BlackRock forest-risk investments issued in tax havens

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Summary

This report shows the investments managed by BlackRock into forest-risk groups that are domiciled in tax havens. Forest-risk groups emit shares from tax havens, which are in turn included in BlackRock's assets under management. The original dataset was extracted from the Refinitiv database and covered all investments managed by BlackRock in forest-risk groups. This initial research was accomplished by an organization participating in the Change Finance platform. Additional filtering was applied by myself, using the list of countries in the Corporate Tax Haven Index, published by the Tax Justice Network.

The objective of this report is twofold. The first goal is to support the claim of the Change Finance platform of non-governmental organizations that BlackRock was unfit to advise the European Commission on the application of environmental, social and governance principles (ESG) in finance regulation by proving that the company is responsible for the transgression of these principles in its asset management activity.

This report takes the example of BlackRock to show that asset managers which finance forest-risk groups issuing equity shares in tax havens amplify and accelerate the destruction of the rainforest by the effect of corporate tax avoidance. Academic research has demonstrated that tax haven financing creates the conditions for the over-exploitation of natural resources, while eroding institutional quality in forest-risk countries.

The second goal of this report is to identify these forest-risk companies and the tax havens they use so that legal and financial measures can be taken to end the practice of financing deforestation through tax avoidance.

0. Introduction

When BlackRock's advisory branch was awarded a contract by the European Commission to study the integration of ESG factors in financial regulation, it was hardly conceivable that

Blackrock would devise any plan to go against the interests of resource exploiting companies, shareholders, or Blackrock's own asset management core business. Emily O'Reilly, Europe's ombudswoman, recognized the conflict of interest in November 2020 but stopped short of canceling the contract, justifying the dubious attribution by "the limitations of EU rules on public procurement".[1]

Most of the discussions around environmental, social and governance principles (ESG) in recent years have been focused on the environmental aspect, with fewer mentions of the social and even less of the governance aspects.

Although the United Nations' Principles for Responsible Investment (UNPRI) specifically mentions tax avoidance among governance issues, BlackRock barely evoked the problem in its report to the Commission. In June 2021, The UNPRI working group on tax transparency opened its report with the words of Arne Staal, head of benchmarks and indices at FTSE Russell:

> "Compared to other sustainability issues like climate change or health and safety, we find that reporting on tax is still less developed and standardized across sectors and markets. This can make it challenging for asset owners and asset managers to factor tax related risks into investment decisions across their portfolios."[2]

Blackrock, however, voiced the contrasting opinion of an anonymous banker that the governmental pillar falls under compliance issues and thus shouldn't be considered a sustainability issue:

> "Topics such as corruption and compliance are also part of governance, however they are managed by the compliance and financial crime team, which is separate from the Environmental and Social Risk team [..] Sustainability should not overlap or replicate existing things"
> Blackrock report, page 33[3]

By joining together the problems of deforestation and tax avoidance, the assumption at the core of this report is that issues of environmental preservation, corporate social responsibility and fair taxation should be considered as a whole in order to preserve the equilibrium between ecological, economical and political systems.

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[1] European Ombudsman, 20/11/2020, The European Commission's decision to award a contract to BlackRock Investment Management to carry out a study on integrating environmental, social and governance (ESG) objectives into EU banking rules. https://europa.eu/!3dcXCJ
[2] E. Bourne, C. Dodsworth, J. Kooroshy, 6/2021, Global trends in corporate tax disclosure, FTSE Russell, Commissioned by UNPRI. https://www.unpri.org/download?ac=13650
[3] European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Development of tools and mechanisms for the integration of ESG factors into the EU banking prudential framework and into banks' business strategies and investment policies : final study, Publications Office, 2021, https://data.europa.eu/doi/10.2874/220248

More information on the sources and method of the present report can be found in the data and method section of the appendix.

1. BlackRock's influence on the Earth's systems

With nearly ten trillion dollars of assets under management as of 2021, BlackRock is the world's largest asset manager. The central position of the company in the global economy allows for a considerable influence on the Earth's economic, ecological and political systems, which BlackRock has not sufficiently used towards sustainable development goals, focusing instead on fulfilling its fiduciary duty towards investors and maximizing their returns.

The appropriation of the Earth's ecology for the production of food, fuel and fiber, and the growing connection of these systems to the international markets have given rise to a homogeneous global production system with a high degree of interconnectivity. This results in profitable production yields in the short term, but also in the emergence and interaction of new, pervasive risks in the longer term.[4] The only way for the global production ecosystem to find a sustainable trajectory is to redirect finance and increase transparency and accountability at every step of the supply chain. Most of the capital invested in the production sector is channeled through private actors such as asset managers and commercial banks. While direct causality between financial flows and environmental change is difficult to establish with scientific or legal certainty due to a lack of financial transparency, investments bear an undeniable influence over corporate practice.[5] Shareholders can exercise their voting rights at shareholder meetings, engage directly with the corporate leadership or divest from unsustainable companies. For example, Norway's Government Pension Fund, the world's largest sovereign wealth fund, has divested from 32 companies involved in unsustainable palm oil production since 2012.

Recent research combining Earth system and sustainability sciences with corporate finance has shown the connection between financial actors and economic activity endangering key biological communities around the world, known as "tipping elements" of the Earth system.[6] Forests are tipping elements because of the role they have in maintaining climate stability. Increasing deforestation could lead to abrupt shifts, with rainforest becoming savannah and boreal forest degrading to a state where it would be unable to absorb enough solar radiation to regulate global temperature.

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[4] M. Nyström, J.-B. Jouffray, A. V. Norström, B. Crona, P. Søgaard Jørgensen, S. R. Carpenter, Ö. Bodin, V. Galaz & C. Folke (2019), Anatomy and resilience of the global production ecosystem, Nature 575. https://www.nature.com/articles/s41586-019-1712-3

[5] Victor Galaz, Beatrice Crona, Alice Dauriach, Jean-Baptiste Jouffray, Henrik Österblom and Jan Fichtner (2018), Tax havens and global environmental degradation, Nature Ecology & Evolution 2. https://www.nature.com/articles/s41559-018-0497-3

[6] Victor Galaz, Beatrice Crona, Alice Dauriach, Bert Scholtens, Will Steffen, Finance and the Earth system, Global Environmental Change 53 (2018). https://www.sciencedirect.com/science/article/abs/pii/S0959378018300360

Firms that exploit forests finance their operations through loans, bonds or equity, in proportions that vary greatly depending on the region and the production sector. Beef, soy, palm oil and paper (pulp) are the largest drivers of deforestation. Compared to loans and bonds, equity, also known as "stock" or "shares", is the asset giving to the financier the most influence on the governance of the firm. Because shareholding data is freely available on publicly listed companies, equity is also more accessible for analysis than bonds and loans, whereas data is particularly scarce on loans that banks grant to extractive companies that are not listed on the stock markets (section 2.7).

The largest stockholders influence drivers of environmental change in multiple regions at the same time. Shareholding of at least 5% of a company is called "blockholding", it is generally considered to entail influence over corporate governance. The three largest asset managers in the world, the "Big Three" (Blackrock, Vanguard and State Street) collectively control more than 10% of the stock in 5 of the 29 companies operating in the "tipping point" forests identified by *Galaz et al* .[7] BlackRock alone manages blockholding positions (≥ 5%) in 8 of the 29. These financial giants have considerable potential influence on companies exploiting forests that ensure the stability of the climate system.

Yet, since 2012 the Big Three have voted against or abstained from all 16 shareholder resolutions calling for action on deforestation.[8] According to Friends of the Earth and Profundo, the Big Three manage $12.1 billion invested in producers and traders driving deforestation in primary forests.[9] But this capital is better understood in the perspective of another investment, one that the Big Three manage in the firms that put candy bars, burgers and other food products on supermarket shelves and source their ingredients in forest-risk companies. The Consumer Goods Forum (CGF) is a consortium of the largest retail companies, including manufacturers. It gathers companies such as Amazon, Danone and Unilever, claiming to collectively reach combined sales of € 3.5 trillion and to have provided 10 million jobs in the year 2017.[10] The Big Three hold about $700 billion in shares and bonds in CGF companies.[11] So the profit that asset managers earn indirectly from deforestation through their positions in food companies is much greater than the profit they earn directly from the groups involved in deforestation. Conversely, these food companies are a reputational risk for asset managers like BlackRock, if civil society campaigns are successful in denouncing the deforestation they cause.

In 2010, the Consumer Goods Forum committed to achieving zero-net deforestation in its members' supply chain by 2020.[12] Then 2020 came and nothing changed, deforestation due to agricultural production continued its course. To put it simply, for BlackRock and the other global

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[7] Ibid.
[8] Jeff Conant, Gaurav Madan, Ward Warmerdam, 2020, Doubling Down on Deforestation, Friends of the Earth USA, Profundo. https://foe.org/resources/doubling-down-on-deforestation/
[9] Ibid.
[10] The Consumer Goods Forum, 2017, Corporate Brochure. https://www.theconsumergoodsforum.com/wp-content/uploads/2017/12/CGF-corporate-brochure.pdf
[11] Cf. Doubling Down on Deforestation, 2020
[12] Amazon Watch, Amnesty, Friends of the Earth and a coalition of NGO's: Open letter to the Consumer Goods Forum, 2019. http://www.ran.org/wp-content/uploads/2019/09/CGF-Letter_9.23.pdf

financiers engaged with the same companies, it is more profitable to cut down forests than to worry about the long term consequences.

