VINTAGE

TREASURE ISLANDS

NICHOLAS SHAXSON

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About the Book

WITH NEW AND UPDATED MATERIAL COVERING THE PANAMA PAPERS’ REVELATIONS AND BRITIAN’S EU REFERENDUM VOTE

Billionaire Warren Buffet, currently the third wealthiest man in the world, paid the lowest rate of tax among his office staff, including his receptionist.

In 2006 the world’s three biggest banana companies did nearly £400 million worth of business in Britain but paid just £128,000 in tax between them.

In January 2009, US law enforcement fined Lloyds TSB $350 million after it admitted secretly channelling Iranian and Sudanese money into the US banking system.

Tax havens are *the* most important single reason why poor people and poor countries stay poor. They lie at the very heart of the global economy, with over half the world trade processed through them. They have been instrumental in nearly every major economic event, in every big financial scandal, and in every financial crisis since the 1970s, including the latest global economic downturn.

In *Treasure Islands*, Nicholas Shaxson shows how this happened, and what this means for you.

About the Author

Nicholas Shaxson is the author of *Poisoned Wells: The Dirty Politics of African Oil*, and an experienced journalist who has written regularly for the *Financial Times*, *The Economist, Vanity Fair*, and many others.

ALSO BY NICHOLAS SHAXSON

Poisoned Wells: The Dirty Politics of African Oil

For George, Oscar and Emma

NICHOLAS SHAXSON

Treasure Islands

Tax Havens and the Men Who Stole the World

VINTAGE

Preface

Offshore after Brexit

Successful revolutions, a famous economist once said, are the kicking in of a rotten door. Since *Treasure Islands* was first published in 2011, the rotten door of offshore has been properly exposed – and the time to kick is now.

It seems the world has come to accept the reality of how far offshore has infiltrated our financial systems and governments. The basic facts of the system were considered pretty revolutionary when *Treasure Islands* first came out, but now they are received wisdom. Even supporters of tax havens don't deny it.

Tax havens and the offshore system are at the heart of the world economy. Their tentacles reach *everywhere*. And the damage they wreak on our tax systems is just a subset of a much bigger set of threats they pose to our democracies and to the world economy: they are the ultimate escape routes for our wealthiest citizens and corporations from a menagerie of laws, rules, financial regulations and democratic accountability. Offshore is globalisation's rotten core.

A string of offshore leaks by whistle-blowers – most importantly, the 'Panama Papers' scandal of 2016, implicating some of the world's most powerful people, have provided fresh, hard evidence to confirm and underline everything that's in this book.

It is now clear that Britain sits, spider-like, at the centre of a vast international web of tax havens, which hoover up trillions of dollars' worth of business and capital from around the globe and funnel it up to the City of London. The British Crown Dependencies and Overseas Territories – Jersey, the Cayman Islands, the British Virgin Islands, and several others – are some of the biggest players in the offshore world. While partly independent of Britain, these islands sport the Queen's head on their postage stamps and banknotes, and Britain ultimately has the power to strike down their tax haven laws if it wishes.

Nobody denies, either, that there is something very peculiar about the City of London Corporation, the ancient and fortress-like body that governs the 'Square Mile' of prime financial real estate in central London and casts a protective, almost invisible political umbrella over an increasingly piratical financial sector. Few deny now that the United States is also a gigantic tax haven, hosting trillions of dollars' worth of the world's wealth – much of it criminal in origin – wreathed in tight, made-in-America secrecy. Send your money to the US and, if you play your cards carefully, you can hide it from your own tax authorities and your criminal justice system.

Nobody has come close to overturning the steadily expanding body of research and analysis that demonstrates the sheer scale of harm wreaked on the world by these elitist, crime-infested fortresses for the rich. And despite endless denials and deflection from the tax havens, people are starting to take seriously my argument that tax havens and the City of London financial sector were a central ingredient in the global financial crisis – and will be in the next one. These places are serving as silent battering rams of financial deregulation, amok in the world economy.

And yet despite this exposure new havens pop up all the time, like poisonous mushrooms. You probably heard that

Panama is a crooked tax haven – but did you know about Dubai? Or Mauritius? Latvia? New Zealand?

