

ESF Exploratory Workshop on

**System of Tax Evasion and Money
Laundering: Locating Global Wealth
Chains in the International Political
Economy**

Copenhagen (Denmark), 20-22 May 2012

Convened by:
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SCIENTIFIC REPORT

1. Executive summary

ESF workshop EW11-141, 'Systems of Tax Evasion and Money Laundering: Locating Global Wealth Chains in the International Political Economy', was held at the Department of Business and Politics, Copenhagen Business School. The workshop ran over two days, from Monday 21st May to Tuesday afternoon 22nd May. The list of attendees included twenty six people from thirteen countries. These countries were: Denmark, Thailand, France, United Kingdom, Belgium, Portugal, Norway, Germany, Greece, Australia, Kenya, Sweden and Barbados. Unfortunately, three invitees, (two of which were female, one non-EU) were ultimately unable to come due to physical injury and family emergency. Nina Grægør of NUPI was ultimately unable to attend, but we benefitted from the the input of Benjamin de Carvalho, also of NUPI, in lieu. Thus the final number of attendees was twenty three coming from eleven countries: Denmark, Thailand, France, United Kingdom, Belgium, Portugal, Norway, Germany, Greece, Australia, and Kenya. As convenors, we would like to extend our gratitude not only to the ESF, but also to both the Norwegian Research Council and the Department of Business and Politics for additional workshop funding that was so important to the ultimate success of the event.

The workshop investigated four exploratory issues pertaining to the relationships between the European Union, offshore microstates and global financial flows which condition practices of money laundering and tax evasion and delineate appropriate regulatory initiatives. Drawing together a cross-disciplinary team from accounting, sociology, law, political science and international political economy, we investigated global wealth chains, the emergent role of the European Union in multilateral governance, how these can be reconciled with the developmental needs of offshore microstates, and how a burgeoning shadow banking system contributes to the regulatory challenge.

The cross disciplinary workshop provided the opportunity to gauge and collate extant knowledge on these areas of concern, with a view to identifying where this knowledge is inadequate and how this may be redressed. We now intend to generate research grant applications which will bring together a number of European and non-European scholars from various disciplines to provide a comprehensive taxonomy of the sites and practices which constitute the links in Global Wealth Chains. This will permit an analysis of the political constraints and opportunities which pertain to regulatory policy, and the identification of both technical and developmental barriers to the reconciliation of the apparent interests of EU member states, offshore micro-states and other developing countries. We are considering a grant application to the Norwegian Research Council, the EU Synergy Grant and the Danish FSE (funding in the area of society and business). The first option involves a strong focus on the the issue of development analyzing how innovation in the three principal EU offshore centres (Holland, Switzerland and England) impacts on the ground on the African continent, the second a broader focus including development, but targetting the role of the EU in the global governance of tax evasion and money laundering, and the latter, a smaller application on the role of the shadow banking system in offshore financial centres and, in turn, the role of the shadow banking system in tax leaks, tax avoidance and tax evasion. We note that these grant ideas are not simply from staff from the Copenhagen Business School but are being pursued by academics at other European institutions in leadership roles, and including both genders.

These funding targets effectively constituted the workshop conclusions as in the spirit of exploration we sought one, to gauge the state of the art, two, to identify gaps in that state of

the art knowledge and three, to explore ways to take the research agenda emerging from the workshop forward collaboratively. In these terms the workshop was certainly a substantive success. We benefitted from the input of attendees who could be considered the lead experts in Europe on these issues and particularly gained from the input of our non EU guests who provided insights into the constitution and impact of tax evasion and money laundering in their respective regions. This we feel is an important part of our research agenda; to concretely link work on the production of money laundering and tax evasion (which we would argue still occurs largely within OECD states and the archipelagos of offshore microstates which are attached to them) with work on the impact of these practices in developing countries. We also feel that our agenda fits well with that of the EU in this area and offers the chance to identify and problematize the role of the EU in the global governance of the new century. Further, we believe we identified an important and hitherto unexplored issue in terms of the relationship between the shadow banking system and tax leaks, tax avoidance and tax evasion.

