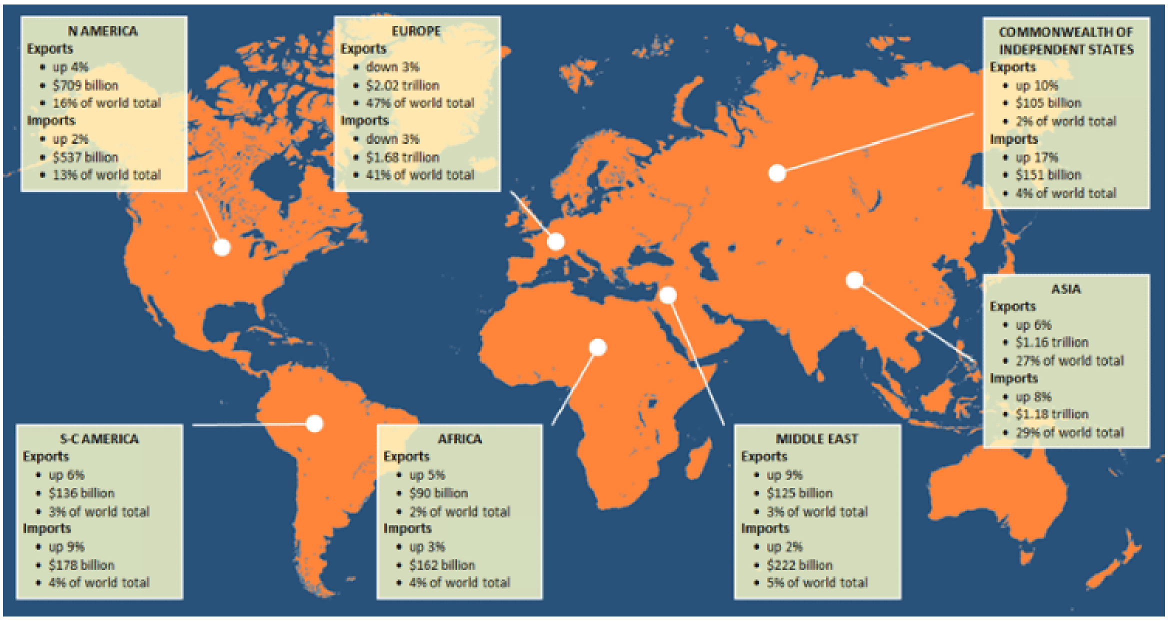
Source: WTO Secretariat

Map 1: Merchandise exports and imports in current US dollars by region, 2012



[a] Values and shares include intra-EU trade.
Source: WTO Secretariat.

Map 2: Exports and imports of commercial services in current US dollars by region, 2012



[a] Values and shares include intra-EU trade.
Source: WTO and UNCTAD Secretariats.

In its more detailed commentary on world trade the WTO said:

> The volume of world merchandise trade (as measured by the average of exports and imports) registered an increase of just 2 percent in 2012. If we exclude years in which trade volume declined, this was the smallest annual increase in a dataset extending back to 1981. Shipments from developed countries grew more slowly than the world average at 1.0 percent, while exports of developing economies grew faster at 3.3 percent. On the import side, developed economies dropped 0.1 percent last year, while developing economies grew at a 4.6 percent pace.
>
> After seeing its exports shrink by 8.5 percent in 2011 following the Libyan civil war, Africa rebounded in 2012 to record the fastest export growth of any region at 6.1 percent. This was followed by North America, where exports rose 4.5 percent on the strength of a 4.1 percent increase in the US. Asia only managed to increase its exports by 2.8 percent in 2012 despite 6.2 percent growth in China's exports. Contributing to the slow growth in Asia were India and Japan, where exports declined by 0.5 percent and 1.0 percent, respectively. Other regions that export large quantities of natural resources saw small increases in export volumes, including the Commonwealth of Independent States (1.6 percent), South and Central America (1.4 percent), and the Middle East (1.2 percent). This is to be expected since quantities of primary products tend not to change very much from year to year. The region with the slowest export growth was again Europe at 0.6 percent, but the EU managed to grow even more slowly at 0.3 percent.
>
> Africa's imports also grew faster than those of any other region at 11.3 percent, making it the only region with double digit growth in either exports or imports. This was followed by the Middle East (7.9 percent) and the Commonwealth of Independent States (6.8%), which took advantage of the high average oil prices in 2012 to boost their export earnings to purchase more imports. Asia's import growth of 3.7 percent was

driven by a 3.6 percent increase in China. North America's 3.1 percent rise was slightly stronger than that of the US (2.8 percent). South and Central America, with import growth of 1.8 percent, lagged behind all regions other than Europe, which recorded a 1.9 percent decline in imports.

(WTO press release, 'Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle', 10 April 2013, PRESS/688)

Comment

The CBI welcomed the Prime Minister's intention to focus at the G8 on measures to increase world trade. In a statement it observed: "Boosting our trade is the single best way of creating jobs, promoting investment and stimulating growth in the UK". It added that "working within the EU we need to push for major trade deals, particularly with the US, and eliminate the tariffs and harmonise the regulation which too often hold businesses back" (CBI, 'CBI responds to Prime Minister's Davos speech', 24 January 2013).

G8 business leaders also expressed their support, saying: "we want the G8 to lead the charge to liberalise trade and investment to open up new markets, including through new trade agreements". The statement said there was a "need to resist protectionism, improve trade facilitation and support an open, global rule-based system to ensure that all countries can reap the growth benefits of increased trade. Moreover, if we are to secure job creation and sustainable growth, special priority should be given to trade in capital goods and financing investment" (BDI, 'Business leaders from the G8 business organisations meet David Cameron', 21 May 2013).