Or *Kenya?* In June 2016, just a few weeks before writing this, the Kenyan government proposed new legislation, drafted with the help of the City of London Corporation, promising to create a new offshore financial centre in Nairobi. This new legislation would mean that anyone who divulges confidential information faces jail terms of up to three years. This is designed to create classic offshore *omertà*, fit for hiding and protecting endless crimes and abuses. Kenyan anti-corruption campaigner John Githongo warned that the tax haven they have in mind risks being like 'a financial crime aircraft carrier, self-contained and able to cause considerable damage'. Those words could describe the whole offshore system.

The shape-shifting offshore monster is growing, as countries vie with each other to attract the world's hot money with the latest and most devious new secrecy facility, say: or the next wheeze to facilitate offshore hedge fund shenanigans. To stay in the game other havens, urged by teams of skilled offshore accountants, lawyers and bankers, then enact something nastier still, just to keep up with the latest 'advance', and new players are steadily entering the race. And this is a race to the bottom, whose only winners are our increasingly unaccountable elites and their wealth management teams.

As offshore metastasises, expands and pushes constantly into new nooks and crannies in the world economy, researchers, journalists and other sleuths are entering the field: prodding and measuring, questioning and describing. The results are steadily solidifying, and amounting to a frightening body of work. But keeping up with the evolving incarnations of offshore isn't easy.

I'm writing this a couple of weeks after the latest jolt to the system, Britain's Brexit vote.

A plausible post-Brexit scenario sees a mischievous Britain, unmoored from Europe's moderating influences, reinvigorating its already dominant offshore establishment and pitching itself into a new sprint to become ever more haven-ish. If Brexit deprives the City of London of its privileged access to huge European markets, the anti-tax, anti-regulation fantasists will urge Britain to race faster to the bottom to attract the world's hot money, and to emulate places like Panama, the British Virgin Islands, or mucky little Luxembourg. These countries' core business model is to turn ever more of a blind eye to the criminal or unhealthy origins of the money that's handled through their territories, and in Britain's case to indulge the world's banks and shadow banks who want to use London as an ever more unregulated offshore playground to engage in profitable risk-taking and crookery – at everyone else's expense. If you think the City of London is corrupt today, wait and see what the Brexit-boosted lobbyists and fantasists have in mind.

Within hours of the Brexit vote, these fantasists were already coming out of the woodwork. The Swiss Bankers' Association suggested a so-called 'F4 Alliance' of financial centres, with Switzerland and the UK joining the fast-rising tax havens of Hong Kong and Singapore to present a strong and united bloc to push for the interests of offshore finance. Chris Cummings, the Chief Executive of the lobbying body TheCityUK, an influential outgrowth of the City of London Corporation, began calling for steps to reinforce the 'competitiveness' of the UK in financial services. That c-word is often code for an ideology that says we must constantly shower the biggest players with tax cuts, deregulation and other goodies, for fear they'll all run away to Geneva, Dublin or Hong Kong.

Meanwhile, outgoing UK Chancellor George Osborne, in an apparently panicky reaction to the Brexit vote, said he'd cut corporate taxes to just 15 per cent – a brutal slashing from the 26 per cent that prevailed when *Treasure Islands* was first published, and a move that would be devastating for public finances. Days later, officials in the Netherlands promised to follow suit, in a tit-for-tat. Others will no doubt join in.

The Brexit vote was, in the end, about globalisation. The hottest issue was immigration, which is, as Professor John van Reenen of the London School of Economics points out, ‘globalisation made flesh’. But behind the vote we can also discern a powerful role played by tax havens, the dark twisted souls of financial globalisation.

For one thing, the Brexit vote was a once-in-a-lifetime opportunity for exasperated people to kick Britain’s rotten establishment in the teeth. The discovery that David Cameron had once had a stash in a family fund in the tax haven of Panama was just the most pointed recent example of a system-wide problem.

On the other hand, and more importantly, the offshore system has been engineering a gigantic and ever-rising transfer of wealth from ordinary taxpayers to our offshore-diving corporations and wealthy individuals, in multiple ways. This has worsened economic and political inequality in Britain, heightened the popular rage – and as a result, hastened Brexit.

