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# The FfD Chronicle

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## WEEK 1 WRAP-UP

Dear delegates,

As we begin the final days of this round of UN Tax Convention negotiations, we hereby bring you the civil society wrap-up of week 1.

### **The beacon of hope shines bright**

Momentum for action is clearly growing as an ever-increasing number of governments are delivering strong statements about the need for urgent progress towards a fair and ambitious UN Framework Convention on Tax and related protocols. The value of the ‘first of its kind’, truly global, inclusive and transparent intergovernmental tax negotiation, which we have witnessed over the last week, is also very clear from the many important testimonies and hard lessons learnt that governments are bringing to the table, and the important exchanges that follow.

### **Key areas for urgent action are emerging**

Although it is of no surprise, we are delighted to see that taxation of multinational corporations is emerging as a key area for urgent action, with numerous governments showing a strong awareness of the heavy price they are paying for the broken corporate tax system. Large-scale corporate tax avoidance, coupled with a related, and very intense, intergovernmental race to the bottom on corporate tax rates, has dismantled the effectiveness of taxation of multinational corporations around the world. What we are still missing in the debate, however, is a clear recognition from all OECD countries that this is not just a developing country issue. Even in the (extremely hypothetical) scenario where OECD’s Pillar 1 and 2 would be broadly implemented around the world, large-scale corporate tax abuse would continue to have devastating impacts on the tax revenues of governments in all regions of the world.

Another point of delight is the fact that effective taxation of high-net worth individuals is emerging as an area where governments in both the global south and north are calling for urgent action and strengthened international cooperation. Wealth taxes, as well as other taxes that target the ballooning fortunes of the world’s richest, are the only effective tool to combat rapidly escalating global inequality, and can, at the same time, provide desperately needed funding for public coffers.

The case is the same for tax measures that contribute to addressing environmental challenges, which is an issue that is also receiving strong support from both the global south and north. Progressive green taxation that promotes environmental action and reduces inequalities in tandem will be an important issue for the UN Tax Convention negotiations to explore. And many good proposals already exist – such as “polluter pays corporate taxes”, “green wealth taxes” and abolishment of tax incentives for luxury consumption such as private jets and yachts. It is very encouraging that this agenda item got off to a good start, and we look forward to following and feeding into the negotiations going forward.

### **Capacity building myth debunked**

At the same time, last week’s session on capacity building very effectively put an end to the myth that the current challenges in the global tax system can be resolved through “capacity building” in developing countries. In a world where all countries suffer from the impacts of large-scale international tax abuse, it is clear that there really is no magic “capacity” that can be transferred to resolve this issue. Furthermore, the debate clearly highlighted that training developing countries in how to implement the very unjust rules of the existing international tax system will only underline the painful fact that the current allocation of taxing rights is strongly biased against their interests. It is time to change the system!

### **Even the feet-draggers seem to be moving (albeit very slowly)**

Of course, all is not happy harmony, and as we highlighted in last week’s editions of the FfD Chronicle, we still see a number of governments dragging their feet and showing great reluctance towards a true reform of the global tax system. As we approach the end of the first substantial session, we reiterate our call for all governments to show the sense of ambition, commitment and urgency that this issue demands. We have no time to waste!

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## Not-very-automatic information exchange

On Friday, some delegates seemed to suggest that the OECD system for automatic information exchange is working well, and that any remaining challenges can be resolved by capacity building. In response, we bring this little brief on a system that might be automatic in name, but definitely not in practice. The fact of the matter is that when countries sign on to the current OECD automatic information exchange standard, they must comply with a number of administrative requirements, but this does not mean that they automatically receive information from the other signatories to the standard.

Instead, the system requires them to develop bilateral agreements with each other jurisdiction to receive information. This is a requirement that demands resources and political influence to secure the necessary agreements with other countries, and it risks leaving small and less powerful developing countries with much more limited access to information. If you like, the system works a bit like Tinder – just because you sign up, it does not mean that you can get a date with all the others who are signed up.

A truly multilateral system, that relies on a global agreement without an additional layer of bilateral exchange agreements, would have been more equitable and easier to administer for developing countries. The standard also failed to incorporate another proposal, which could have made the standard function better for developing countries, namely the suggestion to allow developing countries a transition period during which they could receive information even before they had the capacity to send information back.

The one thing that has never been challenged is the fact that the standard must ensure that banking information is kept confidential, and that countries should implement the appropriate systems to ensure this. There is broad agreement on this point!

However, the bottom line remains that the current system is not very well-suited for developing countries, and this is most likely related to the fact that the vast majority of the world's developing countries were not at the table when the standard was negotiated.

In fact, although the standard is referred to as a 'global standard', it was developed by the (at the time) members of OECD in collaboration with the G20 and a small group of additional countries, and when a ministerial declaration to endorse the standard was negotiated and adopted in 2014, it was only signed by 44 countries and the EU.

## Where is the evidence for the missing evidence?

Listening to last week's discussion, we noticed something that we can only understand as severe cases of amnesia, as several delegates were questioning whether there really are any problems to resolve in the global tax system. Environmental concerns, and the obvious risk of severe back injuries, made us cancel plans to print the huge pile of existing evidence and delivering it directly to these distinguished delegates. Instead, we decided to bring this recommended reading list to the above-mentioned delegates – just to give them a little taste of evidence:

EU Tax Observatory's Global Tax Evasion Report 2024; The UN Secretary-General's 2023 Tax Report; UN DESA's World Economic Situation and Prospects 2022; The 2021 Report of the FACTI Panel; The ICIJ's 2021 Pandora Papers exposure; The ICIJ's 2017 Paradise Papers exposure; The ICIJ's 2016 Panama Papers and Bahamas Leaks exposures; The 2015 Report of the High Level Panel on Illicit Financial Flows From Africa (the Mbeki Panel); The ICIJ's 2015 Swiss Leaks exposure; The 2014 LuxLeaks exposure; The ICIJ's 2013 Offshore Leaks exposure.

