

Caribbean mirage

Living in a blindspot of financial architecture

Femke Herregraven, dec 2010



The identity of Zuidas will not depend on its hardware but on its software. It will not be shaped by towers, buildings, squares or restaurants, but by users, networks and interaction. Zuidas aims to become an international economic top location where residence and commerce come together.¹ Imagine this place. To which networks is Zuidas connected? What will its community be like? Who are the neighbors? What is living in Zuidas like?

I propose something close to living in the Caribbean. Walking around in Zuidas today doesn't quite match the idea of being on a tropical island, but don't be deceived by what you see. In the financial world, a Caribbean island means something else than sun, palm trees and beaches. There, it equals the flow of capital, attractive tax regimes and financial services. A dive into the Caymans often means two things: either you're going for scuba diving, or you're going for offshore business. Golden sands is what the small Caribbean jurisdictions became famous for. Being a key node in the global economy, doing low-profile

business and providing financial services is what shapes their identity. Brand experts, designers or pr-managers did not construct it, nor will they shape Zuidas' identity. Sketching out the software of Zuidas gives a glimpse into the future.

The Dutch Sandwich

Zuidas is well embedded in the network of offshore finance. As the economic center of the Netherlands it has an important role in global financial transactions and functions as valuable node in tax planning.² Like the Caribbean islands, the Netherlands has a very attractive investment climate for multinationals. It benefits from a combination of the dutch trading tradition and modern financial and legal services. Together with a professional workforce, a stable infrastructure, an open culture and political stability, this results into a strong position on the global stage. The Zuidas business district is the embodiment of this international profile. However, the strongest motivation for multinationals to locate themselves in

Zuidas is probably the Dutch corporate tax law. The Netherlands Foreign Investment Agency writes that “the Dutch tax system has a number of features that may be very beneficial in international tax planning. [...] The Dutch ruling practice, which provides clarity and certainty on tax assessments in advance, can be obtained on future transactions, investments or corporate structures.”³ Some taxes on interest and royalties can be reduced to 0 percent they say. In addition, Curado Trust Group, based in Curacao, emphasizes the extensive Dutch tax treaty network with more than sixty countries and especially the Kingdom Tax Arrangement with the Netherlands Antilles and Aruba.⁴ This arrangement gives a 100 percent participation exemption on profits from resident and Dutch-resident companies. Today many international companies have chosen Zuidas as home base for their holding, royalty and finance companies.⁵ This makes them part of the Zuidas software and identity. Google, Akzo Nobel and Tata are already widely used to promote Zuidas, and to boost the international character further: fifty new international companies should be relocated to Zuidas by 2015.

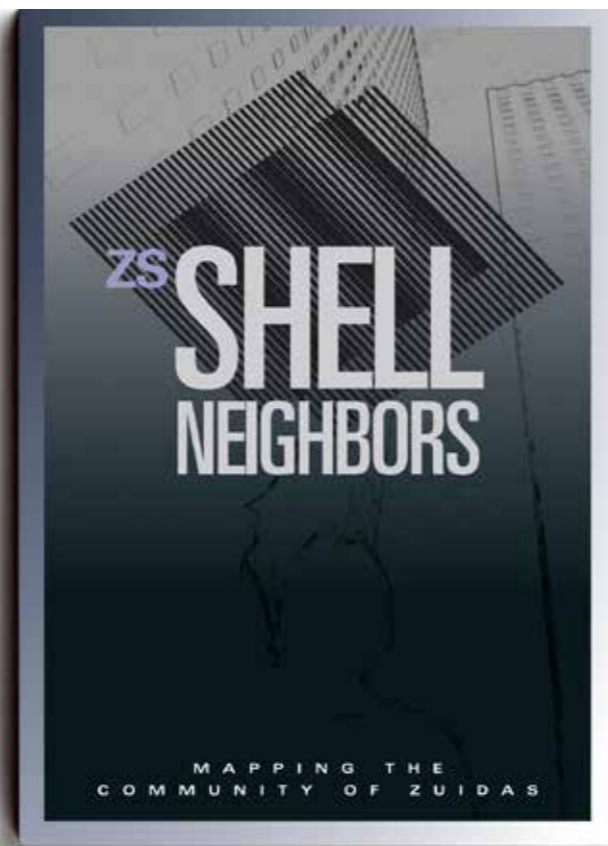
Driven by tax benefits, these future relocations will create a deeper connection between Zuidas and offshore financial centers. The Norwegian government reported in 2010 that: “the Netherlands is probably the largest and most popular pass-through state in the world today. [...] Since the Netherlands does not permit the same level of secrecy as tax havens, the Dutch holding company system is often combined with the use of companies in tax havens. The Netherlands is, therefore, a popular registration location because it confers legitimacy and also has an extensive network of tax treaties.”⁶ It becomes visible how Zuidas takes part in international tax planning by the following example. Earnings that Google makes in Europe, the Middle East or Africa are collected by Google Ireland. Since Ireland taxes corporate profits at 12,5 percent, Google chooses to escape that tax and transfer the earnings to Bermuda. As it is difficult to send money from Ireland directly to Bermuda without incurring a large tax hit, the payment makes a detour through the Netherlands where Google takes advantage of the generous Dutch tax laws. The Dutch subsidiary, Google Netherlands Holding B.V., eventually passes on about 99.8 percent the collected earnings to Bermuda.⁷ Through this legal construction Google was able to save \$3.1 billion in taxes in the last three years. Since the Netherlands functions as a stop between two other countries this strategy is called the Dutch Sandwich. “The sandwich leaves no tax behind to taste”, said Richard Murphy of the Tax Justice Network.⁸