The offshore system boils down to two words: ‘escape’ and ‘elsewhere’. You take your money elsewhere to escape whatever rules and laws you don’t like. Tax havens are a financial technology to create these escape routes. So this book isn’t, as some have suggested, merely about ‘tax avoidance’, or even really about tax. It’s about a far bigger geopolitical phenomenon, of which tax is just one of many moving parts.

But there is a new hope abroad, which wasn’t the case when *Treasure Islands* was first published.

Something in the *Zeitgeist* has changed. I’ve been watching closely, and I see the cultural and social acceptability of this stuff being transformed. Ordinary people and world leaders are now talking seriously about tackling tax havens, in way I could hardly have imagined five years ago. Efforts to reform the system, though messy and disappointing so far, contain some real substance for the first time.

In this Trumpy, Brexity world, the old certainties of left and right are broken, and the pieces are still up in the air. A new system hasn't coalesced yet. It is a time of rapid change, pregnant with possibilities. If we can harness the anger so many people feel about the system now, this is an opportunity for positive change that may not come around again for a very long time.

I'm far from the only one working in this area. This book rests on decades of work by a few offshore dissident pioneers, mostly now associated with the Tax Justice Network. Together we've created a completely new story about financial globalisation: a new lens through which to understand the world.

Treasure Islands is a furious book. It could hardly be otherwise: offshore is corrupting our world economy and our societies and cultures. But the anger embedded in the pages to come doesn't lie in the adjectives. In the words of David Marchant, an offshore fraud investigator who's seen it all, there's no need to embellish the stories. Because the facts are just so amazing.

Berlin, July 2016

Prologue

How colonialism left through the front door, and came back in through a side window

One night in September 1997 I returned home to my flat in north London to find that a man with a French accent had left a message on my answering machine. Mr Autogue, as he called himself, had heard from an editor at the *Financial Times* that I was to visit the former French colony of Gabon on Africa's western coastline, and he said he wanted to help me during my visit. He left a number in Paris. Curious as hell, I rang back the next morning.

This was supposed to be a routine journalist's trip to a small African country: I wasn't expecting to find too much to write about in this sparsely populated, oil-rich ex-colony, but the fact that English-speaking journalists almost never ventured there meant I would have the place all to myself. When I arrived I discovered that Mr Autogue had flown out to the capital Libreville with an assistant on first-class Air France tickets and had booked the most expensive hotel for a week – and their sole project, he cheerfully admitted, was to help me.

I had spent years watching, living in and writing about the countries along the curve of Atlantic coastline ranging from Nigeria in the north, through Gabon and down to Angola in the south. This region supplies almost a sixth of US oil imports[1] and about the same share of China's, and beneath the veneer of great wealth lies terrible poverty, inequality and conflict. Journalists are supposed to start on the trail of a great story somewhere dramatic and dangerous; unexpectedly I found my story here, in a series of polite if unsettling meetings in Libreville. Lunch with the Finance Minister? No problem. Monsieur Autogue arranged it with a phone call. I drank a cocktail in a hotel lobby with the powerful half-Chinese foreign minister Jean Ping, who later became president of the UN General Assembly. He gave me as much of his time as I needed for my interview and asked graciously about my family. Later, the oil minister clapped me on the shoulder and jokingly offered me an oilfield – then withdrew the proposal, saying, 'No, these things are only for *les grands* – the people who matter.'

Never more than two hundred yards from abject African poverty on the streets of Libreville, I spent a week wandering about in a bubble. The estimable Mr Autogue opened for me a zone of air-conditioned splendour: I was ushered to the front of queues to see powerful people, and they were always delighted to see me. This parallel, charmed world, underpinned by the unspoken threat of force against anyone inside or outside the bubble who might disrupt it, is easy to miss, but Mr Autogue's attempts to keep my diary full made me determined to find out what it was he might be wanting to hide. In fact, I had stumbled into what later became more widely known through a scandal in Paris as the Elf Affair.