From 2014 to 2019, the loss of tree covered land around the world increased by 43%. Annual CO2 emissions from deforestation have reached the same level as annual emissions from the whole European Union.[13] The Intergovernmental Panel on Climate Change estimates that deforestation driven by soft commodities such as palm oil, soy, cattle and paper is the second largest contributor to the climate crisis.[14] Agricultural operations have caused massive forest fires in Indonesia and Brazil, purposely destroying hundreds of thousands of hectares of forest, threatening local communities and causing respiratory illnesses.[15, 16]

Deforestation is the cause of human rights violations in every forest-risk region, but the toll is particularly high in Brazil. Global Witness reports that 2019 was the deadliest year on record for land and environmental defenders. Four of them were killed each week as a consequence of coercion and land grabbing, and nearly half were Indigenous people. thirty-three people died during that year in the Amazon region alone.[17]

In March 2021, 80 Indigenous and frontline activists published an open letter to BlackRock. The signatories include recipients of the Goldman Environmental Prize:

“The current crisis is the result of centuries of racism, exploitation, and colonization. As the world’s largest investor in fossil fuels and deforestation-linked agricultural commodities, your investments are tied to gross environmental and human rights violations: land grabbing and dispossession, increased deforestation and carbon emissions, and violence and criminalization. Climate change is not simply a risk to be calculated in terms of profit margins. It is a constant stream of risks to our peoples and our planet, which we face every day.” [18]

To conclude this section on the effect of financial activity on the forests, one crucial aspect of the effect of forests on humans must be remembered. The destruction of tropical forests is a root

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[13] Cf. Doubling Down on Deforestation.

[14] Intergovernmental Panel on Climate Change (August 2019). Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems. ipcc.ch/report/srccl/

[15] Chain Reaction Research (2019). Deforestation for Agricultural Commodities a Driver of Fires in Brazil, Indonesia in 2019.
https://chainreactionresearch.com/report/deforestation-for-agricultural-commodities-a-driver-of-fires-in-brazil-indonesia-in-2019/

[16] Nearly 900,000 Indonesians suffer breathing issues due to haze (September 24, 2019). South China Morning Post.
https://www.scmp.com/news/asia/southeast-asia/article/3030044/nearly-900000-indonesians-suffering-breathing-issues-due

[17] Global Witness (2020). Defending Tomorrow. The climate crisis and threats against land and environmental defenders.
https://www.globalwitness.org/en/campaigns/environmental-activists/defending-tomorrow/

[18] Open letter to the BlackRock leadership board, 3/23/2021, facilitated by Amazon watch, Friends of the Earth US and Rainforest Action Network.
https://amazonwatch.org/assets/files/2021-03-23-frontline-letter-to-blackrock.pdf

cause for the emergence of zoonotic illnesses like COVID-19, Ebola, SARS and MERS. Three quarters of new infectious diseases originate in animals and "spill over" to humans in conditions of proximity often connected to deforestation driven by agribusiness.[19]

2. How tax havens accentuate deforestation

2.1. For Interpol, the rule of law is key to end environmental crime

Interpol considers disrupting tax havens is necessary to use the rule of law against environmental crime.

In 2016, Interpol reported an intense growth and diversification of environmental crime, becoming the fourth largest crime sector and expanding at 2-3 times the pace of the global economy.[20] The estimated value of the stolen natural resources was between $91 billion to $258 billion annually, but the exact figures are difficult to estimate. This includes illegal timber obtained under the guise of legitimate agricultural activity and smuggled to customers around the world in the form of pulp and paper. In 2015, WWF Germany found almost 20 percent of tropical wood in a total of 144 paper products.[21] As these criminal networks become increasingly organized, they use shell companies in tax havens to hide their finances and improve their ability to escape law enforcement. Four years before the covid pandemic, Interpol featured the pangolin as the most trafficked mammal, particularly the Asian species, reputed to be the conduit of covid-19 between animals and humans.[22]

Some of the root causes of the rise of environmental crime are poor governance, widespread corruption and insufficient budgets for justice. Poverty on the frontlines is also a contributing factor. Most of the international focus had been around the protection of endangered species, while the wider range of environmental crimes involving forestry and money-laundering had not received a system-wide response.

According to Interpol, the most successful initiative against environmental crime was the Brazilian Plan for the Prevention and Control of Deforestation in the Amazon (PPCDAM) between 2003 and 2013. Fines worth $3,9 billion were issued and one million cubic meters of tropical timber was seized. Key to this success was that a single office close to the presidency

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[19] Stopping Deforestation Can Prevent Pandemics. Scientific American (June 1, 2020). https://www.scientificamerican.com/article/stoppingdeforestation-can-prevent-pandemics1/
[20] The rise of environmental crime, a global threat to natural resources, peace and security. UNEP INTERPOL Rapid Response Assessment, 2016. https://wedocs.unep.org/handle/20.500.11822/7662
[21] WWF-Germany files charges against paper retailers suspected of violating EU Timber Regulation, April 2015, WWF. https://wwf.panda.org/wwf_news/?244971/WWF-files-charges-against-paper-retailers-suspected-of-violating-EU-Timber-Regulation
[22] David Cyranoski, Did pangolins spread the China coronavirus to people? 02/07/202, Nature. https://www.nature.com/articles/d41586-020-00364-2

took responsibility in coordination with 13 ministries. Interpol's final recommendations mention the need to strengthen international legislation and disrupt tax havens to maintain the environmental rule of law.

2.2 Offshore leaks detail the financing of deforestation in Indonesia

The International Consortium of Investigative Journalists (ICIJ) revealed in 2017 that APRIL, one of Asia's largest paper companies, moved billions through a web of offshore companies.[23] APRIL's founder had ties to Indonesia's president, the late dictator Suharto. The firm is incorporated in Bermuda (section 3.7.1), it was listed on the New York Stock Exchange between 1994 and 2001. APRIL is allegedly responsible for illegal logging, forest fires, land-grabbing and forced displacement of indigenous people. According to the ICIJ, the group routed its financing capital through shell companies in various tax havens to reduce or avoid withholding taxes on interest payment to lenders, and allow international banks to claim limited involvement with a company flouting environmental laws and human rights. Identifying responsible parties in a string of offshore companies is very difficult. The ICIJ established that Credit Suisse, the Netherlands' ABN Amro and Spain's Santander were among the banks who provided loans to APRIL.

Although BlackRock is not mentioned directly in the ICIJ investigation, APRIL is a singular example of an authoritarian regime using tax havens to hide the proceeds of deforestation. Tax havens also helped APRIL to conceal its financiers and preserve their reputation, if it wasn't for the efforts of the ICIJ.

The ICIJ also reported the advent of Mauritius as a tax haven of choice for African companies since the early 90's, as a result of a series of bilateral tax agreements with countries seeking to attract foreign investment.[24] The double tax agreements are presented as a way to avoid taxing a company twice for the same activity, but in practice they amount to reducing or canceling taxes completely. For instance in 2012, Pacific Andes, one the world's largest seafood group, entered the Namibian horse mackerel market. They partnered with a local business, Atlantic Pacific Fishing (Pty) Ltd, whose board of directors included Namibia's deputy minister of land and other officials. Then a subsidiary was created in Mauritius to receive payment of millions in management fees, while having no office or any employees. This Mauritian shell company is suspected to be a device to bribe Namibian officials with tax-free and secretive income from the fishing company.

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[23] Scilla Alecci, 11/8/2017, Leaked Records Reveal Offshore's Role In Forest Destruction, ICIJ. https://www.icij.org/investigations/paradise-papers/leaked-records-reveal-offshores-role-in-forest-destruction/

[24] Will Fitzgibbon, 11/7/2017, Tax Haven Mauritius' Rise Comes At The Rest of Africa's Expense, ICIJ. https://www.icij.org/investigations/paradise-papers/tax-haven-mauritius-africa/

2.3. Quantitative analysis of the role of tax havens in deforestation and illegal fishing

Galaz et al., used quantitative analysis to describe the connections between tax havens and environmental destruction in the context of the Brazilian Amazon and global fisheries.[25]

They showed that while 4% of all registered fishing vessels are flagged in a tax haven, 70% of the known vessels implicated in illegal, unreported and unregulated fishing have been flagged under a tax haven jurisdiction.

Concerning deforestation, they found that between October 2000 and August 2001, 68% of all investigated foreign capital to nine focal companies in the soy and beef sectors of the Brazilian Amazon had been transferred through one or several tax havens. This represented as much as 90-100% of foreign capital for some of the companies investigated. The source of data for the Amazon region is the only one that is publicly available to researchers, the historical figures of the Central Bank of Brazil, covering a period between October 2000 and August 2011. According to the researchers, the legal requirements for the publication of transfers of foreign capital introduced in October 2000 were suspended in August 2011.

Loans, financing and payments were aggregated in a figure of declared foreign capital incoming to Brazil of $26,9 billion transferred to the selected nine companies between October 2000 and August 2011. About $18.4 billion of this capital was transferred from tax havens. This amounts to 68% of all the investigated foreign capital in these companies. To put this number into perspective, an estimated 17% of all inward foreign direct investment (FDI) was transferred from tax havens to Brazil in 2011, or 38% of foreign direct investment transferred if only intercompany and intra-company loans are included. In a striking example, one of the companies received $6,9 billion from its own subsidiaries registered in the Cayman Islands as cash in advance, or 90% of the foreign capital received by the company.

Galaz et al. explored for the first time the association of the Cayman Islands, the British Virgin Islands and the Netherlands Antilles with companies operating in the Amazon biome. The Cayman Islands is the largest transfer jurisdiction in the investigated period. It provides three benefits to investors: legal efficiency, tax-minimization (mostly zero taxes and low fees) and secrecy. Transfers via tax havens have been shown to attract investors by the effect of increased cash flow and reduced effective tax rates, despite the reputational risks.[26]

As a symptom of the lack of permeation between the international legal framework and the study of ecological systems, Galaz also notes that the lack of transparency in country-by-country reporting guidelines makes it difficult to establish a clear causal relationship

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[25] Galaz et al. 2018,Tax havens and global environmental degradation.
[26] Javier Garcia-Bernardo, Jan Fichtner, Frank W. Takes, Eelke M. Heemskerk (7/24/2017), Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network, Nature. https://www.nature.com/articles/s41598-017-06322-9

between tax haven financing and actual land-use. This is because one of the reasons to use tax havens is precisely to evade environmental accountability, which could be reinforced by stronger country-by-country financial reporting.

2.4. Tax havens and the curse of natural resource

In 2009, a commission of the Norwegian government delivered its report on the role of tax havens in capital flight from developing countries.[27] The report lists the reasons why tax havens are more harmful to developing countries:

- Tax havens undermine the works of the tax system and public finances by attracting capital that should have been taxed in other countries. Developing countries have a narrower tax base and their tax revenue depends in a larger portion on capital taxes. Competition with tax havens to attract mobile capital implies lower capital taxes or higher taxes on a narrower base.

