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Stop the Bleeding: Trade Mispricing and Transfer Pricing **February 1, 2022**

Commodity Theft and Multinational Corporate Corruption: Mechanisms for Corporate Commercial Theft

> *This fact sheet series aims to raise awareness about the global threat to development that Illicit Financial Flows (IFFs) pose, and what we can do to stop the threat.*

Multinational companies use illegal trade mechanisms – trade mis-invoicing, mispricing, and transfer pricing – to loot African countries of precious resources and revenue, undermining development prospects. According to the UN Economic Commission for Africa, trade-related financial losses increase inequality, undermine the Rule of Law, worsen economic conditions, reduce the benefits of economic activity, and harm African peoples. Trade mispricing and mis-invoicing are also critical threats to global financial transparency. Until these Illicit Financial Flows (IFFs) are curbed, this "bleeding" of African resources will continue.

Trade mispricing or mis-invoicing is the "deliberate over or under-invoicing of exports or imports by businesses in a country, which results in avoiding or evading tax" in that country. The following table from the UN Conference on Trade and Development explains the practices. Country A has exported US $10 million in gold but only receives half of that amount.

	Country A	Country B	Trade Gap
1. Documented Trade Flows	Exports US $5 million in Gold	Imports US$ 10 million in Gold	Corresponding US$5 million
2. Actual Trade Flows	Exports US $10 million in Gold		
3. Corresponding Financial Flows	Receives US $5 million	Pays US $5 million to country A and US $5 million to offshore account	

Transfer pricing, sometimes known as "profit shifting," is a financial technique multinationals use to shift profits out of one country and into a tax haven by **selling goods and services to themselves at artificially high prices**. African countries that primarily rely on exporting or extracting non-renewable resources (extractive economies) lose billions from trade mispricing or mis-invoicing.

A Kenyan audit of the Netherlands-based Van Den Berg Holding BV provides an example. In 2016 the Kenya Revenue Authority (KRA) began an audit of the Kenya-based subsidiary of the multinational flower grower and distributor, Van Den Berg Holding BV. The audit revealed that the Kenya-based operation sold large amounts of its products to its Dutch parent at below-market rates for at least four years--€.10 per rose stem, versus the market rate of €.19 per stem.

Van Den Berg's parent company used its Kenyan subsidiary to suppress profits in Kenya while accurately reporting earnings in the Netherlands, where the tax rate is lower than the Kenyan rate. For five years, Van Den Berg illegally evaded government taxes to the tune of 1.3 billion Kenyan Shillings (Sh.).

Other Kenya-based flower growers use transfer pricing to avoid paying their fair share to the people of Kenya. Primarosa Flowers--owned by Crest Overseas Holdings, Limited, registered in the British Virgin Islands--was ordered to repay 2.1 billion Sh. following a KRA audit. Investigating and prosecuting these companies takes years; recovering monies owed takes more time as litigation costs increase.

The Kenyan government has and continues to lose resources that could be used for development. Agricultural workers on Kenya's flower plantations lose because the products they grow and harvest are sold at below-market prices. So, worker demands for fair wages—currently reported at $18 to $26 per week--are reduced.

According to Financial Transparency, **trade mispricing and misinvoicing** cost developing nations ***83 percent*** of the more than $80 billion lost from Illicit Financial Flows. In a global climate struggling to fight COVID-19, the revenue Africa loses from these illegal practices could supply hospitals, protect at-risk populations, and adequately provide healthcare professionals and citizens with personal protective equipment.

"Agricultural workers on Kenya's flower plantations lose because the products they grow, and harvest are sold at below-market prices."

Corporations misprice/mis-invoice to defraud African countries and increase corporate and shareholder wealth. Transforming that illegally obtained wealth into the legally acceptable is **Money Laundering**. That fraudulent underreporting of the financial value of goods is **Tax Evasion**. **Claiming Tax Incentives (**over-reporting prices in exchange for tax breaks) and **Capital Control Dodging** (manipulating the price of goods to bypass financial restrictions of a nation) are also ways that companies illegally or unethically shift financial resources out of Africa. All four mechanisms move money and resources out of Africa and into private and corporate accounts in **Tax Havens**.

How do Trade Manipulation and Extractive Economies impact the US?

These global practices undermine developing nations and negatively impact the US. A 12-year analysis by Florida International University professor John Zdanowicz found that mispricing lost the United States $2.3 trillion from 2003 to 2014, with China being the largest receiver of lost taxable US funds. As Canada and the EU began to crack down on transparency in the extractive sector, the US has been reluctant to disclose all necessary information regarding financial transactions. The 2010 **Dodd-Frank Act** enforced extractive commodity accountability at home and abroad. Enacted with language addressing corruption in international mining and an entire section dedicated to outlawing "conflict minerals" (minerals used predominantly by rebel groups in the DRC to fund their offensives), this Act was a step in the right direction. While Dodd-Frank still exists, in 2017, the US Senate overturned its financial transparency measures.

What can you do?

First, you can sign the petition, Multinational Corporations are Stealing Africa's Money and Resources; it urges US House and Senate Africa Subcommittee leaders to hold hearings and pass a joint resolution condemning IFFs. After adding your voice, please forward the link to your friends and colleagues.

Next, support organizations in Africa and the US that are working on these follow the issues. Tax Justice Network Africa, a continent-wide research and advocacy group advocates for economic equity. In the US, please join the US-Africa Bridge Building Project and support our strategic partners, including the Washington, DC-based FACT Coalition, which promotes transparency and advocates for an equitable playing field. Sign up to receive informational updates and advocacy recommendations.

With your support, we can build the collective power needed to ensure that "We The People" overcomes corporate corruption, political gridlock, and systemic inequalities in our economic system.

The US-Africa Bridge Building Project sincerely thanks Research and Social Media Intern Seamus Love for contributing to the Stop the Bleeding fact sheet series.

The US-Africa Bridge Building Project links economic inequality activists and social movements to strengthen collective efforts for tax justice at all levels of the global economy. Ending IFFs is a critical part of that fight. Please join us to receive periodic updates.

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