The Elf Affair began from tiny beginnings in 1994, when the US-based Fairchild Corporation began a commercial dispute with a French industrialist. The dispute triggered a stock exchange inquiry in France, and an investigating magistrate, Eva Joly, got involved. Unlike more adversarial Anglo-Saxon legal systems, where the prosecution jousts with the defence to produce a resolution, the investigating magistrate in France is more like an impartial detective inserted between the two sides. He or she is supposed to scrutinise the matter until the truth is uncovered. Every time the Norwegian-born Joly investigated something, new leads would emerge – and her probes just kept going deeper. Before too long she received death threats: a miniature coffin was sent to her in the post, and on one raid she found a fully loaded Smith & Wesson revolver pointed at the entrance. But she persisted, more magistrates became involved, and as the extraordinary revelations accumulated, they began to discern the outlines of a gigantic system of corruption that connected Elf Aquitaine, the French political and intelligence establishments and Gabon’s corrupt ruler, Omar Bongo.

Bongo’s story is a miniature of French decolonisation. Countries formally gained independence, but the old masters found ways to stay in control behind the scenes. Gabon became independent in 1960, just as it was starting to emerge as a promising new African oil frontier, and France paid it particular attention. The right president was needed: an authentic African leader who would be charismatic, strong, cunning and, when it mattered, utterly pro-French. Omar Bongo was the perfect candidate. He was from a tiny minority ethnic group and had no natural domestic support base, so he had to rely on France to protect him. In 1967, aged just thirty-two, Bongo became the world’s youngest president, and France placed several hundred paratroopers in a barracks in Libreville, connected to one of his palaces by underground tunnels. This deterrent against coups proved so effective that by the time Bongo died in 2009 he was the world’s longest-serving leader. A local journalist summed the situation up for me: ‘The French went out of the front door,’ he said, ‘and came back in through a side window.’

In exchange for France’s backing, Bongo gave French companies almost exclusive access to his country’s minerals on highly preferential terms. He would also become the African linchpin of a vast, spooky web of global corruption secretly connecting the oil industries of former French African colonies with mainstream politics in metropolitan France, via Switzerland, Luxembourg and other tax havens. Parts of Gabon's oil industry, Joly discovered, had been serving as a giant slush fund, making hundreds of millions of dollars available for the use of French elites. The system developed gradually, but by the 1970s it was already serving as a secret financing mechanism for the main French right-wing party, the RPR.[2] When a socialist, François Mitterrand, became French president in 1981, he sought to break into this Franco-African offshore cash machine, installing Loïk le Floch-Prigent as the head of Elf to do the job. But Mitterand's man was wise enough not to cut out the RPR. 'Le Floch knew that if he cut the financing networks to the RPR and the secret services it would be war,' wrote Valérie Lecasble and Airy Routier in an authoritative book on the subject.[3] 'It was explained that instead, the leaders of the RPR – Jacques Chirac and Charles Pasqua – did not mind the socialists taking part of the cake, if it were enlarged.'

This was not only a question of party political finance; France's biggest corporations were also able to make use of this west African oil pot as a source of money that enabled them to pay bribes from Venezuela to Germany to Jersey to Taiwan, while ensuring that the money trails did not lead to them. Elf's dirty money also greased the wheels of French political and commercial diplomacy around the globe. One man told me how he had once carried a suitcase of money provided by Omar Bongo to pay off a top rebel separatist in the Angolan enclave of Cabinda, where Elf had a lucrative contract. President Bongo, one of the smartest political operators of his generation, tapped into French Freemasonry networks and African secret societies alike and became one of the most important power brokers in France. He was the key to French leaders' ability to bind *les grands* – opinion formers and politicians from across Africa and beyond – into France's post-colonial foreign policy. As the Elf system became more baroque, complex and layered, it branched out into international corruption so grand that le Floch-Prigent described France's intelligence services, which also dipped freely into the slush fund, as 'a great brothel, where nobody knows any more who is doing what'.[4]

This immensely powerful system helped France punch above its weight in global economic and political affairs, and flourished in the gaps between jurisdictions. It flourished offshore.