- Tax havens lead to a more inequitable distribution of tax revenues between countries. Particularly in the case of taxes on the capital of companies registered in tax havens.

- They reduce the efficiency of resource allocation in developing countries. Instead of investing the available resources in activities creating value, it becomes more profitable to pursue tax evasion and tax planning, thus reducing the overall value creation.

- They make economic crime more profitable. While many developing countries lack an efficient tax collection system, tax havens make it easier to hide economic crime.

- They encourage rent-seeking and reduce private incomes in developing countries. Countries rich in natural resources have a lower averaged growth than others, a phenomenon known as the resource curse, or the paradox of plenty. It implies that natural resources creating revenue to powerful agents in a country with weak institutions can have a detrimental effect on the country's economy. Resources are wasted on creating a rent for one or few agents instead of creating new income. Tax havens multiply the negative effects of the resource curse.

- They damage institutional quality and growth in developing countries. Tax havens give self-serving incentive to politicians and bureaucrats to weaken the legal and political institutions, thus threatening democracy and sabotaging the economy of the country.

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[27] Official Norwegian Reports, 2009 (19), Tax havens and development (19). https://www.cmi.no/publications/file/3470-tax-havens-and-development.pdf

The resource curse was documented by Ross (2001) in the case of the rainforests in the Philippines, Indonesia and Malaysia.[28] The presence of the forests creates the opportunity for politicians to enrich themselves after undermining the institutions meant to prevent misuse and excessive exploitation. Tax havens further weaken the political will to introduce democratic reforms, or even make it profitable to reduce democratic controls. An illustration of this can be found in the role of Jardines in Indonesia, discussed in section 3.6.2 and 3.6.6.

2.5. The poverty trap: tax havens also damage the private sector

In the appendix to the Norwegian report summarized above, Ragnar Torvik synthesizes previously published empirical research to expose the mechanisms by which tax havens subvert developing economies.[29] There are many known examples of corrupt politicians in developing countries who concealed public funds in tax havens for their personal enrichment. A historical case was Mobutu Sese Seko, who held power in the Democratic Republic of Congo from 1965 to 1997. Tax havens enabled Mobutu to amass a great fortune, while the political elite plundered the country's natural resources and economy. Income per capita in 1992 was half of what it was when the country gained independence in 1960. However, such a drastic reduction of the income per capita cannot be explained only by the deeds of Mobutu and his circle. The indirect damage inflicted by the regime on the economy must be taken into account to explain how the average revenue per inhabitant was divided by two.

Data is difficult to obtain on tax havens because of their secretive nature, but their effect on economies can be observed by considering the institutional quality of the countries. On the one hand, weak institutions and political systems in developing countries are a cause of the negative effects of tax havens, while on the other hand tax havens are a cause of the decline of their institutions and political systems. This negative spiral has destructive consequences. In the context of a state with well-functioning institutions, the effect of the rule of law established by legal institutions, infrastructure and good public services is to increase the incentives for entrepreneurs to engage in productive activity. More entrepreneurs producing value means more income for all entrepreneurs, while reducing destructive activity, crime and corruption. Growth in productive activity also gives higher tax income, thus improving public services and infrastructure. Conversely, more criminal competitors reduce the income for each criminal. More entrepreneurs in destructive activities will decrease the number of entrepreneurs in productive activity, reducing production and the income for each entrepreneur. Tax havens make it more profitable to be a rent seeker, so more people adopt rent seeking. More rent-seekers and fewer productive entrepreneurs reduce the income of the productive entrepreneurs, thus making rent seeking even more attractive. Productive entrepreneurs become fewer and fewer, and the income per capita continues to fall.

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[28] Michael L. Ross, 2001, Timber Booms and Institutional Breakdown in Southeast Asia (Political Economy of Institutions and Decisions), Cambridge University Press.

[29] Ragnar Torvik (2009), Why are tax havens more harmful to developing countries than to other countries? In: Official Norwegian Reports, Tax havens and development (19), p. 114.

Tax havens provoke a negative multiplicative process. They disadvantage the private sector as much as the public sector. The poverty trap is the state of economical equilibrium where all entrepreneurs become rent-seekers, which is facilitated by tax havens. The other – desirable – state of equilibrium is where all entrepreneurs are productive. It can only be achieved with functioning institutions and infrastructure. In countries with good institutions, the resource curse does not exist and resource abundance is an advantage. However, many developing countries have low institutional quality.

Torvik concludes that tax havens give incentives to the agents of the economy who seek to destroy institutions, instead of improving them. Political agents are encouraged to weaken democracy and establish a type of presidential rule where power is concentrated in the president's hands. Developing countries have much to gain from putting a stop to the use of tax havens.

2.6. Foreign direct investment from tax havens into developing economies

The previous sections explained the causes of local agents in developing economies being incentivized to use tax haven financing, thus accelerating and intensifying the exploitation of natural resources like the rainforest. To understand better how and why asset managers such as BlackRock invest in forest-risk companies through tax havens, we need to consider the general problem of multinational enterprises (MNE) investing in developing economies through tax havens.

Ahmed et al. (2020) used a large, firm-level data set and found a strong positive association between tax haven use and foreign direct investment (FDI) into countries characterized by low economic development and extreme levels of capital flight, which they observe to be followed by weak institutions and market imperfections.[30] A large part of all MNEs have subsidiaries or a parent company registered in tax havens. They offer low tax rates, beneficial fiscal treatment of cross-border financial transactions, networks of bilateral investment and double taxation treaties, as well as access to financial markets. All these factors make them attractive to all companies.[31] Tørsløv et al. (2018) estimate that close to 40 per cent of the world's corporate profit is shifted through tax havens, while FDI from developed countries into offshore financial centers is growing globally.[32]

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[30] Ali Ahmed, Chris Jones and Yama Temouri (2020), The relationship between MNE tax haven use and FDI into developing economies characterized by capital flight, Transnational Corporations, Volume 27, Issue 2. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3692289
[31] Jannick Damgaard, Thomas Elkjaer, and Niels Johannesen, 8/13/2019, The Rise of Phantom Investments: Empty corporate shells in tax havens undermine tax collection, International Monetary Fund. https://www.elibrary.imf.org/view/journals/022/0056/003/article-A004-en.xml
[32] Thomas R. Tørsløv, Ludvig S. Wier and Gabriel Zucman (2018), The Missing Profits of Nations (working paper), National Bureau of Economic Research, June 2018, Revised April 2020. https://www.nber.org/papers/w24701

Using data for a sample of MNEs from 19 developed economies, Amhed et al. (2020) find that MNE's are more likely to own tax haven subsidiaries if they also have subsidiaries in developing countries with high capital flight, suggesting that weak institutions and high capital flight lead to more tax haven activity. It has been argued that the ability of MNEs to exploit differences in corporate tax rules across jurisdictions is a key competitive advantage over firms that do not engage in such behaviour.[33] Lastly, Ahmed also found evidence that tax haven use for the firms is correlated with a higher degree of internationalization and a higher performance in the short term.

Ahmed et al. (2020) collect data on financial flight from Global Financial Integrity (GFI), counting roughly $7.8 trillion of unrecorded capital flight from the developing world between 2004 and 2013. They use Global Financial Integrity data to rank developing countries by average annual unreported capital flight, then check for robustness with another ranking based on capital flight as a percentage of gross domestic product. All the countries from the three regions of forest risk covered in the present report (Brazil, Central and West Africa, Southeast Asia), are included in the capital flight rankings, with five countries included in the top ten countries by capital flight The forest-risk countries covered in the present report were crossed with the tables in Ahmed et al (2020) to show that all forest-risk countries are characterized by high unrecorded capital outflows and/or high capital flight as a percentage of GDP.

Table 1 shows the ranking of forest-risk countries by capital flight in absolute value, extracted from the ranking of all developing countries in Ahmed et al. (2020). Table 2 shows the ranking of forest-risk countries by capital flight as a percentage of GDP.

Table 1. Forest-risk countries by unrecorded capital outflows (from the Top 50)

Extreme capital flight (Top 10)	**Large capital flight (Top 11-30)**	**Medium capital flight (Top 31-50)**
Malaysia	Viet Nam	Côte d'Ivoire
Brazil		
Thailand		
Indonesia		
Nigeria		

Table 2. Capital flight as a percentage of GDP in forest-risk countries*

[33] Sol Picciotto (2019), International tax, regulatory arbitrage and the growth of transnational corporations, Transnational Corporations, Volume 25, Issue 3.
https://unctad.org/system/files/official-document/diaeia2018d5a3_en.pdf

Above 10%	5%–10%	2%–5%	Below 2%
Cambodia	Nigeria	Cameroon	Brazil
Congo-Brazzaville	Papua New Guinea	Gabon	Congo-Kinshasa
Côte d'Ivoire	Thailand	Indonesia	Ghana
Laos			Myanmar
Liberia			
Malaysia			

Following the conclusion of Ahmed et al., it can be assessed that firms present in the investments managed by BlackRock correspond to the description of MNEs that use tax havens and own subsidiaries in developing countries characterized by weak institutions and high capital flight.

Why does BlackRock include forest-risk groups emitting equity from tax havens inside its assets under management ? Short-term profit and disregard for the long-term consequences on the concerned economies and the global ecological system. These investments remove wealth that should be used to build the infrastructure and institutions aimed at protecting the poorest members of society, as well as the environment.