The question is how many multinationals would be located in Zuidas if it weren't for the

favorable Dutch tax regime. Their main motivation is probably reducing taxes as Google showed. The Zuidas software — and subsequently its identity — is dependent on these international tax planning strategies. As they stimulate connections to tax havens, Zuidas is stitched deeper into the network of offshore finance. Although blue seas and golden sands are still difficult to find in Zuidas, other traces of this interconnection can be found.

The Offshore Interface

Zuidas aims to become a high-end location, with high-end facilities and high-end users. Zuidas will be a symbol of high-end lifestyle. Within this lifestyle, discretion might be even more important than quality or exclusivity. While walking through the business district in Zuidas you feel a veil of discretion everywhere. In the office buildings, the living towers, the restaurants and in public space; anonymity is all around. Even representational signs like logo's, nameplates and mailboxes are difficult to find, only a few iconic landmarks represent a company or brand. Imagine living in Zuidas: who would your (corporate) neighbors be? Well, if you would be living in the Strawinskylaan for example, your neighbors would be Agip Oil Ecuador B.V., Eni Iran B.V., Diamond Gas Iraq B.V., CAML Mongolia B.V. and Soldeasa Kazakhstan B.V., to name a few. The database of the Chamber of Commerce shows which other neighbors are located in your street, yet also gives a clue of how



Publication that indexes all the shell neighbors in Zuidas, Amsterdam.



The email addresses of the Amsterdam-based Citco Trust office show its network and scope of business.

Zuidas is embedded in offshore finance. Out of the hundreds of holdings located in Zuidas many will have an office, but a large group will be a shell corporation. In december 2010 De Nederlandse Bank (DNB) reports that in the Netherlands shell corporations are used on a massive scale for international transactions between subsidiaries of foreign multinationals. “In 2009 the Netherlands had around 11.500 Special Financial Institutions (SFI’s), subsidiaries of multinationals, that have no or hardly any physical presence with offices or employees and are almost exclusively used for channeling capital. Their hardly visual presence of SFI’s in the Netherlands contrast strongly with their large static influence on gross figures concerning the Dutch payment assessment and external position of our country.”⁹ Important in the report is the reference to the visual presence of shell corporations. In Zuidas their presence is discreet, to say the least. Yet their absence creates side effects, and these are not hard to find.