The charity Trade out of Poverty expressed its support for the Prime Minister's emphasis on trade but added that G8 leaders needed to recognise the needs of the developing world:

> When trade was announced as one of the three pillars for the Lough Erne talks, this seemed to be a positive step, but it is vital that the G8 focus their attentions not just on freeing up trade between the EU and North America, but give priority to creating trading opportunities for the poorest countries. Cameron's focus on trade deals that exclude developing countries is likely to cause unnecessary harm to those nations' growth.
>
> ... Trade is the only sustainable route out of poverty and following the suspension of the Doha round it is imperative that the most developed countries continue to take steps to boost development of the poorest countries through trade—steps which do not require unanimous agreement by all WTO members; nor do they require reciprocity from the poorest countries. Any G8 member could open up their markets unilaterally and shame others into action.
>
> Trade must be prioritised as part of the development agenda, not just as the means of tackling first world economic problems.
>
> (Trade out of Poverty, 'Cameron has got his G8 free trade priorities wrong', 1 January 2013)

War on Want, the anti-poverty campaign group, stated its scepticism about the trade agenda. John Hilary, the Campaign's Executive Director, argued that:

> The G8 continues to press for free trade and investment agreements that will benefit the operations of transnational capital, despite the acknowledged problems that such policies have brought less competitive economies and the millions of jobs that have been lost as a result. The latest round of these agreements (including the EU-US Transatlantic Trade and Investment Partnership launched this year) are not actually about trade at all, but will target environmental, labour and social standards that represent "barriers" to the operations of transnational corporations, according to the G8. This means undermining important social safety measures at a time when austerity programmes are already driving millions into poverty in G8 countries themselves.
>
> (War on Want, 'G8: the problem, not the solution', 21 May 2013)

3.2 Tax

In his letter to G8 leaders Mr Cameron argued for the G8 to "lead the way in sharing the information to tackle abuses of the system, including in developing countries, so that Governments can collect the taxes due to them". He wrote: "We can work together to sign more countries up to the international standards. And we can examine the case for strengthening those standards themselves—whether by improving existing standards or looking at new ones. These are complex questions, and will involve honest and detailed discussion about the right approach. But I do believe that as leaders, we all have a common interest in being able to tell our taxpayers who work hard and pay their fair share of taxes, that we will make sure others do the same" (Gov.uk, 'Prime Minister's letter to G8 leaders', 2 January 2013).

At Davos David Cameron restated his intention "to use the G8 to drive a more serious debate on tax evasion and tax avoidance". He said that it was "an issue whose time has come. After years of abuse people across the planet are rightly calling for more action, and most importantly there is gathering political will to actually do something about it". Mr Cameron explained that his focus was on tackling tax avoidance. He said that there was "nothing wrong with sensible tax planning and there are some things that governments want people to do that reduce tax bills, such as investing in a pension, a start up business or giving money to a charity". However, he was concerned that there were "some forms of avoidance that have become so aggressive that I think it is right to say these raise ethical issues, and it is time to call for more responsibility and for governments to act accordingly". The Prime Minister described the actions the UK had taken in this area but stated that international action was required to make domestic efforts effective:

> Clamp down in one country and the travelling caravan of lawyers, accountants and financial gurus will just move on elsewhere. So we need to act together, including at the G8. If there are difficult questions about whether existing standards are tough enough to tackle avoidance we need to ask them. If there are options for more multilateral deals on automatic information exchange to catch tax evaders we need to explore them.

Mr Cameron argued that taking action on this issue was not just in the interest of developed countries:

> The fact is, the poorer the nation, the more they need the tax revenues—but often the weaker the capacity they have to collect them. But we must not let them off the hook; it can be done. The UK has worked with the Ethiopian authorities to help with tax collection, and in the last decade the amount of tax collected has increased by seven times. All of this in developed and developing countries alike comes down to a simple issue of fairness.

He concluded by stating that while he believed in low taxes he thought "individuals and businesses must pay their fair share". He warned "businesses who think they can carry on dodging that fair share, or that they can keep on selling to the UK and setting up ever more complex tax arrangements abroad to squeeze their tax bills right down, well they need to wake up and smell the coffee, because the public who buy from them have had enough" (Gov.uk, 'Prime Minister David Cameron's speech to the World Economic Forum in Davos', 24 January 2013).

In its scrutiny of HMRC the House of Commons Public Accounts Committee examined the extent of corporate tax avoidance in the UK. Taking evidence from Amazon, Google and Starbucks it found, for example, that:

> The vast majority of Google's non-USA sales are billed in Ireland. Google makes money from business to business advertising, adverts which can be targeted to the UK website and to UK Google users. In the UK, Google Ltd recorded revenues of £396 million in 2011, from Google Ireland, but paid corporation tax of only £6 million. Google Ireland paid for the services provided by the 1,300 staff in the UK. Google had approximately 700 staff who undertake marketing work in the UK as part of their activities, but only 200 of Google's Irish staff of 3,000 were involved in marketing Google in the UK.
>
> Google accepted that profits should be taxed in the jurisdictions where the economic activity generating those profits occurred but it asserted that its underlying economic activity arose from the innovative software technology underlying its Google search engine generated by the US company. Google also confirmed that it had an entity based in Bermuda to protect its intellectual property.

The Committee said it was not impressed with Google's response:

> We consider that the company undermined its own argument since it remits its non-USA profits (including from the UK) not to the USA but to Bermuda and therefore may be depriving the USA of legitimate tax revenue as well as the UK. Subsequently, Google told us that there were no outstanding issues with HMRC about Google UK's accounts. HMRC is currently carrying out a review of the tax returns filed by Google UK for 2005–11 inclusive and Google told us this is standard practice and that it is co-operating fully with that review.

The Committee said that in their evidence Amazon, Google and Starbucks all "accepted that profits should be taxed in the countries where the economic activity, that drives those profits, takes place and that, alongside their duty to their shareholders, they had obligations to the society, from which they derive their profits, which included paying tax". The Committee was, however, critical of the behaviour of the three companies:

> … we were not convinced that their actions, in using the letter of tax laws both nationally and internationally to immorally minimise their tax obligations, are defensible. They all accepted that the perceived ethical behaviour of corporations could affect consumer behaviour. Being more transparent about their business practices, including paying their fair share of taxes, was becoming an increasingly important issue to their customers.
>
> (House of Commons Public Accounts Committee, *HM Revenue and Customs: Annual Report and Accounts*, 3 December 2012, HC 716 of session 2012–13)

The Committee, in a further report on tax avoidance in the UK (based on evidence from accountancy firms Deloitte, Ernst and Young, KPMG, and PwC) concluded that international tax rules were "out of date". The Committee said that "the laws, treaties and principles on which international tax laws are based were not designed for the world we now live in. The treaties of the 1920s and 1930s, and the transfer pricing models of the 1970s and 1980s, were based on predominantly domestic economies, when companies were not global in nature and there were very few cross-border transactions". The Committee found that:

> This business model no longer reflects the modern economy in which the global nature of companies' operations and transactions mean that countries compete for tax. Countries are increasingly using tax incentives to attract inward investment. Many create specific reliefs to encourage particular activities, and some operate as tax havens by offering very low levels of taxation. Whilst multi-national companies take into account a wide range of factors when deciding where to locate their business, such as the available workforce and infrastructure, we are concerned that tax considerations appear to dominate their decisions and that avoiding tax has become a new source of profit.
>
> Existing international tax laws mean it is relatively easy for companies to establish a viable office for tax purposes in a low tax location, and pay their tax there, rather than where the majority of their business activity takes place. With modern communications technology, this can be done with as little as a computer and a few members of staff. We were told that it is possible for a company to take orders over the internet from customers in the UK, fulfil those orders through UK warehouses, yet not be taxed in the UK because the website and servers are based outside the UK. This is unfair to those UK businesses that do not use these complex international structures to avoid paying their fair share of tax and puts them at a competitive disadvantage.
>
> (House of Commons Public Accounts Committee, *Tax Avoidance: The Role of Large Accountancy Firms*, 26 April 2013, HC 870 of session 2012–13)

In an article published in *Prospect,* Professor Paul Collier, who has advised the Government ahead of the G8 Summit, suggested the controversy in the UK surrounding the tax affairs of Amazon, Google and Starbucks was the "the tip of an iceberg of corporate opacity". He argued that: "We cannot know how important it is, although estimates are enormous. Private financial wealth sitting in tax havens seems to be of the order of $21 trillion, of which around $9 trillion is from developing countries". The consequences of this were that "some miniscule jurisdictions, such as the Cayman Islands, have become the legal home of trillions of dollars of corporate assets through offering the unbeatable attractions of zero taxation plus secrecy. Some industries are now dominated by tax havens: half the world's shipping is registered in them".

Professor Collier stated that "corporate opacity is hugely profitable both for those who exploit it and those who create it. It exists because it is profitable and it persists because, by design, it is below the radar". He said that it was "astoundingly easy for international corporations to conceal their cross-border transactions". He added it was important to differentiate between corporate relocation for tax purposes and corporations engaging in transfer pricing. He explained:

> The opacity of international corporate structures makes it much easier for companies to take advantage of the substantial differences in tax rates between jurisdictions to avoid tax legally. Some of these responses are reasonable and others socially costly. A reasonable means of corporate tax avoidance is to relocate production to those jurisdictions that offer lower tax rates. Variations in tax rates between these jurisdictions largely reflect reasonable differences in national economic policies. Potentially, to induce relocation countries could engage in a race to the bottom in taxation in which all governments lost. But more realistically the scope for relocation merely discourages egregiously damaging corporate tax rates.
>
> The socially costly means of corporate tax avoidance is to shift profits through transfer pricing. The plain vanilla form of transfer pricing is for the subsidiary of a company which is based in a high-tax jurisdiction to sell its output to one in a lower-tax jurisdiction at a price below its true value. Or, with equivalent effect, it might buy an input that was over-priced. The result is that the arm of the company in the high-tax country will pay less tax than it would have done—often far less tax. Profits that might be taxed will have been transferred to the arm of the company in the low tax country.
>
> The distinctive aspect of transfer pricing is that profits are shifted between countries by the artifice of accountants and lawyers rather than by relocating real economic activity. The scope for transferring real economic activity is naturally bounded by the economic characteristics of locations. While a firm might decide to relocate manufacturing from France to Britain, for example, it is not going to relocate it to the Cayman Islands.
>
> In contrast, the scope for shifting profits through transfer pricing is unbounded: the profits from manufacturing, whether in France or Britain, can potentially all be assigned to a company registered in the Cayman Islands. Lest you think such shenanigans are hypothetical, Jersey has become the world's largest exporter of bananas.

He then explained this problem was particularly difficult for developing countries to tackle, due to lack of domestic capacity:

> … plain vanilla remains a severe problem in Africa since the typical tax authority lacks the capacity to scrutinise and compare prices. For example, when I discussed with the Zambian tax authority why the copper companies were paying so little tax despite the high world price of copper, its officials ruefully explained that there were few smart accountants in Zambia, they all worked for the companies, and their job was to minimise tax. While there are transparent global markets in refined metals, with observable prices, there are no equivalent markets for ores. So, a mining company which sells its ore to a parent company abroad for refining can potentially use a notional

> ore price that keeps the subsidiary at break-even. Given the growing importance of resource extraction to Africa, this is of enormous consequence.
>
> (Paul Collier, 'In pursuit of the $21 trillion', *Prospect*, 27 March 2013)

The Africa Progress Panel, chaired by Kofi Annan, found evidence that foreign companies operating in Africa had made "extensive use of offshore-registered companies and low-tax jurisdictions". Its report, *Equity in Extractives: Stewarding Africa's Natural Resources for All*, said "in some cases, multinational companies are also linked through their investment activities to complex webs of shell companies. These arrangements come with weak public disclosure and extensive opportunities for tax evasion". The Panel stated that this was "bad for efforts to strengthen transparency and accountability in Africa—and jeopardizes the reputations [of] foreign investors" (p 16). The Panel found that the design of tax regimes in African states created further problems:

> Most were designed to attract foreign investment during a period of low commodity prices. Countries have provided extensive tax concessions, including "tax holidays", low royalty payments, and exemptions from corporation tax. One review in Zambia found that between 2005 and 2009, half a million workers in the country's copper mines were paying a higher rate of taxation than major multinational mining companies. The IMF and the African Development Bank have urged governments to reconsider the level of tax concessions that they provide. Tax evasion continues to erode the revenue base for public finance in many countries. It is impossible to quantify the scale of the problem. However, high levels of intra-company trade create extensive scope for trade "mispricing", enabling companies to report profits in low-tax jurisdictions; and the extensive use of offshore companies and shell companies makes it difficult for African tax authorities to assess profits and enforce compliance. Trade mispricing alone is estimated to have cost Africa on average US$38 billion annually between 2008 and 2010—more than the region received in bilateral aid from OECD donors. Put differently, Africa could double aid by eliminating unfair pricing practices.