2.7. How to recognize a tax haven

The present report uses the Corporate Tax Haven Index (CTHI) established by the Tax Justice Network in 2019 as a reference to establish whether a country can be considered a tax haven.[34] There has been plenty of research on the subject and authors have established different lists of tax havens over the years. Factors for recognizing a country as a tax haven can vary deeply from one research to the next, while the legal and financial context can change rapidly. Companies and financiers adapt to new consumer habits and the priorities of lawmakers evolve according to the electoral cycles in the different jurisdictions. For these reasons, it is outside the scope of the present report to establish another list of tax havens. The CTHI was adopted to take advantage of the collective work of specialists and academics who contributed to this index. The main practical advantage of the Corporate Tax Haven Index is a country by country scoring on various criteria, such as the lowest available corporate income tax, legal loopholes or transparency. This detailed scoring allows to locate a country on a spectrum of "tax-havenry" instead of a simple list of tax havens that would artificially simplify the differences between each

[34] An updated version of the CTHI was published in 2021. The 2019 version is accessible in the archives of the CTHI. https://cthi.taxjustice.net/en/archive

jurisdictions. This also allows legislators to visualize the detailed “tax-havenry” profile of their country and propose new legislation to improve the situation. The Tax Justice Network updates the CTHI regularly to match the progress, or lack thereof. The score of each country is calculated by combining a jurisdiction’s Haven Score and Global Scale Weight. The Haven Score measures how much a jurisdiction allows for corporate tax abuse in 20 indicators. The Global Scale Weight measures how much financial activity from multinational corporations the jurisdiction hosts. Combining Haven Score and Global Scale Weight indicates the size and scope of the corporate tax abuse allowed by a country’s jurisdiction.

Let’s consider the case of the Bermuda islands, a tax haven that appears prominently in the present report. As can be seen below in figure 2 (section 3.2), Bermuda is the tax haven which received the most investment managed by BlackRock in forest-risk companies. Bunge, based in the United States, and Jardine Matheson, based in Hong Kong, are the two groups that received BlackRock financing through equity shares emitted from the archipelago. Bermuda is ranked third in the CTHI, but more information on this jurisdiction is available on its country profile. Its Haven Score is 100, the highest level of financial secrecy and complacency with corporate tax abuse, a score shared with two other British dependencies at the top of the CTHI, the Virgin and the Cayman islands. Bermuda’s Global Scale Weight is 1,6%, so the volume of transactions registered there is relatively small.

The United States are also present in figure 2 (section 3.2.), as the tax haven which received the second largest investment managed by BlackRock in forest-risk companies. The United States CTHI country profile displays the 25th rank on the index. The US Haven Score is relatively low, 46.9 on a scale of 100, so the US corporate tax law is not fully engineered to provide tax evasion schemes to multinational companies. However, the US Global Scale Weight is 19%, the highest of all countries present in the index, making the United States the largest market of corporate financial transactions in the index. It is therefore ranked higher than more secretive tax havens like Panama or Liechtenstein, which have much smaller influence on the global market. The tenth indicator on the country profile, “Public Country By Country Reporting (CBCR)”, provides information relevant to the deforestation problem. The USA doesn’t require multinational companies to publish financial reporting data on a country-by-country reporting basis, including companies involved in extractive industries. The USA withdrew from the Extractive Industries Transparency Initiative in 2017.[35] In any case, this initiative didn’t cover forestry, but only oil and minerals.

3. BlackRock’s forest-risk investments in tax havens

The total of the capital managed by BlackRock in forest-risk companies amounts to $10 billion in 2020, as shown in the equity + bonds bar, on the right of figure 1 (section 3.1). $9.6 billion of this

[35] Kelsey Landau, Norman Eisen, 11/16/18, Unhappy anniversary: U.S. withdrawal from the Extractives Industries Transparency Initiative, one year later, Brookings. https://www.brookings.edu/blog/fixgov/2018/11/16/unhappy-anniversary-u-s-withdrawal-from-eiti/

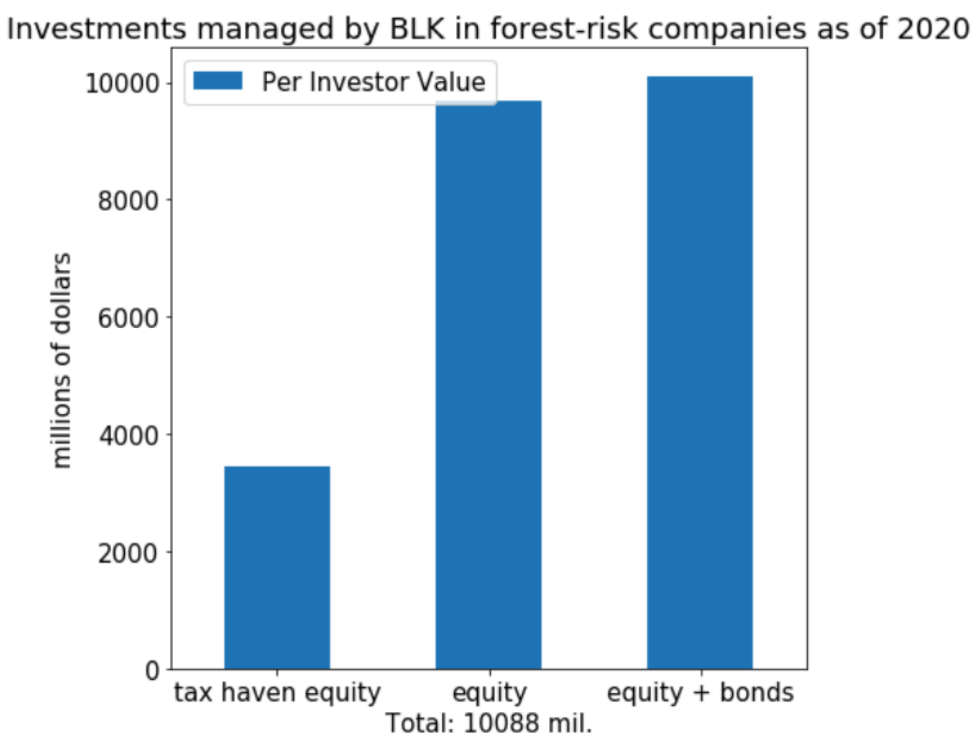
total is made up of equity, out of which $3.4 billion are issued in corporate tax havens. These $3.4 billion represent 4% of all the shareholding in forest-risk commodities mapped by Forests & Finance. The total investment in bonds amounts to $400 million, a relatively small sum compared to almost 10 billion in equity.

Moreover, the method applied in the present report to identify tax havens in the equity investment could not be easily applied to bonds because of a lack of standardization in the identification systems of debt certificates (see methodology section in the appendix, 5.1).

As a result of incomplete financial transparency and a smaller size in the BlackRock investment, offshore bonds have not been investigated further in the present report. On the topic of debt financing through tax havens in forest-risk countries, research has found correlation between debt financing and high capital flight,[36] while offshore debt financing has been shown to reach concerning levels in Brazil.[37]

3.1. The size of BlackRock investment in forest-risk groups

Figure 1



[36] Ahmed et al. (2020).
[37] Coppola, Maggiori, Neiman, Schreger,2020, Redrawing the Map of Global Capital Flows:The Role of Cross-Border Financing and Tax Havens, working paper. https://bfi.uchicago.edu/working-paper/redrawing-the-map-of-global-capital-flows-the-role-of-cross-border-financing-and-tax-havens/

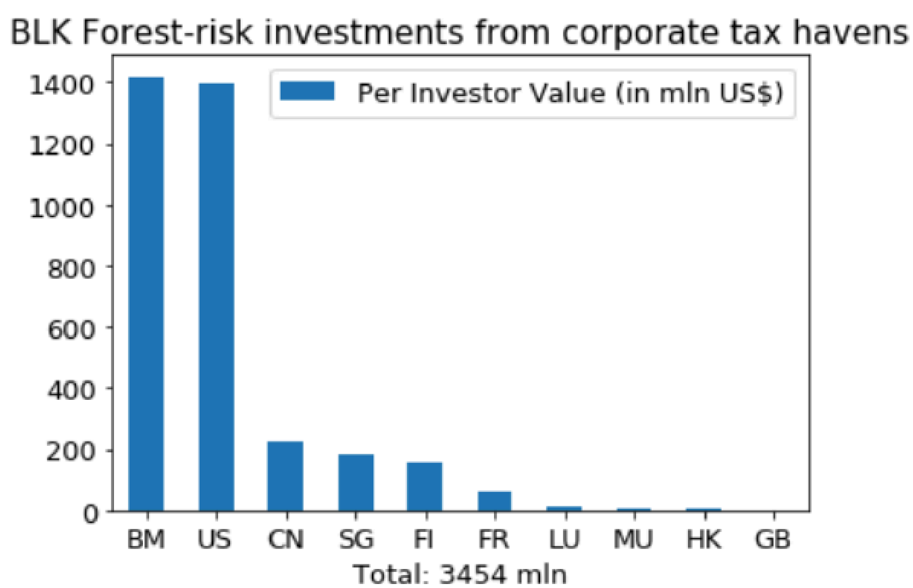
In figure 1, the forest-risk investments managed by BlackRock in 2020 were broken down between equity issued in tax havens, all equity and equity and bonds taken together.

Although $10 billion could possibly sound a small sum when compared to BlackRock's eight to nine trillion dollars in assets under management in 2020, let's remember that these investments are adding to the risk of destruction of the primary forest, a resource which can't be replaced or subsidized for. Additionally, this relatively small position enables a much larger stake, $700 billion, that BlackRock has in the companies of the Consumer Goods Forum, which source their ingredients and raw materials from forest-risk companies (section 1).[38]

A collective divestment from offshore forest-risk equity for the Big Three asset managers (BlackRock, Vanguard, State Street) would represent a relatively marginal decrease of their profit but a significant progress for the protection of the forest and indigenous communities, considering the influence that the Big Three have on other investors and companies.[39] This investment should be re-localized in the forest-risk countries, where institutions meant to protect the most vulnerable and the environment would benefit from increased fiscal income, and would be able to supervise the production of forest-risk commodities.

3.2. Tax havens inside BlackRock's forest-risk investments

Figure 2



[38] Doubling Down on Deforestation, 2020.
[39] Galaz et al (2018), Finance and the Earth system.

In Figure 2, the forest-risk equity emitted in tax havens and managed by BlackRock in 2020 was broken down by issuing country. See the list of ISO country codes in the appendix.