Zuidas is home to several trust offices and will likely be home to more in the future. A trust office provides shell companies with ‘substance’ such as administrative bookkeeping, a post address, local staff and a CEO. The trust’s office and staff becomes effectively the client’s office and staff. It is often claimed that foreign companies create employment in the Netherlands, but Van Bearle

Trust informs their client that due to the tight Dutch labor market, hiring personnel is difficult. They mention ‘things to keep in mind’ when setting up an operation in the Netherlands: “if a Dutch or foreign company wants to start employing personnel here in the Netherlands, it should be considered that employment law here is very strict, so that it is difficult to fire personnel, which make this an expensive and lengthy matter. [...] If a foreign employee starts working for a group company here and becomes a resident here as well, it has to be kept in mind that the Dutch tax and social security rates are very high, up to 52%.”¹⁰ In order to promote their own services, these trust offices discourage foreign investors to start set up a physical company. Also in Zuidas hundreds of foreign companies are ‘lying on shelves’. While managing these companies, trust offices keep a low-profile, only things like email addresses give an impression of their scope of business. Yet their role is crucial in connecting onshore centers to offshore centers: in 2009 alone, the amount 90 billion euro of income was channeled through the Netherlands. The largest amount came in from Luxembourg, the most important destination were offshore countries.¹¹ The discreet services of reducing corporate taxes is what Dutch tax planners are known for. “They are going for the high-end stuff and don’t want to be seen as shady like some

Caribbean haven”¹², stated an investment banker from New York. In Zuidas, allure means to be charming and staying under the radar at the same time. Having a high-end lifestyle while staying low-profile is probably the best way to describe it. The Dutch want to be noticed, but not too much, as the following affair describes. On the 5th of March 2009 Obama announced in a press conference new plans to eliminate the advantages that multinational receive by channeling capital through tax havens. The additional report qualified the Netherlands as a tax haven along with Bermuda and Ireland. Wouter Bos and Jan Kees De Jager tried to restore the damaged profile of the Netherlands in a press conference: “We were totally surprised by this announcement. We didn’t know anything about it and we are not happy with it. We have a fully transparent policy and we hope that in the future we won’t be mentioned again on these kind of lists in between Ireland and Bermuda.”¹³ The following day the Netherlands was removed from the report after lobbying of the Dutch Embassy.

Caribbean Collapse

This was not the first time the Netherlands was accused of being a tax haven. The Dutch government has always declined these allegations. If the Netherlands is a tax haven is a delicate matter: according to the official standards it’s not. Jaap Zwemmer, a professor in tax law, confirmed that the issue is politically sensitive. “There is a fear in The Hague of being labeled a tax haven internationally. So everything should be as low-profile as possible.”¹⁴ Especially with the economic crisis, offshore financial centers have been under heavy attack. With governments losing hundreds of billions dollars every year in unpaid tax, the G20 announced to crack down on tax havens. Famous for their bank secrecy, tax evasion and capital flight, it’s uncertain how much longer these ‘islands’ can survive. Up till now measures didn’t have any effect,¹⁵ but under pressure for more transparency Caribbean tax havens could fall into decline. These shifts in the offshore financial world could have major impact on Zuidas. Before going further into this, it is important to show why small jurisdictions like Bermuda, the Cayman Island and the British Virgin Islands became tax havens in the first place.

Most of the Caribbean offshore financial centers were part of the former British Empire, also known as the City of London. Bill Maurer, cultural anthropologist, writes that: “Late-nineteenth-century colonial officials in the Caribbean, together with promoters of cable-connections, crafted a politics and technology of Empire as a universal vision and god’s-eye — or ear — perspective on the peoples of the world.”¹⁶ Telecommunications corporate giant Cable and Wireless provided the British Empire with a system of global communication and