My trip to Gabon in late 1997 came at an exquisitely sensitive time. On 7 November, less than a week after I left Libreville, Christine Deviers-Joncour, a former lingerie model, was sentenced to jail in Paris, still protecting the secrets of her lover Roland Dumas, President Mitterrand's foreign minister. Deviers-Joncour was jailed for suspected fraud after investigating magistrates discovered that Elf Aquitaine had paid her more than six million dollars to help 'persuade' Dumas, a haughty prince of the Paris political scene, to do certain things – notably to reverse his public opposition to the sale of Thomson missile boats to Taiwan. On an Elf credit card she had bought him gifts, including a pair of handmade ankle boots from a Paris shop so exclusive that its owner offered to wash customers' shoes once a year in champagne.

Nobody thanked Deviers-Joncour for her discretion, and five and a half months in jail gave her time to reflect on this. 'A flower, a single flower, even sent to me anonymously would have been enough,' she later explained.[5] 'I would have known it came from Roland.' The following year, casting aside her silence, she published a book, *The Whore of the Republic*, which became a best-seller in France.

So when I arrived in Gabon at that especially tricky moment, the Elf network must have wondered why an English journalist was nosing around in Libreville. Was I actually a journalist? No wonder Mr Autogue took such an interest in me. I recently tried to locate him, to ask him about our week together. His old phone numbers no longer work; several Africa experts in Paris hadn't heard of him; Internet searches couldn't find him or the company he claimed to represent; and the only person with that name in the French phone book has – a surprised-sounding wife in a Dordogne village informed me – never been to Gabon.

Following the scandal, French politicians declared the Elf system dead and buried, and Elf Aquitaine has been privatised and entirely transformed since then: it is now part of the Total group. But Elf was not the only player in the corrupt Franco-African system. One might ask why the first foreign leader President Nicolas Sarkozy of France telephoned after he came to power in 2007 was not the president of Germany, the United States or the European Commission, but Omar Bongo; or why those French troops remain in place in Gabon today, still connected by tunnels to the presidential palace now inhabited by Bongo's son, President Ali Bongo. The Elf system may be dead, but something else has probably replaced it. In January 2008 the French aid minister, Jean-Marie Bockel, complained that the 'rupture' with a corrupt past 'is taking its time to arrive'. He was summarily sacked.[6]

The Elf system was part of, and a metaphor for, the offshore world. Gabon is not on any published lists of tax havens, though it did provide secret, corrupt facilities for non-resident elites, a classic tax haven feature. Like the offshore system, it was a kind of open secret. Some well-connected French people knew all about it, and many outsiders knew something important was happening, but they largely ignored it, almost nobody could see the whole thing in overview. Yet it was a truly gargantuan octopus of corruption, affecting ordinary people in both Africa and France in the most profound, if mostly invisible, ways.

Everything was connected through tax havens. The paper trails, as the magistrates were discovering during my Libreville trip, typically passed through Gabon, Switzerland, Liechtenstein, Jersey and elsewhere. Eva Joly admitted that even she only ever saw fragments of the whole picture. 'Endless leads were lost in the shifting sands of the tax havens. The personal accounts of monarchs, elected presidents-for-life and dictators were being protected from the curiosity of the magistrates. I realised I was no longer confronted with a marginal thing but with a system,' she said, speaking about both French politics and the offshore world. 'I do not see this as a terrible, multi-faceted criminality which is besieging our [onshore] fortresses. I see a respectable, established system of power that has accepted grand corruption as a natural part of its daily business.'

Long before my first visit to Libreville, I had noticed how money was pouring out of Africa, but the secrecy surrounding the offshore world made it impossible to trace the connections. Financial institutions and lawyers would surface in particular stories, then slip back into an offshore murk of commercial confidentiality and professional discretion. Every time a scandal broke, these players' crucial roles escaped serious scrutiny. Africa's problems, the story went, had something to do with its culture and its rulers, or the oil companies, or the legacy of colonialism. The providers of offshore secrecy were clearly a central part of all the dramas, but the racket was very hard to penetrate, and nobody seemed very interested either.

It was only in 2005 that the threads properly started to come together for me. I was sitting with David Spencer, a New York attorney previously with Citicorp, talking about transparency in the public finances of west African oilproducing nations. Spencer was getting worked up about matters that were not at all on my agenda: accounting rules, tax exemptions on interest income and transfer pricing. I was wondering when he was going to start talking about west African corruption when I finally made the connection. The United States, by offering tax incentives and secrecy to lure money from overseas, had been turning itself into a tax haven.