Bermuda (BM) and the United States (US) together issued about 80% of all the tax haven equity held by BlackRock in forest-risk companies (figure 2). As said previously in section 2.7, Bermuda's CTHI profile indicates that the jurisdiction is ranked third in the corporate tax haven index, with a Haven Score of 100, the highest level of allowance for corporate tax abuse. The United States is ranked in 25th position in the CTHI. However the Financial Secrecy index, another index established by the Tax Justice Network, ranks the USA in second position. This striking difference can be explained by the double standard applied by the United States with regards to tax evasion. On one hand, the US jurisdiction is welcoming to foreign capital and offers facilities and complacent financial regulation to shelter foreign cash from foreign taxes, on the other hand, it is more scrupulous to maintain a fiscal grip on US companies. This double standard can be perceived in the tenth indicator of the US CTHI profile: "Public Country By Country Reporting (CBCR)". Companies registered in the US are not required to provide country-by-country reporting, meaning the profits brought home by US multinationals from their activities outside of US soil are not subjected to financial transparency. This also applies to extractive industries and deforestation. The third country of emission by order of the size of BlackRock's forest-risk investment is China (CN), with about $200 million, or 14% of the largest portion of investment, Bermuda. China holds the nineteenth position in the CTHI, six ranks above the USA, mainly because it provides more secrecy to multinationals. The rising presence of Chinese forest-risk groups in BlackRock investments can be observed in figure 6 (appendix, 5.2). Relationships between tax havens and issuing companies will be discussed in more detail in section 3.7.

3.3. Classification of tax havens inside BlackRock's forest-risk investments

Corporate tax havens in the BlackRock forest-risk investments (table 3) can be grouped according to their scores in the Corporate Tax Haven Index (CTHI).

- In blue, the United States, China, Finland, France and the United Kingdom are diversified economies with corporate tax laws designed to offer a competitive advantage to multinational companies historically based in their respective territories.

- In yellow, Singapore, Luxembourg, Mauritius and Hong Kong are specialized economies designed to be financial hubs. Their corporate tax laws are favorable to corporate tax abuse while maintaining a minimum level of transparency expected from an international financial market.

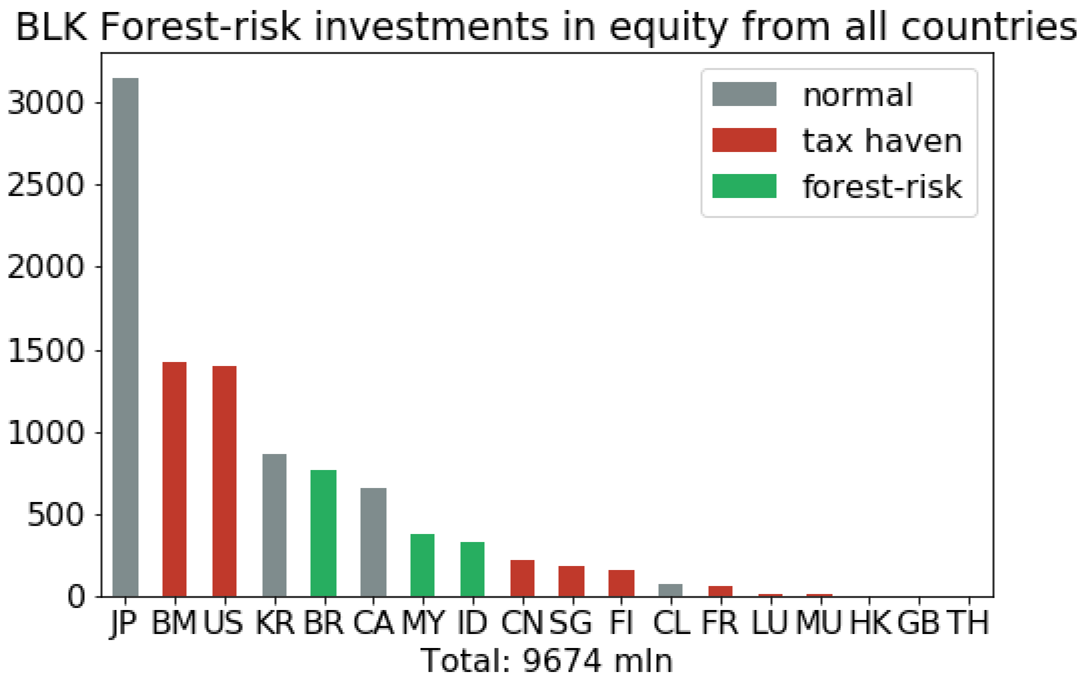
- In red, Bermuda corresponds to the narrowest definition of a corporate tax haven. The only purpose for a company to register there is to avoid taxes and maintain secrecy.

Table 3: CTHI ranking of corporate tax havens in the BlackRock forest-risk investments			
Country	**CTHI rank***	**Haven Score***	**Global Scale Weight***
Bermuda (BM)	3	100	1.6%
United States (US)	25	47	12%
China (CN)	20	63	4.9%
Singapore (SG)	9	85	2.3%
Finland (FI)	32	60	0.29%
France (FR)	18	67	2.8%
Luxembourg (LU)	6	74	9%
Mauritius (MU)	15	81	0.66%
Hong Kong (HK)	7	78	5.5%
United Kingdom (GB)	13	69	7.3%

*The CTHI score of each country is calculated by combining a jurisdiction's Haven Score and Global Scale Weight. The Haven Score measures how much a jurisdiction allows for corporate tax abuse in 20 indicators. The Global Scale Weight measures how much financial activity from multinational corporations the jurisdiction hosts. Combining Haven Score and Global Scale Weight indicates the size and scope of the corporate tax abuse allowed by a country's jurisdiction (section 2.7).

3.4. Countries present in BlackRock's forest-risk equity investments

Figure 3



In figure 3, the totality of BlackRock investment in forest-risk equity in 2020 ($9.6 billion) is broken down by country of issuance. In grey, the "normal" countries are neither tax havens or forest-risk. Corporate tax havens are shown in red, and forest-risk countries are shown in green.

As can be seen in figure 3, Japan (JP) alone issued one third of all the equity, with three large banking conglomerates: Mitsui (SMBC), Itochu and Mitsubishi (MUFG). A breakdown of all the forest-risk companies within BlackRock's investments is available in the appendix (figure 6, section 5.2). Japanese mega banks have interests in controversial new coal plants in Vietnam and Indonesia, as well as forest fires and exploitative palm oil plantations in Indonesia. Their plans don't seem to be changing any time soon. Mitsui (SMBC) didn't sign any of the policies meant to protect the forests and their inhabitants,[40] and Mitsubishi (MUFG) continues to invest in new coal infrastructure, tar sand and agribusiness groups that destroy forests all over the globe.[41] Itochu has been the subject of a report by Forests and Finance showing how its investments in rubber, palm oil and soy are fueling land-grabbing, deforestation and human rights abuse in Malaysia and Indonesia. Although reluctantly, these groups do react to the general pressure to comply with sustainable development goals, so it is reasonable to assume that a decisive European regulation would have a positive effect on their policy.

[40] The No-deforestation, No-peat and No-exploitation (NDPE) commitment is an industry standard widely adopted by the palm oil industry.
https://www.unpri.org/news-and-press/fifty-six-investors-sign-statement-on-sustainable-palm-oil/4266.article
Free, Prior and Informed Consent (FPIC) is a specific right recognised by the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) designed to give or withhold access to their territories.
https://www.fao.org/indigenous-peoples/our-pillars/fpic/en/

[41] Emma Rae Lierley, 4/20/2020, SMBC Misses Critical Opportunity to be a Climate Leader, press release, Rainforest Action Network.
https://www.ran.org/press-releases/smbc-misses-critical-opportunity-to-be-a-climate-leader/

Bermuda (BM) and the United States (US), the two largest corporate tax havens in figure 3, together issued the second third of all the BlackRock equity investment, while the last third was issued by the remaining countries. Brazil (BR), Malaysia (MY), Indonesia (ID) and Thailand (TH) are the four forest-risk countries where equity was issued and invested in through BlackRock. Together, forest-risk countries issued one sixth of the total. As can be seen in table 1 (section 2.6), the four of them are in the top ten countries by capital flight, according to Global Financial Integrity. Since capital flight is correlated with tax haven financing,[42] which in turn accentuates the negative effect of the abundance of natural resource in a developing country,[43] it can be assumed that less tax haven financing in forest-risk countries would have a multiplying positive effect on their economies and ecologies. The first plausible effect would be to reroute foreign direct investment from tax havens to forest-risk countries, thus increasing the small share they have in the current state of BlackRock investments. The ensuing plausible effects would be a decrease in capital flight, improved institutional quality thanks to fiscal revenue and more income for entrepreneurs thanks to improved infrastructures. Ultimately, according to the model proposed in the Norwegian report on tax havens and development,[44] it would lead to a decrease in rent-seeking and an increase in value creation, while the institutions of forest-risk countries would be better equipped to preserve the rule of law and fight environmental crime.[45]

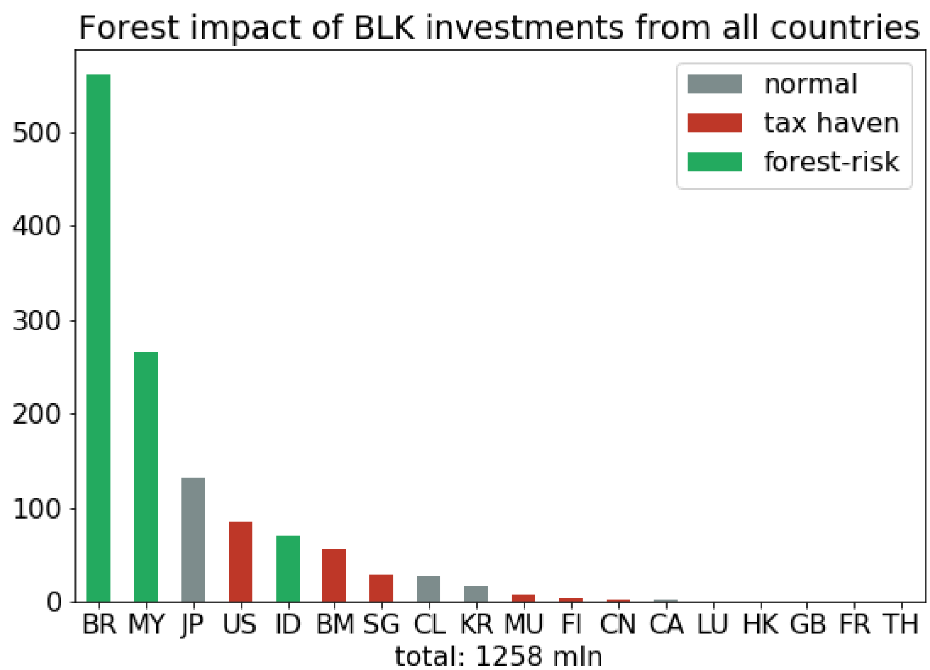
To the environmentalists, one of the desirable effects of an end to tax haven financing would be improved corporate transparency and accountability.

