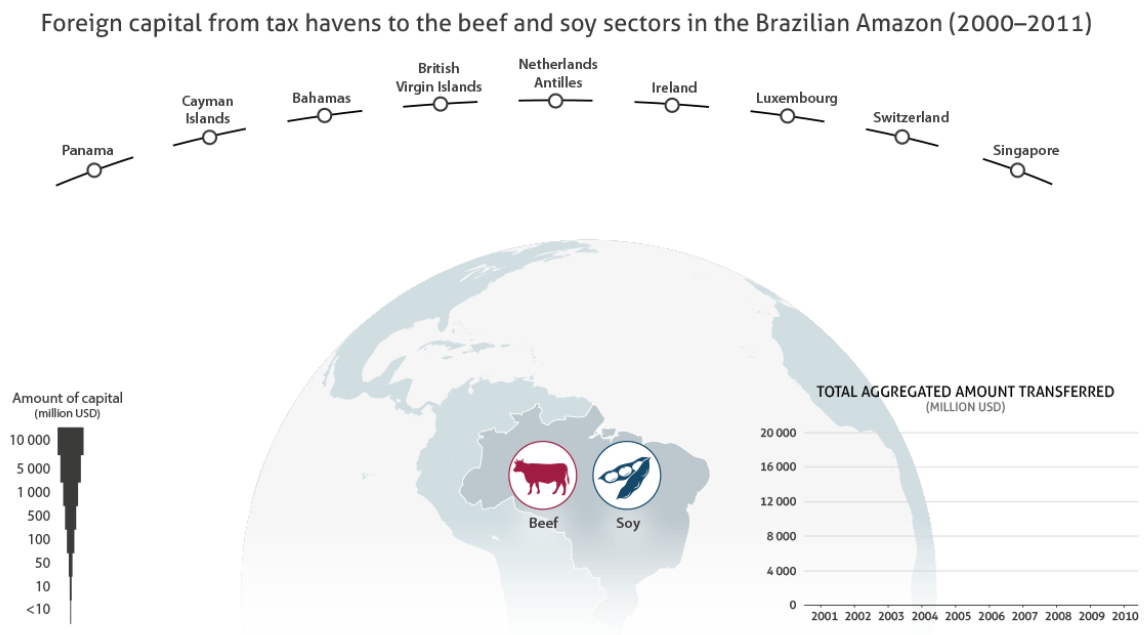


Links between tax havens, deforestation and illegal fishing exposed

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Scale of foreign capital channeled through tax havens to beef and soy companies operating in the Brazilian Amazon between 2000 and 2011. Credit: Stockholm Resilience Centre

The release of the "Paradise Papers" and "Panama Papers" exposed how multinationals, politicians and the wealthy use offshore tax havens to conceal their wealth and money flows, and reduce their exposure to tax. Now, a team of researchers from the Stockholm Resilience Centre

(SRC) at Stockholm University and the Global Economic Dynamics and the Biosphere (GEDB), Royal Swedish Academy of Sciences, have published the first study showing how tax havens are linked to economic sectors that potentially cause serious global environmental impacts.