The US government needs foreign funds to flow in, and it attracts them by offering tax-free treatment and secrecy. This, Spencer explained, had become central to the US government's global strategy. Tides of financial capital flow around the world in response to small changes in these kinds of incentives. Not only did almost nobody understand this, Spencer said, but almost nobody *wanted* to know. Once he gave a speech at a major United Nations event outlining some of these basic principles, and afterwards a top US negotiator told him that shedding light on this subject made him 'a traitor to your country'.

In the Harvard Club I began to see how the terrible human cost of poverty and inequality in Africa connected with the apparently impersonal world of accounting regulations and tax exemptions. Africa's supposedly natural or inevitable disasters all had one thing in common: the movement of money out of Africa into Europe and the United States, assisted by tax havens and a pinstriped army of respectable bankers, lawyers and accountants. But nobody wanted to look beyond Africa at the system that made this possible.

The very term 'capital flight', if you think about it, puts the onus on the country losing the money – it's another way of blaming the victim. But each flight of capital out of Africa must have a corresponding inflow somewhere else. Who was researching the inflows? The offshore system wasn't just an exotic sideshow in the stories I was covering. Offshore *was* the story. It binds together Libreville and Paris, Luanda and Moscow, Cyprus and London, Wall Street, Mexico City and the Cayman Islands, Washington and Riyadh. Offshore connects the criminal underworld with the financial elite, the diplomatic and intelligence establishments with multinational companies. Offshore drives conflict, shapes our perceptions, creates financial instability and delivers staggering rewards to *les grands*, to the people who matter. Offshore is how the world of power now works. This is what I want to show you in what follows.

Most of what follows was published in 2012. This new edition has a long update at the end, with a chapter looking at the Panama Papers. That rolling scandal helps me explore how the offshore world has changed in the past five years. It reveals how a determined pushback against tax havens is now underway – but such is the scale and scope of the offshore system that the battle has only just begun.

1

Welcome to Nowhere

An introduction to offshore

The offshore world is all around us. More than half of world trade passes, at least on paper, through tax havens.[1] Over half of all banking assets and a third of foreign direct investment by multinational corporations, are routed offshore.[2] Some 85 per cent of international banking and bond issuance takes place in the so-called Euromarket, a stateless offshore zone that we shall soon explore.[3] The IMF estimated in 2010 that the balance sheets of small island financial centres alone added up to $18 trillion – a sum equivalent to about a third of the world's GDP. And that, it said, was probably an underestimate.[4] The US Government Accountability Office (GAO) reported in 2008 that 83 of the USA's biggest 100 corporations had subsidiaries in tax havens. The following year research by the Tax Justice Network, using a broader definition of offshore, discovered that ninety-nine of Europe's hundred largest companies used offshore subsidiaries. In each country, the largest user by far was a bank.

Nobody agrees what a tax haven is. In truth, the term is a bit of a misnomer, for these places don't just offer an escape from tax; they also provide secrecy, an escape from financial regulation, and a chance to shrug off laws and rules of other jurisdictions, the countries where most of the world lives. In this book, I will offer a loose definition of a tax haven, as a 'place that seeks to attract business by offering politically stable facilities to help people or entities get around the rules, laws and regulations of jurisdictions elsewhere'.[5] The whole point is to offer escape routes from the duties that come with living in and obtaining benefits from society – tax, responsible financial regulation, criminal laws, inheritance rules and so on. This is their core line of business. It is what they *do.*

My definition is a broad one, and I have chosen it for two main reasons. First, to challenge the common idea that it is acceptable for a place to get rich by undermining the laws of other places. My second aim is to offer a lens through which to view the history of the modern world. This definition will help me show that the offshore system is not just a colourful outgrowth of the global economy, but instead lies right at its centre.

Several features help us spot tax havens.

First, as my colleagues have found through painstaking research, all these places offer secrecy, in various forms, combined with varying degrees of refusal to cooperate with other jurisdictions in exchanging information. The term 'secrecy jurisdiction' emerged in the US in the late 1990s, and in this book I will use that term interchangeably with 'tax haven', sometimes depending on which aspect I want to stress.