However, the report also found encouraging examples of good practice in African states:

> Several governments in Africa are introducing more efficient and balanced tax regimes. Royalty rates have been increasing, reflecting the escalation in world prices. The African Development Bank has proposed indexing royalty payments to world prices, which would improve stability and predictability in tax administration. The IMF has urged governments to avoid negotiating tax deals on an investor-by-investor basis, and several countries have successfully renegotiated what were unbalanced arrangements.

In spite of this the Panel noted the need for international action to reinforce and support these domestic practices and called on the G8 to provide leadership:

> African governments acting alone cannot resolve some of the most pressing tax problems facing the region. Tax evasion is a global problem facilitated by a mixture of intra-company trade practices, the extensive use made by foreign investors of offshore centres, shell companies and low-tax havens, and weak disclosure standards in a number of financial and commodity trading centres, including Switzerland, the United Kingdom and the United States. While there have been encouraging moves towards greater

international dialogue on taxation, what is lacking is decisive international action—and this is an area in which the G8 and the G20 can make a difference.

(African Progress Panel, *Equity in Extractives: Stewarding Africa's Natural Resources for All*, May 2013, pp 19–20)

Since Mr Cameron's speech in January the European Union has stated it will act further on tax evasion and avoidance. At a European Council meeting in Brussels on 22 May 2013, European leaders agreed it was "important to take effective steps to fight tax evasion and tax fraud, particularly in the current context of fiscal consolidation, in order to protect revenues and ensure public confidence in the fairness and effectiveness of tax systems". The Council Conclusions stated that "increased efforts" were required "combining measures at the national, European and global levels, in full respect of Member States' competences and of the Treaties". It was agreed that "rapid progress" was needed:

- To extend "the automatic exchange of information at the EU and global levels".
- To "improve the EU's agreements with Switzerland, Liechtenstein, Monaco, Andorra and San Marino, negotiations will begin as soon as possible to ensure that these countries continue to apply measures equivalent to those in the EU".
- That "Member States will also give priority to the concrete follow-up to the Action Plan on strengthening the fight against tax fraud and tax evasion".
- That "work will be carried forward as regards the Commission's recommendations on aggressive tax planning and profit shifting. The Commission intends to present a proposal before the end of the year for the revision of the 'parent/subsidiary' Directive, and is reviewing the anti-abuse provisions in relevant EU legislation. The European Council looks forward to the OECD's forthcoming report on base erosion and profit shifting".
- That efforts will be "taken against base erosion, profit shifting, lack of transparency and harmful tax measures also need to be pursued globally, with third countries and within relevant international fora, such as the OECD, so as to ensure a level-playing field, on the basis of coordinated EU positions. In particular, further work is necessary to ensure that third countries, including developing countries, meet appropriate standards of good governance in tax matters".

(European Council, *Conclusions 22 May 2013*, 23 May 2013)

The Council said it would report back on progress on these and all the other issues by December 2013.

Comment

Professor Paul Collier argued that the G8 needed to provide leadership on tax avoidance: "the governments of the G8 cannot expect others to behave in the global interest if they are not prepared to lead by collective example. If the G8 is not prepared to act, it is unlikely that the larger, more disparate grouping of the G20 can reach agreement". He believed that the G8 could "do a lot to help Africa and other poor regions" and suggested a handful of ways the international community could do so:

> As the G8 tax authorities have demonstrated, mis-pricing can be contained by scrutiny. With the notable exception of South Africa, the region suffers because being divided into so many tiny jurisdictions, building the necessary capacity in each national tax authority is unviable. The remedy, both for resource extraction and more generally, is to provide guideline price information internationally, using both prices on global markets and standardised conversion factors from them to the unobservable prices such as those for ores. Officials of the OECD want to create such a database, and the G8 could give it political impetus. International companies operating in Africa would then be required either to use these guideline prices in their accounts, or to report and justify deviations.
>
> The transfer of skills from the tax authorities of South Africa and the OECD would complement the provision of data. One idea is to establish 'Tax Inspectors Without Borders,' whereby, on request, staff could be seconded for a few months. Working alongside local officials, they would combine doing with teaching. Instead of being left to find a needle in a haystack, African tax authorities would at last stand some chance of curbing transfer pricing. I am under no illusions as to the ingenuity of corporate accountants or the weak capacity of African tax authorities. This approach might only work for a decade while new avoidance strategies evolve. But the battle against tax avoidance is like that against disease: the only viable approach is repeated changing of the locks.
>
> (Paul Collier, 'In pursuit of the $21 trillion', *Prospect*, 27 March 2013)

Barbara Stocking, Oxfam Chief Executive, said she was "delighted the Prime Minister [had] made such a strong moral case against tax avoidance in both the UK and developing countries. There can be no moral justification for companies wriggling out of paying their fair share to society". She stated that "every pound of tax companies avoid paying to poor countries is one pound lost to the fight against hunger. The fact that tax dodging costs poor countries $160 billion-a-year while one in eight people in the world do not have enough to eat is nothing short of a scandal" (Oxfam, 'Barbara Stocking welcomes David Cameron's pledge to tackle tax avoidance', 24 January 2013). In a separate statement, Oxfam elaborated on its support of the Prime Minister prioritising the issue of tax avoidance. It said:

> Too many big companies and individuals are able to avoid paying their fair share of tax by using tax havens and exploiting loopholes in the tax system. Corporate giants can create artificial corporate structures through subsidiaries to shift profits into tax havens with very low tax, and get away with paying little to no tax. These practices suck hundreds of billions out of public budgets here and in the poorest countries. This is money that could help millions of people to escape from hunger—forever. And money that could help people on the breadline here in the UK. The G8 must pressure all G8 linked tax havens to join a global deal to share tax information, so that all countries—especially the poorest—can tax companies and individuals fairly. And all G8 countries must commit to making ownership of companies and other assets public, so that nobody can avoid paying tax by hiding their money or setting up phantom firms. Most

> importantly, any new tax deal done, must help the world's poorest countries. Another tax deal that helps us and leaves them out in the cold would be a failure.
>
> (Oxfam, 'Make Poverty History, and G8 promises—was it all really worth it?', 30 May 2013)

The business community was cautious. Sir Roger Carr, for the CBI, insisted that it was "encouraging British business to tell its tax story to shareholders and stakeholders", stating that "British-based businesses pay a quarter of all taxes paid in Britain". He added that the CBI supported "in principle a global register of beneficial ownership to assist tax transparency. In bringing tax rules up-to-date with the modern economy the Government is right to promote international agreement through the OECD". However, he argued that "if you want a different outcome the rules must be rewritten to achieve the change that is required" (CBI, 'CBI President calls on G8 to prioritise trade and move forward the international taxation debate', 21 May 2013).

