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## What the Panama Papers tell us about today's world

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Even if tax scandals have been in the European media for years now, the Panama Papers revelations take the problem to a whole new level. This Panama Papers leak is an unprecedented event, by the size of the consortium of journalists coordinating the investigation (376 journalists from 109 media outlets) but also by the scope of the revelations, involving politicians, stars and many other celebrities.

Unless you have been living on another planet for the past three weeks, you must have heard about the biggest leak in history, showing – through 11.5 million documents – how one law firm called [Mossack Fonseca](#) helped create more than 200,000 offshore companies for wealthy people and criminals to evade taxes or launder dirty money.

Panama Papers is not the first international tax scandal, nor even the first one brought to us by [ICIJ](#) (International Consortium of Investigative Journalists). But contrary to [Luxleaks](#) (focusing on Luxembourg) or to [Swissleaks](#) (focusing on the practice of one bank – HSBC), the Panama Papers involve 21 tax havens and cover problems of both tax evasion and money laundering, whilst naming over 140 politicians in 50 countries. This is the biggest international tax scandal ever seen.

After a few weeks of non-stop headlines about the Panama Papers and before we have access to the entire database (announced for May), we can already draw a few preliminary conclusions from the partial data released by journalists.

### We haven't seen the end of tax havens (yet)

“Les paradis fiscaux, c’est terminé” (This is the end of tax havens): this is a famous quote from former French President Nicolas Sarkozy in 2009. Back in 2009, the G20 – the 19 wealthiest countries in the planet plus the European Commission – took note of the financial crisis which had just started and decided to try and improve the functioning of the international financial system. This meant tackling the role of tax havens which were coming to be viewed as black holes into which money disappears and remains untaxed. To this end, they mandated the [OECD](#) – the Organisation for Economic Co-operation and Development,

based in Paris and made up of 34 member countries – to create a blacklist of tax havens. It took only a few months to clear this list, as all countries made a commitment to respect the OECD's weak transparency standards.

If this sounds familiar to you, that's normal. The G20 just announced mid-April 2016 its willingness to fight tax havens and... asked the OECD to create a blacklist of tax havens. There is a feeling of "déjà-vu", especially when we hear that only three countries could qualify for this list for not respecting the still weak OECD standards. Unfortunately, we are not in the [Groundhog Day](#) movie and one wishes leaders could find more innovative solutions to this on-going problem, instead of testing old (and unsuccessful) recipes.

A major part of the problem is that the OECD and many countries (as well as the entire offshore industry) tend to pretend that tax havens are only secret jurisdictions unwilling to exchange tax information with other countries. Given that almost all countries in the world have now committed to automatically exchanging tax information between themselves, some announced a bit too quickly a tax haven-free era. But while secrecy and lack of cooperation are important characteristics of tax havens, they're not the only ones. Many tax havens also offer zero or very low tax rates or specific advantages to non-residents. For example, when Luxembourg offers special tax treatments to large foreign companies through sweetheart tax deals (the Luxleaks scandal), the tax rate in practice can be as low as 1% (while the official tax rate is 29%). Unfortunately, these harmful tax practices – in place in many European countries – are often forgotten in international fora, where rich countries lead the negotiations. But then, why would they cut the branch on which they're sitting...?

## **British virgin islands are not just popular for their nice beaches**

According to ICIJ – the international consortium of investigative journalism that orchestrated the Panama Papers – over half the companies listed in this scandal were registered in British-administered tax havens or the UK itself.

The British Virgin Islands is by far the most popular destination for these offshore companies. With its agreeable climate, clear waters and yachts, you would think it is an obvious popular holiday destination. But it's more than just that. Financial and business services account for nearly half of the islands' GDP. These islands combine the popularity and reputation that creators of offshore companies are after.

More generally, a large number of the biggest tax havens involved in the Panama Papers scandal are British crown dependencies or British overseas territories. That means the British government holds powers over these countries that enable them to bring about legislative change. It seems that what is lacking most is political will, as the recent failed attempt to bring about more transparency on shell companies shows. While the UK announced the creation of a public registry to store information about who owns companies registered in its jurisdictions, it failed to ensure that its overseas territories would do the same.