2. Scientific content of the event

The workshop spanned two days and consisted of six panels as follows, and in this order of play; tax evasion, money Laundering, regulation and governance, micro states and development, the shadow banking system and a roundtable, 'Global Wealth Chains : what do we do now ? what do we need to find out? how do we do it?'. Each panel provided us with a surplus of food for thought in terms of the agenda outlined above. Presentations were limited to 10 minutes to provide ample room for discussion and notably we did not require full papers to be delivered as our intention was to generate an open discussion about our future work, rather than a mere summary of what each participant has contributed to the field in the past, or the latest contribution of each participant. Attendees responded to this method very positively and we would subscribe to such a method in future given such an agenda. We note, in particular, that the participants frequently engaged in vigorous debate and there was not a smug or cosy consensus on how to treat these issues, the moral standing of offshore finance, or what methods and approaches best help us to understand them. In short, the exploratory side of the workshop was rigorous.

The workshop began with a presentation by the convenors on the ESF and on the concept of Global Wealth Chains that has emerged from previous work from the convenors. It was agreed that such a concept, which mirrors that of Global Value Chains, may be a useful vehicle on which to load and delineate our research agenda. Many issues were raised in terms of the very notion of a chain, how to investigate chains and what is at stake when looking at non linear flows through chains, which can only be traced through practice rather than direct observation. This discussion of the overarching concept for the workshop continued through the two days both in the formal setting of the workshop proceedings and in informal interactions.

Panel 1 Tax evasion :

Ronen Palan: Ronen addressed the issue of the state of policy making within the EU. He highlighted in particular a tension between a rhetoric of multilateralism and a reality of increasing bi-lateralism on the ground. This led to a discussion of a research agenda which would address the well springs of this tension both historically and in terms of the divergent interests of EU member states.

Richard Murphy : Richard problematised definitions of evasion and avoidance to argue for the need for better data, a task he argued was onerous and research intensive. Richard also suggested that we need more qualitative work on the behavioural aspects of tax evasion asking such questions as, who, what levers are used, and how do we design tax evasion out of the system. In discussion it was suggested this agenda could be taken forward by investigating the notion of identity disguise at both the corporate and individual level.

Brooke Harrington: Brooke drew upon her on-going work on the Society for Trust and Estate Planners (STEP). Brooke undertook the training course offered by STEP in order to understand better the professional practices underlying tax evasion. She posed the question of how STEP practitioners impact upon global stratification, what capacity the nation state retained and the importance of studying professions. The discussion centred upon Brooke's methodology and how we as a group could draw upon the example of her research approach. Many participants noted we need to know more about the who and how of tax evasion and the way to do that may be an agenda exploring professions in global wealth chains.

Peter Schwarz : Peter contrasted automatic exchange with the OECD approach of information on request. He further suggested that in so far as regulation tackles evasion this may well lead to more avoidance, noting that the EU as of yet has no tools to tackle increasing avoidance. The discussion revolved around a evaluation of the OECD initiative and many attendees expressed exasperation with its limits.

Panel 2: Money Laundering

Eleni Tsingou: Eleni asked why the AML regime looks as it does and how the regime has impacted on private actors, particularly those in banking organisations. She noted the change in the professional cartography of banks wherein the compliance officer has garnered on a significant role. Eleni suggested that a research agenda might explore whether there is a specificity to European regulatory networks in this area. It was suggested in discussion that a research agenda may explore how far bureaucratisation actually blinds us to concrete reality, i.e. is bureaucratisation a hindrance to effective regulation ?

Anthony Amicelle: Anthony summarised his work to date in terms of EU surveillance regimes, the SWIFT affair, bank cooperation with regulators and profiling software. He raised the agenda of an ethnography of compliance at the ten top EU banks. This agenda was received warmly by the group who encouraged him to find out how easily he would be able to gain access to conduct this ethnography. Anthony is going to report on his progress in this regard.