US business leaders, in an open letter to the President, urged Mr Obama to support initiatives that benefitted US companies. The letter, signed by a number of groups including the US Chamber of Commerce and the National Foreign Trade Council, noted that "recent tax initiatives in a number of foreign countries, including several of our G-8 partners, appear to be primarily targeting American companies with global operations in the guise of combating tax avoidance, potentially harming both the US companies' competitive position and the US Treasury. Similar discussions are now proceeding at European Commission and OECD levels as well, revisiting the current international tax consensus and prompting much interest from large emerging economies also seeking additional tax revenues from foreign businesses". It warned the President: "any changes that discriminate against American companies doing business abroad would make it more difficult for them to compete in the world's markets and hamper their ability to grow and add jobs in the United States. It is vital to the health of the US economy that American businesses remain free of international double taxation and similar barriers to cross-border trade and investment and are not subjected to new tax rules and policies that would create new disadvantages" (NFTC, 'NFTC, other leading business groups urge President to support tax policies at G-8 meeting that promote US competitiveness', 4 June 2013).

The Enough Food for Everyone IF campaign observed in its briefing that in order to "counter tax evasion and avoidance, information sharing between revenue authorities is necessary. The Multilateral Convention on Mutual Administrative Assistance on Tax Matters requires all signatories to agree to share information with all other signatories, however tax havens have not yet signed, severely limiting the instrument's effectiveness". It urged the G8 to act for the benefit of developing countries:

> The G8 countries need to use their weight and influence to make sure tax havens share information with developing countries supporting their ability to mobilise revenues to invest in public services and move beyond aid dependency. The US has already forced many tax havens to sign bilateral information-exchange agreements and the UK is following suit.
>
> Prime Minister David Cameron committed to use the 2013 G8 to 'concentrate on issues that involve us putting our own house in order and helping developing countries to prosper'. Tackling global tax evasion and illicit financial flows by improving the

> traceability and accountability of assets held through G8-registered companies, and promoting a global standard for such transparency, is urgently required.
>
> Developing countries lose more revenue to tax-dodging than they receive in aid, depriving them of the resources to tackle hunger. Dealing with the 'corporation tax gap' could raise public revenues enough—even without any further shift in spending.
>
> (Enough Food for Everyone IF, *G8 Summit Brief*, April 2013, p 5)

However, while the House of Commons Public Accounts Committee said it was supportive of the Prime Minister's commitment to attaining international agreement on reform, it was concerned "that this will be a lengthy process and any negotiations may take many years. In the meantime, some companies will continue to find ways to avoid paying tax where they actually do business" (House of Commons Public Accounts Committee, *Tax Avoidance: The Role of Large Accountancy Firms*, 26 April 2013, HC 870 of session 2012–13).

3.3 Transparency

Related to his call for action on tax, Mr Cameron also urged the G8 to "put a new and practical emphasis on transparency, accountability and open government" at the forthcoming Summit. He argued that "too many developing countries are held back by corruption—and this can be reinforced or even encouraged by poor business practice and a lack of transparency from those that trade with them". He stated that the G8's "collective efforts on international development over the years" gave the G8 both "the legitimacy and responsibility to move the international agenda forward to focus not just on aid, but also on the underlying drivers of growth and jobs which will lift people out of poverty for good". In his letter to G8 leaders the Prime Minister set out what he saw this transparency agenda as including:

> I would like to see the G8 continue to increase transparency in our aid flows so people in developing countries can hold their governments to account for spending them effectively, and people at home can see the impact their generosity makes. This accountability is vital if we are to maintain a global coalition on development and to build on last year's New Alliance for Food Security and Nutrition, stepping up the fight against hunger by encouraging the growth of more nutritious food and getting it to families at prices they can afford.
>
> (Gov.uk, 'Prime Minister's letter to G8 leaders', 2 January 2013)

In April 2013 the International Aid Transparency Initiative published its first annual report. The Initiative, a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid in order to increase its effectiveness in tackling poverty, said it now had over 130 organisations "publishing their data to the International Aid Transparency Initiative (IATI), an open data platform that gives a timely, comprehensive and comparable picture of aid flows in order to improve accountability and impact". It added that Germany was "the latest country to begin publishing its data in line with the IATI common standard, with Russia signalling its intention to join". Its membership had also "grown to include 37 donor signatories who together represent 75% of global official development finance" (IATI, 'Media release, 22 April 2013—First IATI Annual Report published', 22 April 2013).

In his letter the Prime Minister added that he saw transparency as also including:

> … the underlying building blocks of growth, including the rule of law, the absence of conflict and corruption, and the presence of property rights and strong institutions—what I have called the "golden thread" that makes open economies and open societies the best foundation for growth. I hope our work will demonstrate that this is not just about what developing countries do themselves. We in the developed world need to work together with them to prevent money laundering and stamp out bribery and corruption. And we need to look at how to enhance transparency—including through the Construction Sector Transparency Initiative and new ideas like a global land transparency partnership.
>
> (Gov.uk, 'Prime Minister's letter to G8 leaders', 2 January 2013)

In May 2013 the Government announced that, together with France, it would be implementing the Extractive Industries Transparency Initiative (EITI) (Gov.uk, 'UK raises the bar for transparency in the extractive industries', 23 May 2013). The EITI provides a "globally developed standard that ensures more transparency and better governance of a country's oil and mining resources". The scheme was announced by then Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. To date "37 countries were implementing the EITI with 18 of these compliant to the EITI standard" and "70 major oil, gas and mining companies had expressed support for the EITI Principles. Over 100 EITI Reports had been published, which covered a total of over US$700 billion of revenues paid" (EITI, 'History of EITI', accessed 4 June 2013).