Another common marker for tax havens is very low or zero taxes, of course. They attract money by letting people escape tax, legally or illegally.

Secrecy jurisdictions also routinely ring-fence their own economies from the facilities they offer, to protect themselves from their own offshore tricks. Offshore is fundamentally about being an *elsewhere* zone of escape –

and offshore services are provided for non-residents. So a tax haven might, say, offer a zero tax rate to non-residents who park their money there, but tax its own residents fully. This ring-fencing between residents and non-residents is a tacit admission that what they do can be harmful.

Another way to spot a secrecy jurisdiction is to look for whether its financial services industry is very large compared to the size of the local economy. The IMF used this tool in 2007 to finger Britain, correctly, as an offshore jurisdiction.[6]

Another, more light-hearted telltale sign of a tax haven is that its spokespeople periodically claim, 'we are not a tax haven', and strenuously work to discredit critics who, they claim, are using 'outdated media stereotypes' that do not correspond to 'objective reality'.

But the most important feature of a secrecy jurisdiction – and it is a defining one – is that local politics is captured by financial services interests (or sometimes criminals, and sometimes both), and meaningful opposition to the offshore business model has been eliminated. This is why I include 'politically stable' in my definition: there is little or no risk that democratic politics will intervene and interrupt the business of making (or taking) money. This political capture produces one of the great offshore paradoxes: these zones of ultra-freedom are often highly repressive places, intolerant of criticism.

Insulated from domestic challenges and alternative viewpoints, these places have come to be steeped in a pervasive inverted morality, where turning a blind eye to crime and corruption has become accepted as best business practice, and alerting the forces of law and order to wrongdoing has become the punishable offence. Rugged individualism has morphed into a disgregard, even a contempt, for democracy and for societies at large.

‘Taxes are for the little people,’ the New York millionairess Leona Hemsley once famously said. She was right, though she wasn’t big enough to escape prison herself. The media baron Rupert Murdoch is different. His News Corporation, which owns Fox News, MySpace, the *Sun* newspaper and any number of other media outlets, is a master of offshore gymnastics, using all legal means available. Neil Chenoweth, a reporter who probed its accounts and found that its profits, declared in Australian dollars, were A$364,364,000 in 1987, A$464,464,000 in 1988, A$496,496,000 in 1989 and A$282,282,000 in 1990.[7] The obvious pattern in these numbers cannot be a coincidence. As the reporter John Lanchester wrote in the *London Review of Books*, ‘That little grace note in the sums is accountant-speak for “Fuck you.” Faced with this level of financial wizardry, all the ordinary taxpayer can do is cry “Bravo l’artiste!”’

The French have a quaint term for a tax haven: *paradis fiscal* – fiscal paradise, like the similar *paraíso fiscal* in Spanish. The players in the secrecy jurisdictions love this language: the word ‘paradise’ (some say this comes from mistranslating ‘haven’ as ‘heaven’) contrasts with what they like to paint as oppressive, high-tax onshore hellholes, from which tax havens are welcome escapes. They certainly are escapes – only not for ordinary folk. Offshore is a project of weathy and powerful elites to help them take the benefits from society without paying for them.

Imagine you are in your local supermarket and you see well-dressed individuals zipping through a ‘priority’ checkout behind a red velvet rope. There is also a large item, ‘extra expenses’, on your checkout bill, which subsidises *their* purchases. Sorry, says the supermarket manager, but we have no choice. If you did not pay half their bill, they would shop elsewhere. Now pay up.

Offshore business is, at heart, about artificially manipulating paper trails of money across borders. To get an idea of how artificial it can be, consider the banana.

Each bunch takes two routes into your fruit bowl. The first route involves a Honduran worker employed by a multinational who picks the bananas, which are packaged and shipped to Britain. The multinational sells the fruit to a big supermarket chain, which sells it to you.

The second route – the accountants' paper trail – is more roundabout. When a Honduran banana is sold in Britain, where are the final profits generated, from a tax point of view? In Honduras? In the British supermarket? In the multinational's US head office? How much do management expertise, the brand name, or insurance contribute to profits and costs? Nobody can say for sure. So the accountants can, more or less, make it up. They might, for example, advise the banana company to run its purchasing network from the Cayman Islands and run its financial services out of Luxembourg. The multinational might locate the company brand in Ireland; its shipping arm in the Isle of Man; 'management expertise' in Jersey and its insurance subsidiary in Bermuda.