Attiya Waris: Attiya suggested three avenues of research which should be pursued. First, work needs to be done on Bangladesh which has strong ties to Singapore. Second, we need research on Kenya which is infamous for round-tripping through Mauritius. Third, we need to investigate money laundering in the context of the most difficult of circumstances, post conflict states such as South Sudan. The discussion focused much on the later. It was suggested that methodologies would be critical in such environments as research may invoke personal danger. However, the room recognized both that this specific agenda is important and that we in general need to do much more concrete work on the ground in the 'global south'.

Virod Ali: Virod works at the University of Thammasat in Bangkok from where he conducts research on the Singapore OFC. Singapore now outflanks Switzerland as the world's biggest tax haven and Ali explained to the audience why the Singaporean OFC is able to attract so much business following the disputes between the US and Switzerland on bank secrecy. The audience pressed Ali for further details, which he provided.

Prem Sikka: Prem asserted that the key to understanding the production and articulation of global wealth chains lies in investigating corporate culture. Prem spoke of his research into the case of BCCI where he made use of the UK Freedom of Information Act to reveal how the scandal was produced and by whom. Prem emphasized that we need to be looking at the influence of elites within markets, particularly within the micro world of accounting. The discussion revolved around research methods and how we can investigate professions and professional innovation effectively.

Panel 3: Regulation and Governance:

Sol Picciotto: Sol addressed how we should understand the nature of law in this context arguing that law is essentially indeterminate and that this fact opens up the space for legal engineers and engineering. Sol suggested that we need to unveil the concrete behind highly technical and abstract language and principles. Therefore he concluded that any research project emerging from the workshop must incorporate a focus on the legal profession and incorporate legal experts in the team. The discussion revolved around identifying appropriate methodologies for such a research agenda.

Jason Sharman: Jason presented some of his latest research in the area of compliance, revealing that, perhaps counterintuitively, it is the states who are seen to be leading the call for the re-regulation of tax havens who are the greatest culprits in terms of allowing space for law breaking. The discussion revolved around Jason's research methodology, which may serve as inspiration for our grant applications.

Thomas Rixen: Thomas laid out a research agenda asking: Are the loopholes in the Savings Tax Directive used? Do bi-lateral measures work? What are the endogenous effects of regulation? Do countries allow tax havens to avoid real tax competition? Thomas suggested that any regulation must be based upon strong normative principles and there is a need to investigate what such principles might look like if they are to underlie an international consensus. Finally Thomas suggested we might ask 'does it pay to be a tax haven?' The attendees reacted very warmly to the suggestion that we need strong normative foundations and discussed how he might construct such principles. The consensus was that this would be an interesting research agenda but the question of 'does it pay' would be more fitting to pursue further in funded research.

Markus Meinzer: Markus is the author of the Tax Justice Network Financial Secrecy Index and proposed that the core problem is a lack of transparency, secrecy is the currency of offshore jurisdictions. Markus provided the example of discretionary trusts and outlined how he produced the Secrecy Index. He further highlighted that no complete data exists of changes to forms of taxation in the OECD over time. The attendees questioned how he categorised countries and there was a general discussion on how to produce a more dynamic data set which would trace, and identify the sources of, change over time.

Panel 4: Micro States and Development

John Christensen: John informed the workshop about his life as a Barclays salesman on Guernsey. He narrated the changes he had seen to Guernsey society with the development of their tax haven. Drawing upon this John introduced the notion of a finance curse, which like Dutch Disease chases out alternative wealth. This suggestion proved very provocative with some attendees arguing there was no curse and the tax haven strategy was the best strategy available to these small post colonial states and suzerainties. The fact of the debate in the workshop indicated that adjudicating as to the developmental effects of an offshore strategy is crucial going forward.

Gurđið Weihe: Gurđið provided a presentation linked to a project funded by the Faroese Research Council on conditions for the development of tax haven in microstates. Drawing from a comparative analysis with the Cook Islands and the Dutch Antilles, she suggested that the international normative environment and the Faroes' relationship to Denmark were crucial in why the Faroes has based its economy on the Isle of Mann but has not pursued an OFC strategy.