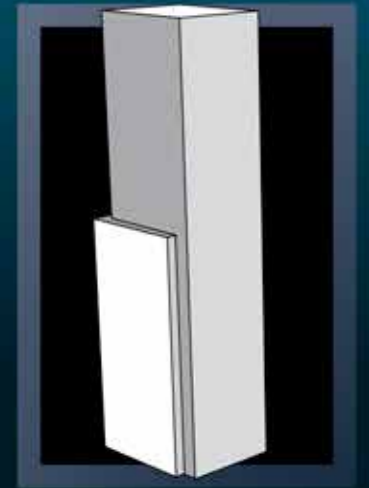
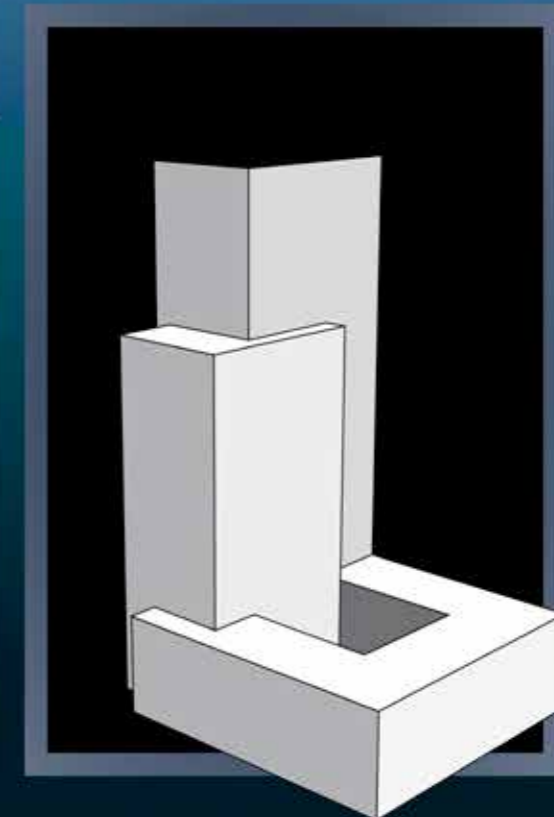
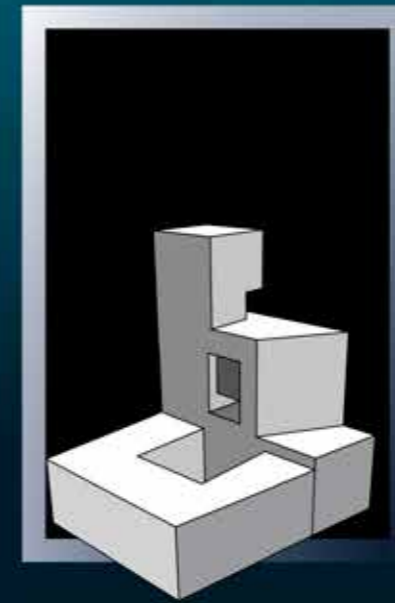
command. By constructing a complex network of submarine cables between the different colonies of the Crown, the company laid the basis for the offshore finance of today. “The places that became key nodes in the cable network, peculiarly stitched into the Caribbean basin by their connections to the “outside” [...], would later become key site for the transfer and translation on information, especially financial information.”¹⁷

The rise of offshore financial centers coincided with the competitive deregulation of markets from the 1970s and the 1990s. With liberalizing changes in the world’s economies, capital became more flexible and moved to the places with the lowest resistance. By making flows of international finance more efficient, these offshore financial centers made the world’s economies more interconnected.¹⁸ This is represented in the domino effect of economic meltdown and crisis in the last years. Offshore financial centers are blamed for the financial



Above – The network of submarine telegraph cables constructed by Cable and Wireless, around 1900.
Below – Collected stamps from Caribbean islands that shows the relation between modern communications and their colonial history.