A few forest-risk companies have been identified in BlackRock's portfolio for their open disregard for human rights and forest preservation. Companies like Golden-Agri and Salim in Indonesia, or Suzano in Brazil were identified as human rights offenders who received BlackRock financing.[46] But these companies are generally regional groups with operations centered around the exploitation of the forest. In the current state of financial transparency, it is often difficult or impossible to establish a direct link between frontline operations and global grain traders. As long as the largest groups who buy and sell the products of forest exploitation are allowed to hide their accounts and trading operations, they will be allowed to purchase the same "tainted" grain or meat without consequences. Increasing mandatory financial transparency for grain traders is acting on the demand side of forest-risk commodities.

[42] Ahmed et al. (2020), see also section 2.6.
[43] Tax havens and development (2009), see also sections 2.4 and 2.5.
[44] Ibid
[45] The rise of environmental crime (2016), see also section 2.1.
[46] Jeff Conant, Ward Warmerdam, Moira Birss, Christian Poirier, Gaurav Madan, 2019, BlackRock's Big Deforestation Problem, Friends of The Earth USA, Amazon Watch, Profundo. https://foe.org/resources/blackrocks-big-deforestation-problem/

3.5. Adjusting the forest impact of the investments according to available data

Figure 4



In figure 4, the forest impact of BlackRock's investment in forest-risk equity in 2020 ($9.6 billion) is broken down by country of issuance. In grey, the "normal" countries are neither tax havens or forest-risk. Corporate tax havens are shown in red, and forest-risk countries are shown in green.

Figure 4 is an illustration of the transparency problem in the collection of data on forest-risk groups. In this graph, we look at the issuing countries of the equity managed by BlackRock, exactly like in figure 3, but this time we measure their forest impact, using segment adjusters developed by the organization who provided the original dataset on forest-risk groups.[47]

The objective of segment adjusters is to assess the impact of each dollar invested according to the activity of the company where the capital is invested. To put it simply, each company is attributed a percentage of "forest impact", in order to reflect the real footprint of each investment.

For example, a Brazilian (BR) group like JBS obtains an adjusting percentage of 60%, to reflect how much their beef-related activity is impacting the forest. A large and diversified group will see its percentage decrease because the impact of the BlackRock investment is assigned

[47] For reasons of data property rights, I prefer not to publish the name of this organization. I can't therefore publish the document containing the segment adjusters. But this document is otherwise public and available online. If you are curious, please contact me.

proportionally to the forest-risk activity of the group. In the case of a giant group like the Korean (KR) Samsung, the percentage drops below one percent. At the other end of the spectrum, Sarawak Oil Palms, a specialized group from Malaysia, obtains an adjusting percentage between 99 and 100.

At first, figure 4 seems to convey that most of the forest impact is caused by companies located in forest-risk countries. But if we look at the adjusting factors of the firms located in Japan (JP), the United States (US) or Bermuda (BM), we see that these groups didn't provide sufficient data for researchers to establish segment adjusters. Mitsui, Itochu and Mitsubishi from Japan and Cargill, ADM and Bunge from the USA and Bermuda, all have in common a failure to provide sufficient accounting data on forest-risk commodities. Taken together, these companies make about two thirds of BlackRock's forest-risk investments.[48]

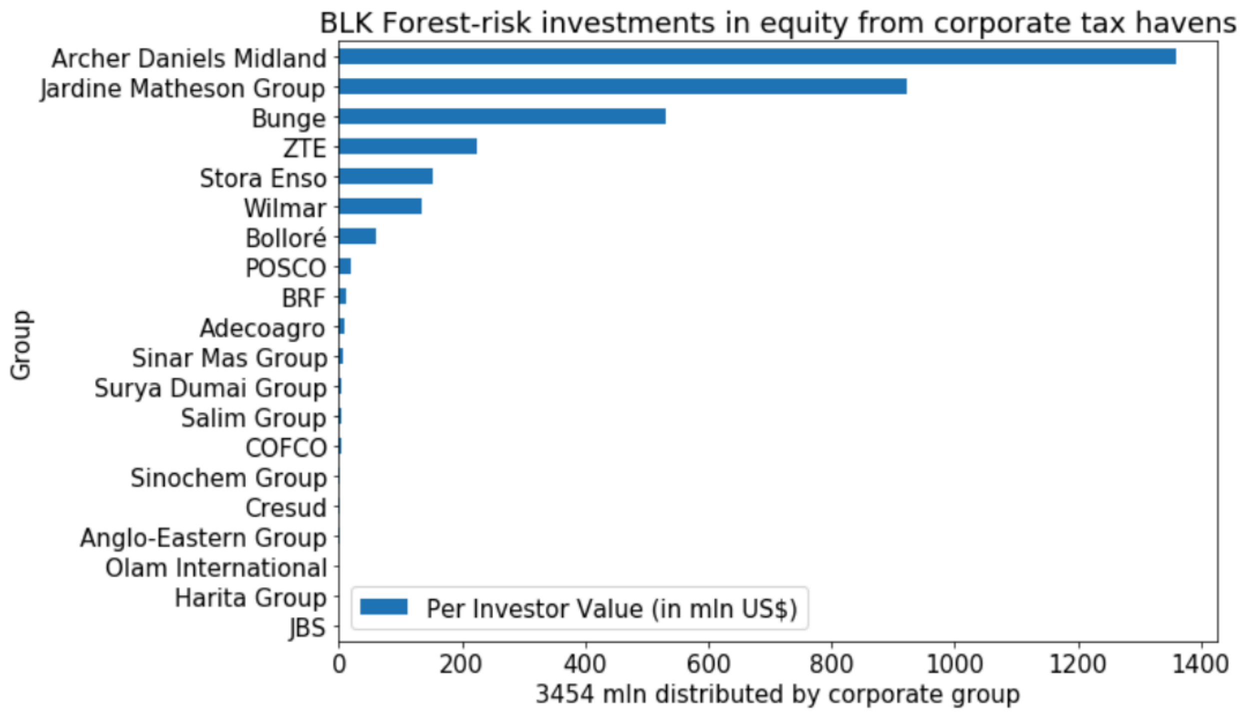
Suppliers based in forest-risk countries, on the other side, tend to give a more transparent account of their activity. An activity that is much harder to hide anyway, since it is usually centered on one specific forest-risk production, as opposed to multinational, highly diversified groups.

Lastly, despite the global ubiquity of palm oil and soy in food products, the demand for these commodities by the food industry downstream in the supply chain was not taken into account to establish the forest impact adjusters, because of the excessive complexity of the task. But the responsibility of tracking the forest impact of the palm oil and soy industry cannot weigh on the shoulders of NGO's alone. Transparency in the supply chain should be a priority for commodity traders and their financiers, such as BlackRock. The resulting picture of the forest impact in figure 4 is skewed in the direction of putting all the blame on forest-risk countries, who seem to cause the most damage, while BlackRock, grain traders of the ABCD club and Japanese mega banks wash their hands.

3.6. Forest-risk groups in BlackRock's tax-haven investments

Figure 5

[48] The groups in BlackRock's forest risk investment can be seen together in figure 6, appendix 5.2.



In figure 5, Archer Daniels Midland (ADM), Jardine Matheson (Jardines) and Bunge together amount to 80% of the forest-risk equity issued in tax havens that was managed by BlackRock in 2020. ADM and Bunge are active in the three regions of risk: Brazil, Central and West Africa and Southeast Asia. Jardines is mostly active in Asia.

3.6.1. The ABCD club

ADM and Bunge are part of a special “club” of four multinational groups, known as the ABCD for ADM, Bunge, Cargill and Dreyfus, dominating the global trade of agricultural production. They are all based in the USA except Dreyfus, headquartered in Amsterdam. Although they keep a low profile and remain largely ignored by the general public, the ABCD’s control a significant portion of all the basic food supplies that are processed, traded and eaten around the planet. They supervise production of agricultural commodities, coordinate transport and sell the fertilizers that local farmers use on their crops. Their influence on the price of food and the availability of resources such as land and water is considerable. They are also increasingly involved in the financialization of agricultural commodities through the sales of their own derivative products to institutional investors (like BlackRock) and the growth of their own hedge funds, leveraging the unique knowledge they have on agricultural production and trade. Despite their influence, the exact size of their business is unknown, because two of the ABCDs, Cargill and Dreyfus, are still privately owned, which shelters them from the transparency rules applied to companies issuing shares on the stock markets. According to an Oxfam report from 2012, the

ABCD's could have controlled between 75% and 90% of the global grain market at the time.[49] But the situation is likely different now, with the advent of competitors like Cofco from China, Olam and Wilmar from Singapore and Mitsui from Japan.[50] These groups are present in the company breakdown of BlackRock's forest-risk investment in figure 6 (appendix 5.2).