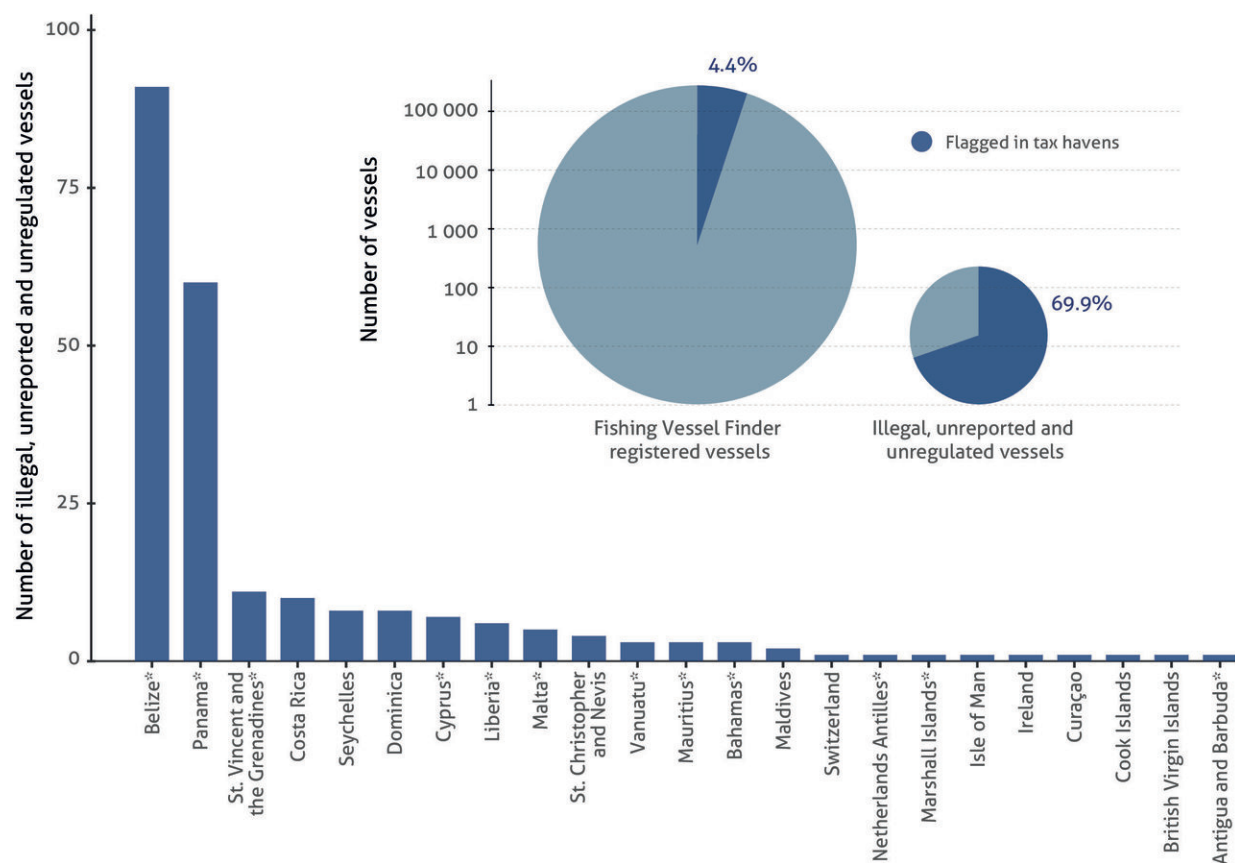
Their study, published in the journal *Nature Ecology and Evolution*, reveals that 70 percent of known vessels involved in illegal, unreported and unregulated (IUU) fishing are, or have been, flagged under a tax haven jurisdiction. The study also finds that on average, 68 percent of all investigated foreign capital (\$18.4 out of \$26.9 billion USD) flowing to sectors associated with deforestation of the Amazon rainforest between the years 2000-2011 was transferred through tax havens.

"Our analysis shows that the use of tax havens is not only a socio-political and economic challenge, but also an environmental one. While the use of tax haven jurisdictions is not illegal in itself, financial secrecy hampers the ability to analyse how financial flows affect economic activities on the ground, and their environmental impacts," says Victor Galaz, lead author of the new study.

Taxing the global commons

The new study is part of an ongoing research project called "Earth System Finance: New perspectives on financial markets and sustainability". It is led by GEDB and the Stockholm Resilience Centre in collaboration with Future Earth.

Most previous analyses of the environmental impacts of tax havens have been done by investigative journalists focusing on a few locations. The new study, on the other hand, takes a more systematic approach to analyse how tax havens influence the sustainability of the ocean and the Amazon rainforest as two key examples of global environmental commons.



Number of illegal, unreported and unregulated fishing vessels registered in tax havens. Credit: Stockholm Resilience Centre

"The absence of a more systemic view is not surprising considering the chronic lack of data resulting from the financial opaqueness created by the use of these jurisdictions," says co-author Beatrice Crona, GEDB executive director.