ZS IDENTITY TRUST SECRECY

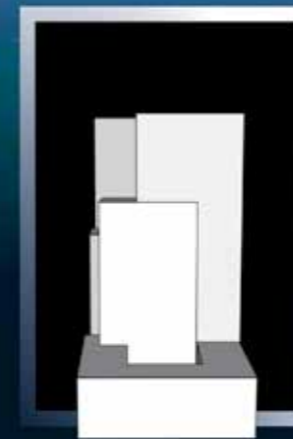


ZS IDENTITY
CONDUIT HAVEN

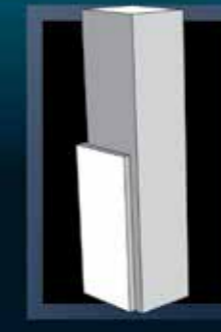
ZS
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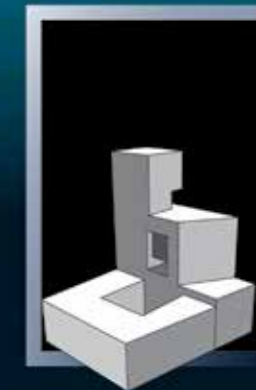
TAX PLANNING FARMS
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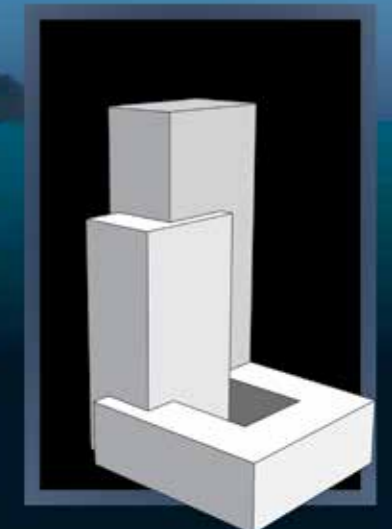
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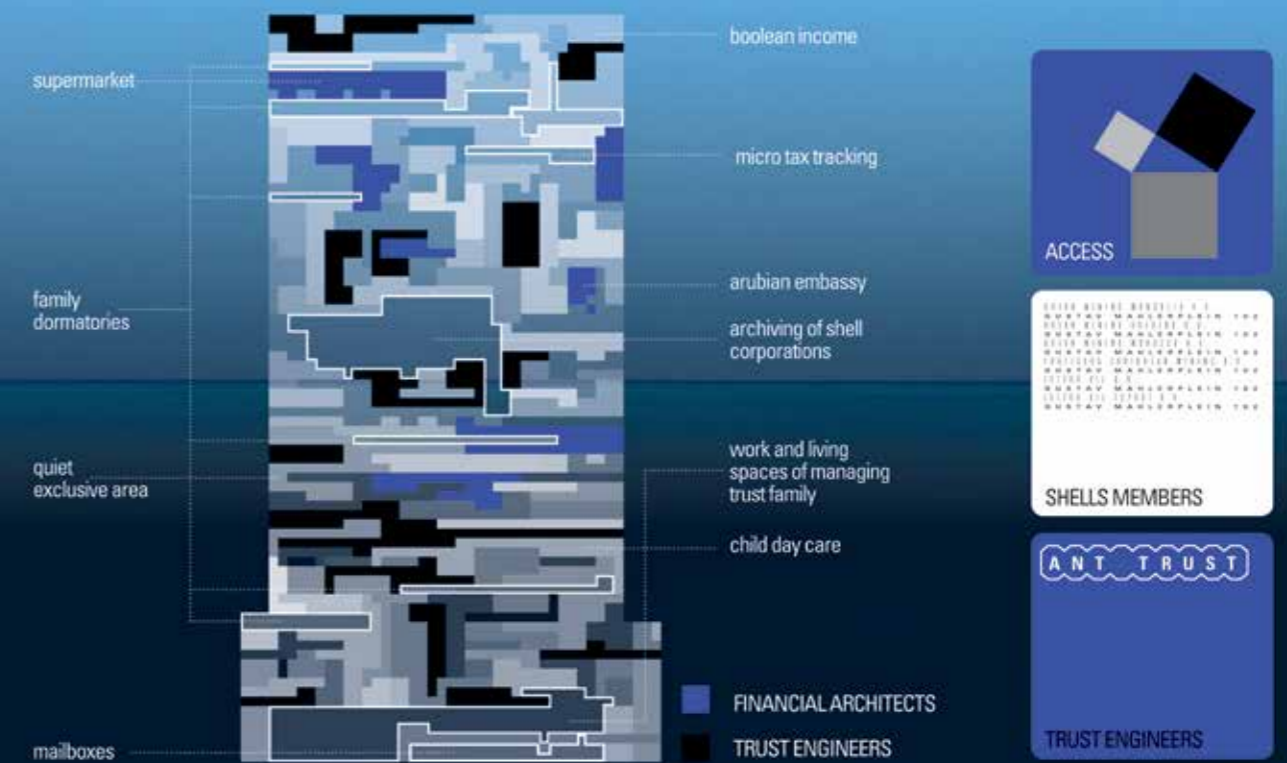


SHUFFLING
FARM



SHELL
FARM

THE TUBING
TAX PLANNING FARM



ZS IDENTITY OFFSHORE NETWORKS

ZS TAX FARM

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amsterdam-bank@zsrig.com
geneva-bank@zsrig.com
luxembourg-bank@zsrig.com
cork-globalsecurities@zsrig.com
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C A R I B B E A N M I R A G E

meltdown; hidden capital, debts and complex conduits circuits are impossible to detect with the current bank secrecy. What will happen to these Caribbean economies when the pressure for transparency increases?