Archer Daniels Midland (ADM) is a mid-sized firm compared to the other ABCDs, with $65 billion in net sales for 2019. Like its ABCD peers, ADM is an old company. It was founded in 1902, then rose into prominence in the 1970's. The state of incorporation is Delaware,[51] considered a US domestic tax haven.[52] According to the state's Division of Corporations, an actual million of other business entities and 66% of Fortune 500 companies are also domiciled in Delaware.[53] In 2012, ADM was the third largest processor of oilseed, corn, wheat and cocoa.[54] A major processor of soybean in Brazil, it was the world's largest processor of cocoa beans, sourcing its supplies from Cameroon, Côte D'Ivoire, Ghana and Indonesia. As of 2019, ADM owns 20% of Wilmar, the largest palm oil trader in the world, which has been accused by NGO's of repeatedly causing forest fires and human rights violations in Indonesia.[55] ADM is also an important biofuel producer in the USA and Europe.

Bunge was founded in 1818 in the Netherlands. After expanding into Brazil and Argentina, Bunge moved its legal domicile to Bermuda in 1994, then installed its operating headquarters in the USA in 1998.[56] In 2018, it had net sales of $45 bn. Bunge was the largest grain trader and the largest manufacturer of fertilizer in South America in 2012. It was also the world's largest producer of soybean oil and an important manufacturer of biofuel from Brazilian sugarcane.[57]

ADM with $1,4 bn and Bunge with $0,6 bn hold the first and third places in BlackRock's investments in figure 5. They are both publicly traded, as expected for companies of their size, which allowed BlackRock to enter their capital, according to the usual modus operandi of passive investors. Here's an outline: as soon as a company finds its place in the index of a stock market, BlackRock will buy some of the company's stock (also called equity) and re-package it into various forms of investment products, including index traded funds (ETFs), which are then sold to BlackRock's customers.

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[49] Sophia Murphy, David Burch, Jennifer Clapp, 2012, Cereal Secrets, The world's largest grain traders and global agriculture, Oxfam Research Reports. https://www.oxfam.org/en/research/cereal-secrets-worlds-largest-grain-traders-and-global-agriculture
[50] Céline Ansart & Anne Couderc, 6/11/2019, International grain trading: The ABCDs : what's next? Presentation given at Unigrains Breakfast Meetings. https://www.unigrains.fr/wp-content/uploads/2019/06/190611-Unigrains-Research-ABCDs.pdf
[51] Archer-Daniels-Midland Co, Securities and Exchange Commission. https://sec.report/CIK/0000007084
[52] Alana Semuels, 10/5/2016, Loose Tax Laws Aren't Delaware's Fault, The Atlantic. https://www.theatlantic.com/business/archive/2016/10/dont-blame-delaware/502904/
[53] About the Division of Corporations, last consulted in 2021, Delaware Government. https://corp.delaware.gov/aboutagency/
[54] Cereal Secrets (2012)
[55] Annisa Rahmawati, 9/10/2019, Why we've had enough of broken promises to protect forests, Greenpeace. https://www.greenpeace.org/international/story/24159/palm-oil-wilmar-broken-promises-protect-forests/
[56] According to Bunge's website, last consulted in 2021. https://www.bunge.com/who-we-are/our-history
[57] Cereal Secrets (2012)

The two remaining ABCD groups, Cargill and Dreyfus, are not present in BlackRock's equity portfolio because they are not publicly traded, which is surprising for companies of their size. But they must also be mentioned here, because although their shares are not publicly traded, they do emit bonds and derivatives on the global market, some of which end up in BlackRock's index traded funds (the iShares on the ETF market). This is specifically the case for Cargill, but Dreyfus also sells its own financial products.[58] The financialization of commodities and their impact on human rights and environmental protection will be discussed below in section 3.6.8.

Cargill is known to be the largest privately owned company in the US, still largely controlled by the two families who founded it in 1865. It had net sales of $114.695 bn in 2018. Its activities range from the trading of agricultural commodities to raw materials, pharmaceuticals and risk management. Cargill has been widely criticized for its role in deforestation, pollution, climate change and human rights abuse. Former US congressman Henry A. Waxman called Cargill "the worst company in the world".[59]

3.6.2. Jardines in Asia

Jardine and Matheson, also known as Jardines, received the second largest investment from BlackRock among forest-risk groups emitting equity from tax havens (figure 5), with roughly $1 bn. Historically based in Hong Kong since 1842, now domiciled in Bermuda, the Scottish trading conglomerate wields considerable influence in Asia. Although the group is not part of the ABCD club because agribusiness is only a peripheral activity, it controls 50% of Astra International, an Indonesian industrial group which recently came under criticism for its responsibility in deforestation, land grabbing and human rights violations related to palm oil exploitation.[60] BlackRock itself has been under fire for being the third largest shareholder in Astra.[61]

In 2019, Jardines reported $40.9 bn in net sales. Its operations span between retail, real estate, shipping, aviation and automobiles. The history of the group is entangled in the rivalry between China and the United Kingdom over the Hong Kong trading hub.[62] The early days of the company involved smuggling opium to imperial China, a trade which caused the Opium War, in the first half of the nineteenth century. China banned opium to preserve its population, while Great Britain was defending the drug in the name of free trade. Eventually, British cannons won

[58] In 2021, Fintel.io reports at least four iShares ETF's listing Cargill bonds. https://fintel.io/soe/us/141781bl7
[59] Cargill, The Worst Company in the World, 2019, Mighty Earth. https://www.mightyearth.org/cargillreport
[60] Indonesia's Big Palm Oil Firms Silently Complicit with Pro-Deforestation Omnibus Bill, 9/9/2020, Mighty Earth. https://www.mightyearth.org/2020/09/09/indonesias-big-palm-oil-firms-silently-complicit-with-pro-deforestation-omnibus-bill/
[61] Primrose Riordan, Stefania Palma, 5/5/2021, BlackRock accused of ESG inconsistency over Indonesia palm oil, Financial Times. https://www.ft.com/content/479b9dd2-c738-4310-8b1e-afdfbd3921b0
[62] 5/22/2007, Relocation of Jardine Matheson disappointed Beijing, Lu Ping reveals, South China Morning Post. https://www.scmp.com/article/593867/relocation-jardine-matheson-disappointed-beijing-lu-ping-reveals

the war and the treaty of Nanking 1842 made Hong Kong a British Colony, where Jardines had its headquarters. Over the course of two centuries, Hong Kong became a global financial hub, Jardines thrived and expanded all over Asia, while the founding Scottish families remain today on top of a mostly Asian organization. In 1984, Jardines was preparing for the year of the Handover, when the British would leave Hong Kong and leave the door open for the Chinese, in 1997. To prevent any attempt of takeover from the Chinese financiers, the legal domicile of the group was moved to Bermuda, then the share listings were progressively transferred from the Hong Kong stock exchange to London and Bermuda.[63]

3.6.3. Establishing the responsibility of deforestation

The most compelling demonstration of the responsibility of grain traders in illegal deforestation is a judgement of conviction. But instances of grain traders being formally charged for environmental crime are relatively rare, considering the power they wield over the production responsible for forest clearing. In one of the most important cases of recent memory, the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) fined Bunge, Cargill and a group of grain traders and farmers for purchasing 3000 tons of soy from farms embargoed for destroying native vegetation.[64] For this type of penalty to be enforced, it takes functioning institutions and coordinated action from the state, which acts as the validating authority for the grievances of native communities and environmental stakeholders. But in countries like Brazil and Indonesia, the state has often been an obstacle against the recognition of the responsibility of agribusiness in forest clearing. As a consequence, the largest profiteers of forest destruction escape legal liability, while land-grabbing, forest destruction and the killings of forest defenders continue.

Jurisdictions such as the United States for ADM and Bermuda for Jardines and Bunge provide the corporate secrecy rules to shelter them from prosecution in their homeland, so only the institutions of the country where the forest is exploited are in a position to act (section 2.7). Collecting evidence to charge companies as large as the ABCD's takes tremendous effort and resources, which fall on the shoulders of developing economies deprived of vital income by tax havens.

NGO's and indigenuous land defenders have published adamant reports on the scale and acceleration of forest clearing in Brazil and Indonesia.[65] In an effort to document new evidence,

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63 Peter Rodgers, Teresa Poole, 10/23/2010, Jardine to withdraw from Hong Kong exchange after row: Founding 'hong' snubs colony and China in Bermuda move, The Independent. https://www.independent.co.uk/news/business/jardine-to-withdraw-from-hong-kong-exchange-after-row-founding-hong-snubs-colony-and-china-in-bermuda-move-1431270.html
64 Jake Spring, 5/23/2018, Brazil fines five grain trading firms, farmers connected to deforestation, Reuters. https://www.reuters.com/article/us-brazil-deforestation-bunge-carg-idUSKCN1IO1NV
65 Some of them have already been mentioned in the present report: Doubling Down on Deforestation (2020), BlackRock's Big Deforestation Problem (2019), Cargill, The Worst Company in the World (2019), Open letter to the Consumer Goods Forum (2019).

Chain Reaction Research used satellite imagery from NASA to prove grain traders play an active role in forest fires in Brazil and Indonesia.[66] According to Chain Reaction Research, there were about one million fire alerts in Brazil from July to October 2019. The area burned was almost the size of Germany, just a bit larger than Italy. In Indonesia over the same period, there were about 300.000 fire alerts and the burned area was half the size of Belgium, or six times the size of Luxembourg.[67] The summer of 2019 saw many extreme fire events around the world, from California to Australia and Greece. Forest fires are part of the natural process in Brazil and Indonesia, but climate-change and commodity-driven deforestation are making them worse and more frequent. The satellite imagery provided by NASA allows Chain Reaction Research to distinguish man-made fires from natural ones, caused by lightning. Man-made fires usually start in a straight line following the border of a farmed area, while natural fires start at random points of the forest.

Farmers start fires to expand their own exploitable land or increase the price of the land they illegally grabbed from indigenous communities, before selling it to a larger company. Increased demand and investments in agricultural commodities incite populations who live close to the forest to engage in forest-clearing by fire, a traditional practice to manage agricultural land and regenerate the grazing area. In the current expansion of industrial agriculture, a burned area of primary forest is first converted into cattle-grazing then planted with soy or palm trees.[68] Farmers and smallholders are theoretically independent from grain traders, to whom they sell their production in facilities installed close to the farmland, but traders are bound to respect the law and refrain from purchasing the production of illegally burnt forest. When grain traders locate their domicile in a jurisdiction allowing them to keep their sourcing secret, it gives them practical immunity for environmental crimes committed for their benefit by local populations.