Leonard Seabrooke: Len provided a presentation on how the European Union has placed pressure on European member states that have colonies or dependencies that operate tax havens. The key element here has been the extent of hypocrisy involved, notably in the case of the Dutch and the Dutch Antilles, where the former has engaged in actions to close down the latter, while providing no viable alternative development strategy, and while operating in a tax haven like manner. This led to a debate on how microstates and former dependencies can implement alternative development strategies.

Panel 5: Shadow Banking

Mike Rafferty: Mike addressed the issue of global capital flows and offshore financial centres. Mike presented his initial findings from conducting the first ever network analysis of bilateral capital flows based on the relatively new IMF CPIS data. Mike argued that unless we comprehend these macro dynamics we will not be able to be confident we are investigating the cutting edge or tracing change over time. The discussion of this presentation revolved around the changing nature of global capital flows and how work in this vein may trace it given considerable date holes and definitional confusion. Mike was able to delineate how far we may be able to find out what is the relationship between tax evasion money laundering and the shadow banking system deploying this methodology. The discussion highlighted that this quantitative work could be well complemented by qualitative work on OFC business model development, for example in the case of the Caymans.

Anastasia Nesvetailova: Anastasia provided a state of the art review of what we now know about the shadow banking system. Drawing on the work of Federal Reserve employees Anastasia showed how the system functions and in what ways it obscures the patterns and nature of capital movements and flows. The presentation provided the basis for a long discussion of where the boundaries the shadow banking system lie. For instance, one participant asked if we should include the private home loan market in China within this category.

Daniela Gabor: Daniela asserted that the repo markets are the untold part of the shadow banking story. She proceeded to provide a highly informative outline of the various workings of these markets and how collateral in these markets may have become an new form of

money, private money, beyond the state. Notably Daniela asserted that states are left relatively powerless as they are disciplined by the shadow banking system but seem powerless to intervene in it.

Dimitris Katsikas: Dimitris addressed head on the question of the tax implications of the shadow banking system pointing to the fact that the Caymans hosts the biggest hedge fund industry in the world and the SPVs so closely associated with the crisis and the sale of credit securitisations were often registered in offshore jurisdictions. Further, Dimitris pointed to the fact that corporate cash pools, for example belonging to GM, are located in tax havens and as far as wealth is stored in liquid investments rather than cash it is not possible to tax it. In so far as finance is essentially a Ponzi scheme which detracts from societal wealth Dimitris makes the case that we should devise ways of taxing the shadow banking system. Dimitris' presentation generated huge enthusiasm and it was noted that while we still need to determine the very nature of this system, Dimitris's agenda would be the one to be taken forward in a research grant application.

Duncan Wigan: Duncan spoke about the use of complex structured products and less complex derivatives to hide wealth and evade or avoid taxation. He suggested that while 'tax optimisation' has always been used as a selling point for derivatives sales desks as of yet there exists no comprehensive analysis of how derivatives are used in many different ways to minimize a tax contribution. The audience concurred that the use of derivatives for this purpose is widely known while the precise mechanisms deployed remain in the dark.

Panel 6: Roundtable Global Wealth Chains

This panel was led by Brooke Harrington and involved an open discussion of how to take our research agendas forward. Brooke began by outlining what we might have learned from the two day workshop in terms of concepts, measurements, methodologies and policy implications. This proved a fruitful basis to think through our next moves. This was a practical session and everyone shared their experience of funding, funders and funding applications. A host of possible avenues to pursue were discussed including those mentioned above and the Riksbanken Fund, Ford foundation and the Rockeller Fund. Further, it was agreed to maintain the network that emerged from the workshop via an email list which is now set up and in frequent use. Brooke Harrington agreed to lead an investigation of the way forward with a Synergy Grant and the convenors took on the mantle of leading the other two grant options decided upon and noted above. There was considerable enthusiasm amongst the group both in terms of the workshop discussion and the potentials raised.

3. Assessment of the results, contribution to the future direction of the field, outcome

* 3 applications as outlined above

* A continuous open and expanding network coordinated through the email list hosted at Copenhagen Business School.