This lack of transparency hides how tax havens are linked to degradation of environmental commons that are crucial for both people and planet at global scales. The Amazon rainforest, for example, is critical for stabilizing the Earth's climate system, while the ocean provides a vital

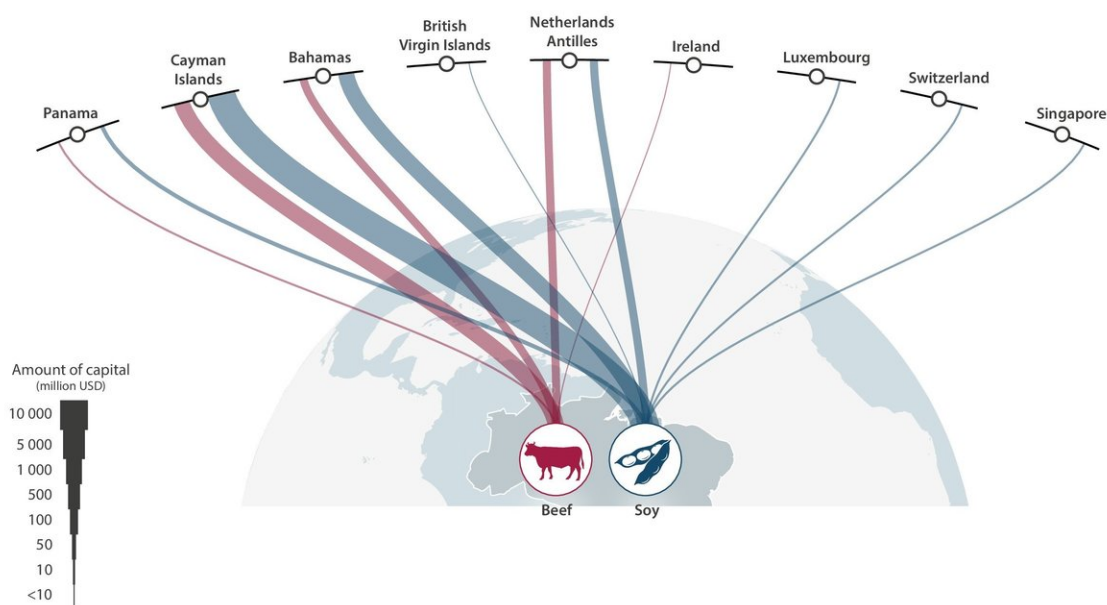
source of protein and income for millions of people worldwide, particularly in low-income food-deficit countries.

From Cayman Islands to the Amazon

The paper includes the first quantification of foreign capital that flows into the beef and soy sectors operating in the Brazilian Amazon—two sectors linked to deforestation.

"Our analysis shows that a total of USD \$26.9 billion of foreign capital was transferred to key companies in these sectors between October 2000 and August 2011. Of this investigated capital, about USD \$18.4 billion was transferred from tax haven jurisdictions," they write.

The Cayman Islands turned out to be the largest transfer jurisdiction for foreign capital to these sectors operating in the Brazilian Amazon. The well-known tax haven provides three benefits to investors: legal efficiency, tax-minimization and secrecy.



Main tax havens used by companies engaged in soy and beef production in the Brazilian Amazon. Credit: Stockholm Resilience Centre

Fishy havens

The new study also includes a systematic analysis of tax havens' role in illegal, unregulated and unreported (IUU) fishing activities around the world. It revealed that 70 percent of the vessels found to carry out or support IUU fishing, and for which flag information is available, are or have been flagged under a tax haven jurisdiction, in particular, Belize and Panama.

Many of these tax havens are also so-called "flags of convenience" states, countries with limited monitoring and enforcement capacity that do not penalise vessels sailing under their flag, even if they are identified as operating in violation to international law.

The combination of tax havens and flags of convenience allows companies to sail fishing vessels with dual identity—one of which is used for legal and the other for illegal fishing activities.

"The global nature of fisheries value chains, complex ownership structures and limited governance capacities of many coastal nations, make the sector susceptible to the use of tax havens," says co-author Henrik Österblom, deputy science director at the Stockholm Resilience Centre.

Indirect subsidies

The new study suggests three issues that they believe should be central in future research efforts and governance of tax havens: (1) The loss of tax revenue caused by tax havens should be considered as indirect subsidies to economic activities with negative impacts on global commons; (2) Leading international fora and organizations, like U.N. Environment, should assess the environmental costs of these subsidies; (3) The international community should view tax evasion and aggressive tax planning as not only a socio-political problem, but also as an environmental one.

More information: Victor Galaz et al, Tax havens and global environmental degradation, *Nature Ecology & Evolution* (2018). [DOI: 10.1038/s41559-018-0497-3](https://doi.org/10.1038/s41559-018-0497-3)

Provided by Stockholm Resilience Centre

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