In his speech at Davos David Cameron reiterated that he wanted the G8 to "lead a big push for transparency across the developing world". He elaborated on the importance of transparency which, he said, was highlighted by the case of Nigeria. He explained that "a few years back a transparency initiative exposed a huge hole in Nigeria's finances, an eight hundred million dollar discrepancy between what companies were paying and what the government was receiving for oil—a massive, massive gap. The discovery of this is leading to new regulation of Nigeria's oil sector so the richness of the earth can actually help to enrich the people of that country". He added that last year "Nigeria oil exports were worth almost a hundred billion dollars. That is more than the total net aid to the whole of sub Saharan Africa". The consequence of these findings, Mr Cameron added, was:

> Unleashing the natural resources in these countries dwarfs anything aid can achieve, and transparency is absolutely critical to that end. So we're going to push for more transparency on who owns companies; on who's buying up land and for what purpose; on how governments spend their money; on how gas, oil and mining companies operate; and on who is hiding stolen assets and how we recover and return them. Like everything else in this G8, the ambitions are big and I make no apology for that.
>
> (Gov.uk, 'Prime Minister David Cameron's speech to the World Economic Forum in Davos', 24 January 2013)

A study published in 2011 by the Stolen Asset Recovery Initiative, World Bank and UNODC, *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*, examined the links between large-scale corruption by high-level public officials and the concealment of stolen assets through opaque shell companies, foundations, and trusts. The study made a number of recommendations about how transparency could be used to address issues such as these. The main recommendations were that:

- Governments should adopt a strategy to combat the misuse of companies and foundations to conceal ill-gotten funds. The strategy should determine what types of companies are being used within the jurisdiction to hide proceeds of crime and how to make such entities and structures more transparent. Bearer shares (an equity security that is wholly owned by whoever holds the physical stock certificate) should be abolished or immobilized.

- All providers of financial and corporate services to companies should collect beneficial ownership information about the company and continue to monitor whether this information is accurate. Providers of legal, financial and administrative (incorporation and management) services to legal entities are often in the best position to understand their clients and distinguish between legal fiction and reality. They should be required to identify beneficial ownership and provide information to law enforcement when necessary.

- All corporate registries should provide a certain minimum standard of information on registered entities and allow for easy (on-line) searches of this information. At a minimum this should include information on shareholders, members and directors, as well as historical background.

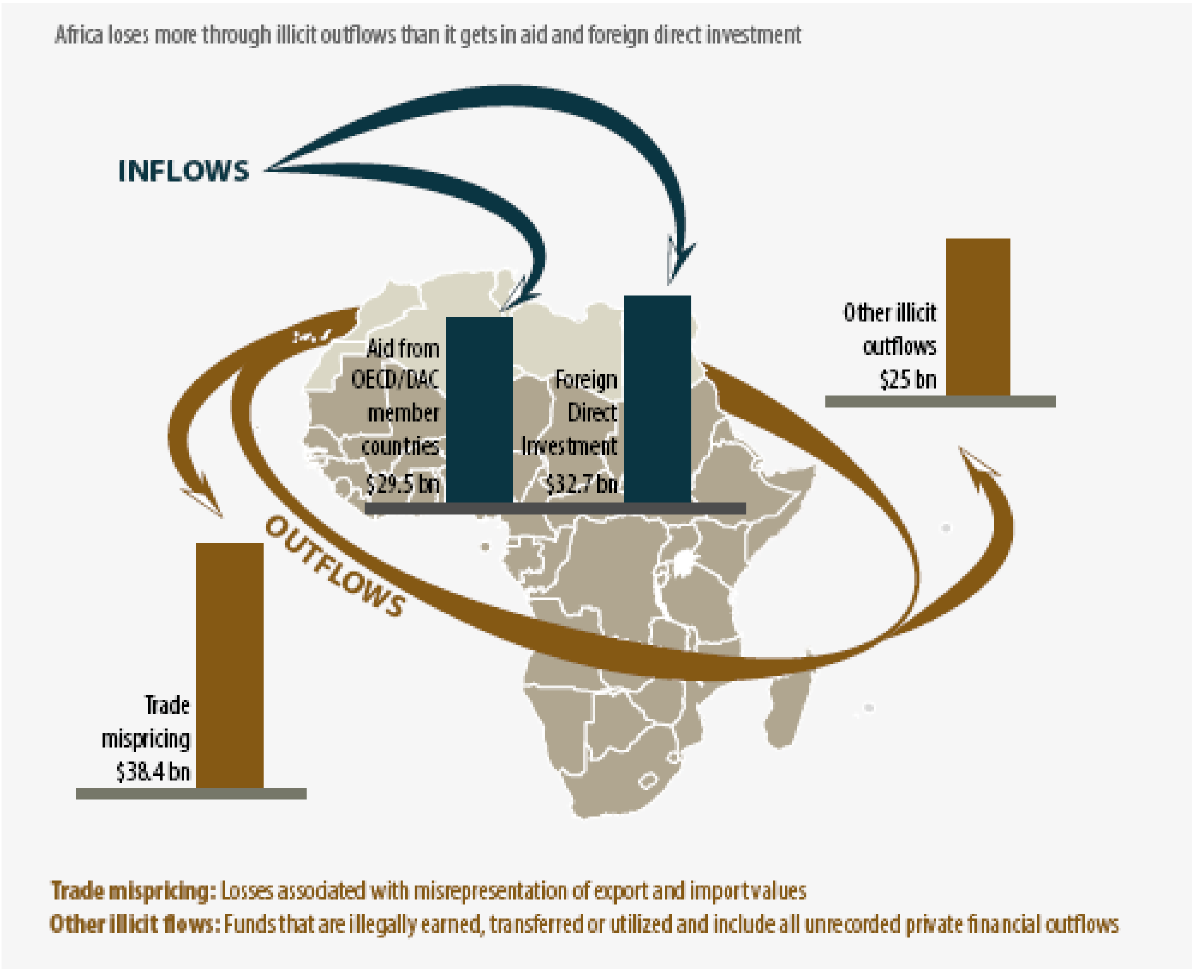
- Strengthen investigative skills and capacity. Expand training and ensure adequate manpower and budgetary resources to conduct complex, transnational investigations.