Say the Luxembourg financing subsidiary now lends money to the Honduras subsidiary and charges interest at $20 million per year. The Honduran subsidiary deducts this sum from its local profits, cutting or wiping them out (and its tax bill). The Luxembourg's subsidiary's $20 million in extra income, however, is only taxed at Luxembourg's ultra-low tax haven rate. With a wave of an accountant's wand, a hefty tax bill has disappeared, and capital has shifted offshore.

Big Banana has done a common offshore trick known as *transfer pricing*, or *transfer mispricing.* US Senator Carl Levin calls transfer pricing 'the corporate equivalent of the secret offshore accounts of individual tax dodgers'. By artificially adjusting the price for the internal transfer, multinationals can shift *profits* into a low-tax haven and *costs* into high-tax countries where they can be deducted against tax. In this banana example, tax revenue has been drained out of a poor country and into a rich one. And poor countries with underpaid tax officials always lose out to multinationals' aggressive, highly paid accountants.

Who is to say that the $20 million loan from the Luxembourg subsidiary was conducted at the real market rate? It is often hard to tell. Sometimes the prices for these transfers are adjusted so aggressively that they lose all sense of reality: a kilogram of toilet paper from China has been sold for $4,121, a litre of apple juice has been sold out of Israel at $2,052; ballpoint pens have left Trinidad valued at $8,500 each. Most examples are far less blatant, but the cumulative total of these shenanigans is vast. About two-thirds of global cross-border world trade happens inside multinational corporations. Developing countries lose an estimated $160 billion each year just to corporate trade mispricing of this kind. That much spent on healthcare, Christian Aid reckons, could save the lives of 1,000 under-five children per day.[8]

Worldly readers may still shrug and tell themselves that this is just part of the ugly flip side of living in a rich nation. If they do, in their reluctantly cynical way, they are suckers – for they suffer as well. The tax bill is not only cut in Honduras, but in Britain and the United States too. The *Guardian* found that in 2006 the world's three biggest banana companies, Del Monte, Dole and Chiquita, did nearly $750 million worth of business in Britain but paid just $235,000 in tax between them:[9] less than a top-rank footballer's earnings.[10] An annual report of a real banana company listed in New York notes 'The company currently does not generate US federal taxable income. The company's taxable earnings are substantially from foreign operations being taxed in jurisdictions at a net effective rate lower than the US statutory rate.' Rough translation: we don't currently pay US taxes because we do transfer pricing, via tax havens.

Multinationals generally find it hard to use offshore to cut their taxes to *zero* since governments take countermeasures, but it is a battle they are losing. A study by Britain's National Audit Office in 2007 found that a third of the country's biggest 700 businesses had paid *no tax at all* in the UK in the previous financial boom year.[11] When the *Economist* investigated in 1999 it reckoned that Rupert Murdoch's sprawling News Corporation paid a tax rate of just 6 per cent.[12] This ability to engage in transfer mispricing is one of the most important reasons why multinationals *are* multinationals, and why they usually grow faster than smaller competitors. Anyone concerned about the power of global multinationals should pay attention.

Tax havens claim that they make global markets more 'efficient'. But this system I am describing is profoundly inefficient. Nobody has produced a better or cheaper banana here. What has happened instead is a transfer of wealth. These untargeted government subsidies for multinationals affect their real productivity in the same way that untargeted subsidies generally do: they reduce it. Focusing energies on tax avoidance takes the pressure off capitalists to do what they do best: create better and cheaper goods and services. And that is by no means all. When, for example, the Caymans hatches up a new and ingenious offshore loophole, the United States will take countermeasures, and the Caymans will create new loopholes to get around those. The battle continues, and America's tax code gets ever more complex. This, in turn, creates new opportunities for the wealthy and their cunning advisers to find pathways through the expanding legal thickets. Huge industries grow up to service the avoidance industry: a gigantic inefficiency in the world economy.