## **Some banks help their clients evade taxes (even if they will never admit it)**

The European Parliament, currently investigating the consequences of the Luxleaks scandal, is looking

closely into the role of banks in helping their clients evade or avoid taxes. Several banks' representatives swore to Members of the European Parliament that they never helped set up tax avoidance schemes for their clients, despite the growing number of tax scandals involving banks lately.

One interesting stat is on the role of Luxembourgish banks. Of the top 10 banks requesting the creation of offshore companies to Mossack Fonseca, four are based in Luxembourg. These four banks requested the creation of 3491 offshore companies (out of 15,600). This means that Luxembourgish banks involved in the Panama Papers scandal account for nearly a quarter of all requests for offshore companies (based on information for the top 10 banks). For a country at the heart of the European Union, following strong banking regulations, it looks like more progress is needed to ensure banks do not help their clients hide money offshore.

## **Some invitees to the big tax haven party are missing**

The Panama Papers scandal involves a long list of 21 tax havens, including well-known names like the Bahamas, Jersey or Singapore. However, it is also interesting to look at who is not on the list.

One of the most notable absences is the United States. There have been several attempts to justify why the US does not feature predominantly in the Panama Papers, both in terms of US clients involved (only 200 people with US addresses have been revealed) or in terms of a popular destination to stash your money. One of the main reasons invoked is that Americans don't need to ask a law firm in Panama. It's actually easier to create a shell company in the US than in any other country in the world. In fact, in at least 14 US states, you can very easily create a limited liability company without having to disclose who the real owner is. Setting up an army of ghost companies owning other ghost companies, in order to lose the tax administration, is quick and simple. It's no surprise to see that the US ranks third in the Tax Justice Network's ranking of the most secretive countries in the world.

Another significant absentee is the Cayman Islands, the world's fifth largest financial offshore centre. This could be explained by the fact that the Cayman Islands are not involved in the business of wealthy clients' assets management. This British overseas territory focuses more on trusts and banking services for businesses. As a tax haven providing offshore banking and banking services, the Cayman Islands have some very strict banking privacy rules in place to protect their clients. What this tells us is that tax havens tend to specialise. They exploit a niche (in terms of geographical location or service provision) to attract a certain type of client. The Panama Papers is therefore (and unfortunately) just the tip of the iceberg of the offshore industry's practices. Much more remains to be uncovered.

## **Panama Papers has the potential to be a game changer**

It has triggered unprecedented public outcry. The Greens in Europe launched a petition soon after the scandal to call for sanctions on the intermediaries – including banks – that helped their clients create offshore companies. This is part of the [Greens' 10 steps towards tax justice](#). In under two weeks, the petition gathered more than 500,000 signatories from several European countries. European citizens are tired of paying their taxes and seeing wealthy people or companies obeying different rules and rigging the system in their favour.

While the Panama Papers have already had a concrete short term impact – like the resignation of the Prime Minister of Iceland or the opening of criminal investigations – the scandal's potential long-term effects merit further consideration. What impact might the Panama Papers' revelations about UK Prime Minister David Cameron benefiting from his father's trust have on the Brexit vote in June 2016? What impact will the revelations about close involvement of the Front National party have in France for the 2017 presidential elections? More generally, with 140 politicians named in the scandal and at a time when trust in elected representatives is at an all-time low, what consequences could the Panama Papers have for our democratic systems in the future?

Immediately after the Panama Papers' revelations, the Greens in the European Parliament called for and obtained an inquiry committee to shed light on these dodgy practices and provide concrete recommendations for change. This is the only way to treat the Panama Papers revelations with the seriousness they deserve. It is clear existing EU rules against money laundering and tax evasion are not being properly enforced and that the EU institutions, governments and authorities have failed in their duties to this end. The Panama Leaks show we have so far just been scratching at the surface of the odious tax avoidance practices employed by individuals and businesses around the world and in Europe.

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