(World Bank, 'Fact Sheet: The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It', 2011)

In its latest report the Africa Progress Panel found evidence that in Africa "poor governance of state companies and assets" were "associated with extensive revenue losses". The scale of the problem was highlighted by the report. Figure 8 (see below) showed that "illicit flows" out of Africa were bigger than the aid and direct foreign investment it received. The report gave examples of such losses:

> In 2012, Angola was unable to account for US$4.2 billion in "financing residuals", essentially missing money, in the accounts of the state oil company. Nigeria is estimated to have lost US$6.8 billion between 2010 and 2012. Revenue losses on this scale cause immense damage to public finance—and to national efforts to reduce poverty. Concession trading arrangements are often associated with undervaluation of assets. No country has lost more from this practice than the Democratic Republic of the Congo. This report includes a detailed analysis of five privatization deals conducted through the sale of state owned assets to foreign investors operating through offshore companies registered in the British Virgin Islands and other jurisdictions. We estimate the total losses sustained in these deals as a result of undervaluation of the assets at US$1.3 billion—more than double total budget spending on health and education. In a country with 7 million children out of school, the sixth highest child mortality rate in the world, and endemic malnutrition, losses of this order carry high human costs. The under-pricing of concessions generates large returns for offshore companies. In the case

> of the Democratic Republic of the Congo, we estimate that under-pricing generated returns of around 500 percent for the offshore companies involved. In Guinea, the price secured by another offshore company for a concession in iron ore represented a return in excess of 3,000 per cent, with the agreed price exceeding Guinea's GDP.
>
> (African Progress Panel, *Equity in Extractives: Stewarding Africa's Natural Resources for All, May 2013*, pp 19–20)



(All figures are average annual 2008-2010 for Sub-Saharan Africa)

(Source: African Progress Panel 2013)

The Panel found though that there were a number of examples of good transparency being practised by African governments. The report stated:

> Reform-minded political leaders, supported by civil society, have used the Extractive Industries Transparency Initiative (EITI) to strengthen disclosure standards. Sierra Leone now publishes contracts and concessions online. In February 2012, Guinea published on a government website more than 60 contract documents covering 18 mining projects, along with a searchable summary of contract terms, allowing non-experts to find key sections and understand the obligations of companies and the government. The new Liberian Draft Petroleum Policy has a section devoted to transparency measures that will influence the eventual drafting of sector legislation. It includes provisions requiring the disclosure of the beneficial ownership structure of mining companies, revenue forecasts and oil sale price information. Ghana's 2011 Petroleum Revenue Management

> Act exceeds EITI reporting standards. These initiatives reflect the political impetus towards greater transparency and accountability in Africa.

The Panel once more highlighted the importance of international initiatives in providing support to these domestic actions. For example:

> Under the Dodd-Frank legislation introduced in the United States, the Securities Exchange Commission will require companies involved in extractive industries to publicly disclose all payments on a project-by-project basis. The legislation, which has prompted parallel moves from the European Union, provides an opportunity for foreign investors to support Africa's efforts to strengthen transparency and accountability.

The Panel regretted though that "many companies have failed to grasp" the opportunity afforded by transparency and accountability. The report noted:

> Some have initiated legal challenges seeking to overturn Dodd-Frank provisions. Others have embarked on a campaign of attrition aimed at diluting mandatory reporting requirements. This is short-sighted—and the commercial arguments deployed in favour of weaker disclosure lack credibility. Not all of the opposition emanates from industry. The Canadian Government has opposed the introduction of mandatory disclosure standards. This matters because companies listed on the Toronto stock exchanges control global mining assets in excess of US$109 billion and in 2011 were involved in over 330 projects in Africa. China's stock exchanges, most notably in Hong Kong and Shanghai, also need to be brought into a more transparent multilateral regime.
>
> (African Progress Panel, *Equity in Extractives: Stewarding Africa's Natural Resources for All*, May 2013, p 20)

Comment

The One Campaign has said it supported increased transparency. It suggested five areas in which it thought the G8 could take action:

> First, enhance transparency about resource inputs, including advancing a mandatory global standard on extractive industry payments, and agreeing faster progress on implementing the International Aid Transparency Initiative. Greater transparency about beneficial ownership, through the establishment of public registries, will also help to stem the loss of resources from developing countries through illicit financial flows. Second, encourage the opening up of budget processes so that citizens can see how their resources are being invested. Third, collect better and more timely data about what those investments are achieving by supporting the World Bank Service Delivery Indicators initiative. Fourth, build the capacity of oversight institutions and citizens' groups to use information to hold governments to account. And fifth, make sure that data is made available in accordance with emerging standards for open data.
>
> (One, *Summit in Sight: The G8 and Africa from Gleneagles to Lough Erne*, 3 March 2013, p 5)

The Enough Food for Everyone IF campaign noted that to properly implement transparency, however, existing standards still needed to be complied with. It noted:

> Of the 34 members of the Financial Action Task Force (a G7 established forum for establishing international standards for international transparency), 30 are not fully compliant with existing standards.

It said that public registries of beneficial ownership were "the best way to address this problem", adding that this had "been acknowledged both in principle and on grounds of cost effectiveness, including analyses by HM Treasury/DTI and the European Commission. The International Banking Federation, representing over 18,000 leading banks in the UK and around the world, supports public availability of beneficial ownership registries to make anti-money-laundering and know-your-customer requirements less expensive and more effective". It added that:

> The burden on business would be low. The UK Government estimated in 2002 that 99 percent of UK businesses would have no difficulty in complying, since only 1 percent of companies have a beneficial owner other than their major legal shareholder. The vast majority would simply need to tick a box stating that their major legal shareholder was also their beneficial owner. Establishing an international convention would encourage political will to spread beyond the G8.
>
> (Enough Food for Everyone IF, *G8 Summit Brief*, April 2013, p 5)

Mike Lewis, ActionAid's Tax Justice Policy Adviser, contended that while David Cameron was "promising action on tax havens at this year's G8" the problem was "on the UK's doorstep". He said the UK was "responsible for 1 in 5 of the world's tax havens—that's more than any other country". On 12 May 2013 ActionAid released research that showed "the presence of the UK's largest companies in tax havens" had "not diminished despite media scandals over tax avoidance and a promised government crackdown on tax havens". The research showed that:

> Nearly 40 percent of all the overseas subsidiary and associate companies of the FTSE 100 are now registered in tax havens. 78 of the FSTE 100 do business in developing countries. Every new entrant to the FTSE 100 since 2011 has tax haven companies, averaging a third of all their overseas subsidiaries.