Like the Caribbean software, also Zuidas' software is reliant on offshore finance as shown before. Therefore, shifts in global capital flows will also have consequences for the Zuidas identity. With some imagination two Zuidas scenarios can be sketched out. In the first one, the mission of the G20 to fight tax havens has been very successful. More transparency caused Caribbean offshore financial centers to collapse. As these small jurisdictions were mostly built on financial and legal services; bankruptcy, unemployment and empty real estate followed. Zuidas, as a link between the onshore and offshore financial world, lost its international position. The district is now filled with tourist attractions, self-help initiatives, cultural mansions and functions as a filming location for soaps and movies. This scenario, the Stuffed animal, represents Zuidas' identity in a world without tax evasion where the responsibilities, that come with making money, are taken. I believe however, it will be the opposite.

ZS Rig

The G20 has not succeeded in stopping bank secrecy, but their mission has caused a lot of damage to the reputation of Caribbean tax havens. Banks, multinationals and URI's — ultra rich individuals — no longer wanted to be directly linked to shady tropical islands, and searched for places that could make this link for them. It turned out that Europe had some of these valuable places. Especially the Benelux countries had managed to maintain their favorable tax ruling under the global pressure for transparency. These western democracies caught the attention of offshore financiers: they facilitated new legitimate reroutes for capital without doing harm to one's reputation. The Benelux soon embraced this new profile, as small countries they had always been eager to play an important role in the world's economy. The Benelux became the new Caribbean with Zuidas as its financial capital.

In this scenario, Zuidas has become known as ZS Rig. The Benelux tax planning boom turned Zuidas into an urban island isolated from Amsterdam. Some have said it is an extension of Schiphol's tax free zone, but ZS Rig is much more than that. It is now the most popular spot in Europe for rerouting capital and this changed the old Amsterdam neighborhood a lot. Old office buildings gradually turned into tax planning farms in order to keep up with the large demand for tax constructions. A financial embassy was established to house

corporate ambassadors who keep their foreign companies informed on new tax planning strategies. ZS Rig even enjoys a special tax ruling which makes it a local tax haven, similar to Dutch trailer parks. Hundreds of trust offices from Amsterdam, the Hague and Rotterdam relocated to ZS Rig to benefit from this special tax zone. This resulted in a proliferation of financial and legal services and competition exploded. Soon after, the decision came to establish four cooperatives, so that each worker would have its fair share. Now each cooperative is housed in one of the tax planning farms, which means that thousands of financial architects and trust engineers work and live together under the same roof.

In this scenario, each human interaction is based on the rerouting of capital. Offshore locations, special tax zones, financial architects and tax planning cooperatives make up the software of Zuidas. People, houses, signs and vocabularies are influenced by the global flows of capital that pass ZS Rig for a brief invisible moment. Visual identity cooperatives are the only proof of the absent community of ZS Rig. Its identity is maybe nothing more than a mirage.

Notes

- 01 Zuidas Vision 2009, Projectbureau Zuidas
- 02 Tax planning is used for the reduction of tax liabilities and the freeing-up of cash flows for other purposes
- 03 www.nfia.com
- 04 www.curado.nl
- 05 Out of 400 companies 200 have a foreign parent company according to Projectbureau Zuidas in 2010
- 06 Tax havens and development, report from the Danish Government Commission on Capital Flight from Poor Countries, 2010
- 07 Google 2.4% Rate Shows How \$60 Billion Lost to Tax Loopholes, Jesse Drucker, October 21st 2010
- 08 Idem
- 09 DNB Statistic Bulletin December 2010
- 10 www.vanbearle.nl
- 11 DNB Statistic Bulletin December 2010
- 12 The Netherlands, the New Tax Shelter Hot Spot, Lynnley Browning, The New York Times, February 4th 2007
- 13 www.youtube.com/watch?v=iLU_NdawsQ
- 14 Nederland een belastingparadijs voor multinationals, Artjan Grotenhuis, NRC Handelsblad, October 19th 2009
- 15 Like for example the Tax Information Exchange Agreement. This agreement only forces secrecy jurisdictions to provide account information to another country when there is already proof of tax evasion.
- 16 Islands in the Net: Rewiring Technological and Financial Circuits in the "Offshore" Caribbean, Bill Maurer, Society of Comparative Study of Society and History, 2001
- 17 Idem
- 18 Tax havens at the core of the Greek crisis, Tax Justice Network, November 26th 2010