* Please read panel descriptions for information as to the academic and policy contribution of the workshop

4. Final programme

Sunday 20 May 2012

afternoon *Arrival*

Monday 21 May 2012

9.30-10.15 *Coffee*

Welcome by Convenors

Leonard Seabrooke Duncan wigan –Global Wealth Chains- what are they?

Presentation of the European Science Foundation (ESF) by convenors

10.15-11.45 Panel 1 Tax Evasion

Chair: Sol Picciotto

Discussants: Ronen Palan, Richard Murphy, Brooke Harrington, Peter Schwarz

12.00-13.00 *Lunch on site*

13.15-14.45 Panel 2 Money Laundering

Chair: John Christensen

Discussants: Eleni Tsingou, Attiya Warris, Virod Ali, Prem Sikka, Anthony Amicelle

14.45-15.15 *Coffee*

15.15-16.45 Panel 3 Regulation & Governance

Chair: Mike Rafferty

Discussants: Sol Picciotto, Jason Sharman, Thomas Rixen, Markus Meinzer

17.00-17.30 Day 1 Closing remarks/summation

Ronen Palan

18.30 *Evening workshop dinner (Frederikshave, Virginavej, Frederiksberg)*

Tuesday 22nd May 2012

8.45-9.00 *Coffee*

9.00-10.45 Panel 4 Micro-states & Development

Chair: Benjamin de Carvalho

Discussants: Don Marshall, Guri Weihe, Leonard Seabrooke, John Christensen, Anna Persson

10.45-11.00 *Coffee*

11.00- 12.45 Panel 5 Shadow Banking

Chair: Richard Murphy

Discussants: Duncan Wigan, Anastasia Nesvetailova, Daniela Gabor, Dimitris Katsikas, Mike Rafferty

1.00-2.00 *Lunch on site*

2.00-3.45 Roundtable Global Wealth Chains:

What do we know? What do we need to find out? How should we do it?

Chair: Brooke Harrington

3.30-4.00 *Coffee/end workshop*

5. Final list of participants

Convenor:

1. Leonard SEABROOKE
Department of Business and Politics
Copenhagen Business School

Co-Convenor:

2. Duncan WIGAN
Department of Business and Politics
Copenhagen Business School

Participants:

3. Virod ALI
Faculty of Political Science
Thammasat University
4. Anthony AMICELLE
Institut d'Etudes Politiques de Lille
CERAPS
5. John CHRISTENSEN
Director Tax Justice Network
6. Daniela GABOR
Thinktank Europeen Pour la Solidarite
7. Benjamin DE CARVALHO
Department of International Politics
NUPI
8. Brooke HARRINGTON
Department of Business and Politics
Copenhagen Business School
9. Dimitris KATSIKAS
University of Athens
Hellenic Foundation for European
and Foreign Policy (ELIAMEP)
10. Markus MEINZER
Tax Justice Network Germany
11. Richard MURPHY
Tax Research LLP
12. Anastasia NESVETAILOVA
Department of International Relations
City University London
13. Ronen PALAN
Department of Political Sciences and International Relations
School of Government and Society

14. Sol PICCIOTTO
Emeritus Professor
Lancaster University
15. Mike RAFFERTY
Workplace Research Centre
University of Sydney
16. Thomas RIXEN
Social Science Research Center Berlin
17. Peter SCHWARZ
School of Humanities and Social Sciences
Jacobs University Bremen
18. Jason SHARMAN
Centre for Governance and Public Policy
Griffith University
19. Prem SIKKA
Essex Business School
University of Essex
20. Eleni TSINGOU
Department of Business and Politics
Copenhagen Business School
21. Attiya WARIS
University of Nairobi
Law Faculty
22. Guri WEIHE
Ernst&Young P/S

6. Statistical information on participants

Age brackets of participants:

20-30	0	30-40	12
40-50	5	50-60	4
60-70	1	70-80	1

Countries of Origin:

Denmark	5	Thailand	1
France	1	United Kingdom	6
Belgium	1	Portugal	1
Norway	1	Germany	3
Greece	1	Australia	2
Kenya	1		

Gender:

Females	6	Males	17
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