Mr Lewis said "that tax havens remain a key link in the chain that lets multinational companies and wealthy individuals drain billions from poor countries. Tax havens are one of the biggest hidden obstacles in the fight against global poverty. Poor countries lose an estimated three times more money to tax havens than they receive in aid each year—money needed to build roads, fund schools and finance developing countries' own fight against hunger and poverty. Four years after G20 leaders promised an end to tax havens, tax haven structures are near-universal amongst the UK's biggest multinationals" (ActionAid, 'FTSE100's tax haven habit shows need to tackle a hidden obstacle in the fight against global poverty, says ActionAid', 12 May 2013).

On 20 May 2013, Mr Cameron wrote to leaders of UK Crown Dependencies urging them "to continue to work in partnership with the UK in taking the lead on two critical issues: tax information exchange and beneficial ownership". In the letter he welcomed the commitments Crown Dependencies had "made to automatic tax information exchange, both on a bilateral and multilateral basis, which will help us to reach our goal of setting a global standard in tax transparency". He added:

> We also need to ensure information exchange works effectively for all, particularly the poorest countries in the world. That is why we strongly support the Multilateral Convention on Mutual Assistance in Tax Matters. I know many of you have been considering joining and I ask you all to commit to do so in the run-up to the G8 Summit.
>
> But dealing with tax evasion is not just about exchanging information. It is also about improving the quality and accuracy of that information. Put simply, that means we need to know who really owns and controls each and every company. This goes right to the heart of the ambition of Britain's G8 to knock down the walls of company secrecy.
>
> Some of you have already led the way with public commitments to produce Action Plans on beneficial ownership—and I hope those who have yet to can do so as quickly as possible. Getting the right content in these plans will now be critical. These will need to provide for fully resourced and properly managed centralised registries, that are freely available to law enforcement and tax collectors, and contain full and accurate details on the true ownership and control of every company.
>
> (Gov.uk, 'G8: PM writes to crown dependency leaders', 20 May 2013)

Juliana O'Connor-Connolly, Premier of the Cayman Islands, had previously informed the Prime Minister in a letter of the Islands' commitment to the agenda. Ms O'Connor-Connolly wrote:

> The Government of the Cayman Islands recognises that the modern cooperative and transparent jurisdiction is one that uses automatic exchange of information mechanisms and multilateral approaches in tax matters, and that demonstrates effectiveness in the implementation of these measures. Indeed, this is our strategy for the development of our financial services industry.
>
> On 15 March 2013 my Minister for Financial Services announced our commitment to enter into a FATCA Model I Intergovernmental Agreement with the United States for the automatic exchange of tax information, together with a parallel agreement with the UK to the same timetable. We are well advanced in our discussions with both the United States and the UK and expect to conclude the relevant agreements quickly. We look forward to working with our partners to effectively implement these measures.
>
> We recognise that FATCA, when coupled with rapid developments in technology, provides a unique opportunity to develop the new global standard of multilateral automatic exchange of tax information as the most effective way to tackle tax evasion.
>
> Since 2005 the Cayman Islands has engaged in automatic exchange of tax information with all EU Member States for the purposes of the EU Savings Directive. We are committed to build on this experience by joining the pilot multilateral automatic exchange of tax information, announced recently by the UK, France, Germany, Italy and Spain.
>
> We welcome these efforts to promote an effective global mechanism for automatic exchange of information for tax purposes, in which all jurisdictions participate and where a common approach will not only ensure efficiencies of cost and resources, but

will also avoid the risk of multiple competing standards. Accordingly, we would call on other jurisdictions to commit to this initiative, which will take us to a new level of tax transparency and remove hiding places for those who would seek to evade tax and dodge their responsibilities.

(Cayman Islands Government, '[Letter to the UK Prime Minister]', 25 April 2013)

In his response to the letter, Ian Gorst, the Jersey Chief Minister, pointed out that the Jersey model of transparency had been endorsed by the World Bank in its *The Puppet Masters* report (it found that of the 40 jurisdictions reviewed, only Jersey required beneficial ownership to be identified and recorded) and that others had yet to catch up with Jersey's standards:

The World Bank has recognised Jersey as a leader in setting standards for beneficial ownership information for tax purposes. Our stringent requirements for the incorporation of Jersey companies, alongside our regulation and on-site supervision of trust and company service providers, ensures that adequate, accurate and current information on beneficial ownership is available to law enforcement and tax authorities around the world.

We believe this is a standard that most EU, G8, G20 and OECD countries have yet to match fully. We would be pleased to share our expertise and to provide technical assistance to other countries where required.

(States of Jersey, 'Chief Minister responds to UK Prime Minister', 21 May 2013)

On 7 June Mr Gorst wrote to Mr Cameron to reaffirm Jersey's commitment to fight tax evasion and to inform him of Jersey's intention to sign the Multilateral Convention on Mutual Assistance on tax cooperation. He said:

Fully in line with Jersey's commitment to tax cooperation based on international standards, we are asking HM Treasury to make the necessary arrangements for us to join the OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters at the earliest possible date.

We will also continue to support the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes through our position as a vice chair of the Forum's Peer Review Group.

Jersey is internationally recognised as a leader in the availability, accessibility and ability to exchange information on beneficial ownership. However, reflecting our known commitment to international standards, and to reinforce our existing strong record, we are willing to take further action as and when this is needed, following the adoption of new international standards that will have global application.

We will be offering to support the international organisations (G8, G20, OECD and EU) and individual jurisdictions in their own reviews of corporate transparency by providing technical advice and assistance on the Jersey 'model' for providing beneficial ownership information.

(States of Jersey, 'Chief Minister writes to Prime Minister on tax cooperation', 7 June 2013)