Chain Reaction Research compared the frequency of fires inside a 25km radius of the main soy traders and found that Bunge and Cargill counted more fires than all of the other soy traders combined, with a total of 50,000 fire alerts. ADM counted 6.000 fire alerts in the same area of brazilian forest, but in Indonesia ADM counted 28.000 fires within its concession area, the highest number among the group of companies that signed the policy of No Deforestation, No Peat, No Exploitation (NDPE).

3.6.4. Political influence of grain traders in Brazil

Jair Bolsonaro's extreme right-wing government has been marked by a constant assault against environmental and human rights protection in the Amazon. Indigenous people pay the highest toll with murder and violence committed by ranchers emboldened and supported by their

[66] Marco Tulio Garcia, Gerard Rijk, Matthew Piotrowski, 5/2020, Deforestation for Agricultural Commodities a Driver of Fires in Brazil, Indonesia in 2019, Chain Reaction Research. https://chainreactionresearch.com/wp-content/uploads/2020/05/Deforestation-driven20fires.pdf
[67] Ibid, from the Key findings: "The area burned in Brazil was 3.7 percent (31,838,900 ha) of the country's landmass. In Indonesia, 0.84 percent (1,649,258 ha) of its total landmass was burned.
[68] Ibid.

president.[69] The Brazilian agroindustrial sector forms the backbone of the Bolsonaro administration, a conservative faction known as the ruralistas, who aim to remove protections on forests and land rights to further expand their industrial activity. Commodity traders, financiers and consumers from Europe and the United States provide the economic power and political support on the international stage to the inside forces of Brazilian society which are destroying the balance of the Earth's system, with nothing but contempt for the well-being of indigenous people.

Soon after taking power, Bolsonaro obstructed the indigenous agency FUNAI by taking away its mandate to identify and grant property titles to indigenous territories, then transferring it to the Agriculture Ministry, in the hands of the ruralista faction. This move made sure no new territories could be attributed to the indigenous communities and that the ministry was in position to arbitrate the conflicts in favour of the ranchers. As of March 2019, Amazon Watch registered at least fourteen cases of illegal invasions, a rise of 150% since the new presidency. Brazil's Environmental Ministry has been deprived of budget and autonomy, while the agriculture and mining lobbies are pushing to gain access to protected territories.[70]

3.6.5. European rules impact Brazil's farming industry

Europe plays an important role in the growth of Brazilian agricultural industry. The EU is Brazil's second largest trading partner after China, while Brazil is the first exporter of agricultural commodities in the EU. Almost half of all the beef imported in the EU comes from Brazil.[71] European states and banks are also considerable investors for the Brazilian Economy. Half of the EU's investments in South America went to the country in 2015, summing up to more than $400 billion.[72]

The Mercosur deal that is nearly signed with the EU will further increase the economical impact of the EU on Brazilian businesses. Financial regulation passed in the EU stands to have unprecedented influence on the preservation of the Amazon region and the global ecological systems. It is all the more unacceptable that BlackRock claims to inform European sustainable finance rules without addressing the problem of deforestation properly and making no mention at all of the problem of tax havens, which are a crucial obstacle against transparency in the supply chain.

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[69] Complicity in Destruction II, How Northern consumers and financiers enable Blosonaro's assault on the Brazilian Amazon, 2019, Amazon Watch.
https://amazonwatch.org/assets/files/2019-complicity-in-destruction-2.pdf
[70] Ibid
[71] European Commission. "Meat Market Observatory," 21 March 2019,
https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/markets/overviews/market-observatories/meat_en
[72] European Commission. "Brazil." 4 July 2018,
http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil/index_en.htm

3.6.6. Influence of agribusiness on politics in Indonesia

In 2019, Indonesian president Joko Widodo proposed a single bill of a thousand pages, referred to as the omnibus bill, which triggered country-wide protests for more than a year, until after it was passed as law in 2020.[73] The government defended the law as a boost for Indonesian industry and a necessary measure to make the country more attractive to foreign investors. Protesters contended that the law would deteriorate the environment and working conditions.[74] The bill was protested by labour unions, environmentalists and indigenous communities.[75] The omnibus law came through as a suspension of the permanent moratorium on forest clearing enacted in 2019. It was welcomed in complicit silence by the major palm oil traders in Indonesia such as Wilmar (20% owned by ADM), Bunge and Louis Dreyfus, and the consumer goods producers such as Unilever and Nestle.[76]

In this concerted corporate quietness, the supporting voice of Astra Agro Lestari, the country's second largest palm oil producer, must have been a meaningful signal for Indonesians. The company is part of Astra International, the first automotive group in Indonesia, in turn fully controlled by Jardine Matheson, which as we have seen in section 3.6.2 is partly owned by BlackRock through a domicile in Bermuda. The public voice of Astra is that of its vice president director, Joko Supriyono, who is also the chairman of the GAPKI, the Indonesian Palm Oil Producers Association. He applauded the law and described it as essential to "the interest of the national palm-oil sector."[77] BlackRock itself holds about $350 mil. in Astra International and a small direct participation into Astra Agro Lestari.[78] Among other malpractices, Astra has been accused of land grabbing.

3.6.7. Brazil and Indonesia exemplify the resource curse

The political events in Brazil and Indonesia surrounding the exploitation of the forest appear to confirm the model described in the Norwegian report.[79] The presence of a large quantity of easily accessible natural resources in the form of primary forests incite powerful economical actors to increase their personal income through rent-seeking to the detriment of investment in more productive activities, while tax haven financing makes it more profitable and less liable to penalty for them to break the law. In both countries, institutions intended to protect land rights

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[73] Maikel Jefriando, Tabita Diela, 10/5/2020, Indonesia parliament passes flagship jobs bill, critics vow protests, Reuters. https://www.reuters.com/article/us-indonesia-economy-law-idUSKBN26Q1TM
[74] Joshua Kurlantzick, 12/11/2020, A Controversial Omnibus Law Could Spell Trouble for Indonesia's Democracy, World Politics Review. https://www.worldpoliticsreview.com/articles/29281/a-controversial-omnibus-law-could-spell-trouble-for-indonesian-democracy
[75] Indonesia: New Law Hurts Workers, Indigenous Groups, 10/15/2020, Human Rights Watch. https://www.hrw.org/news/2020/10/15/indonesia-new-law-hurts-workers-indigenous-groups
[76] Indonesia's Big Palm Oil Firms Silently Complicit with Pro-Deforestation Omnibus Bill, 9/9/2020.
[77] Ibid
[78] BlackRock accused of ESG inconsistency over Indonesia palm oil, 5/5/2021.
[79] Tax havens and development (2009)

and preserve nature are undermined by the same type of actors, who also stand to benefit from a strengthening of presidential power. The Bolsonaro administration and Indonesia's omnibus law have been described by international commentators as signs of degrading democracies at risk of falling into authoritarian regimes.[80] Considering the importance of tax haven financing for the factions of society that are menacing both the well-being of the state, its people and natural heritage, the conclusion is that the undermining of the Rule of Law by tax haven financing is a causal factor in both the demise of planetary systems and the peril of democracy. The fact that BlackRock is investing directly, and indirectly through the supply chain, into the offshore conduits and sinks that reinforce and incentivize these destructive elements should demonstrate that BlackRock is not the right agent to inform ESG financial regulation, by any extent. Europe's sustainable finance policies must take this into account. BlackRock's role as an interested party who encourages and supports tax haven financing must be denounced and made public.

3.6.8. BlackRock and the financialization of agricultural commodities

Gerald Epstein defines financialization as a transformation of the world's economy that started in the seventies.[81] The role of government has diminished while that of markets have risen. Financial transactions have increased globally between private actors and between countries. The financialization of commodities can be understood as the growth of financial transactions as a size of the economic activity of the sector.

In the few years leading up to the 2008 financial crash, commodity traders got increasingly involved in finance, as they developed specialized branches to trade in derivatives and invest on their own accounts and on the accounts of their customers. Baines and Hager summarize research showing that ADM, Bunge, Cargill and Dreyfus sought to increase their profits by speculating on derivatives, land and biofuel during the same period.[82] Although estimates vary, an Oxfam report from 2012 [83] gives a "modest supposition" and attributes to biofuel an increase of 5% in food prices, which added an estimated 80 million people to the one billion people suffering from hunger in 2008. According to the analysis of Baines and Hager, the ABCD firms and the rest of the commodity sector decreased the size of their financial arms in the aftermath of 2008 because of hindered profitability. Most companies refocused and streamlined their strategies around their specific sector.

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[80] Brian Winter, 1/23/2019, Democracy and Authoritarianism in Brazil, Conference Call given for the Council of Foreign Relations. https://www.cfr.org/conference-calls/democracy-and-authoritarianism-brazil Fahmi Panimbang, 10/21/2020, Indonesia's return to an authoritarian developmental state, International Politics and Society.
https://www.ips-journal.eu/topics/democracy/indonesias-return-to-an-authoritarian-developmental-state-4734/
[81] Gerald A. Epstein, 2005, Financialization and the World Economy, Political Economy Research Institute (PERI), University of Massachusetts-Amherst.
[82] Baines, Joseph; Hager, Sandy Brian (2021) : Commodity Traders in a Storm: Financialization, Corporate Power and Ecological Crisis, Review of International Political Economy. http://dx.doi.org/10.1080/09692290.2021.1872039
[83] Sophia Murphy, David Burch, Jennifer Clapp, 2012, Cereal Secrets, The world's largest grain traders and global agriculture, Oxfam Research Reports, p.47.

A new period of financialization began in 2008 with the advent of passive investors. The Big Three asset managers, BlackRock, Vanguard and State Street, progressively increased their assets under management and now concentrate the equity of a large portion of the commodity sector. According to Jennifer Clapp, this results in less competition between firms in favour of strategies aiming to improve the profitability of the whole sector.[84] The purported outcome for farmers and consumers would be higher purchase prices, while commodity groups collectively focus on increasing shareholder value. The emphasis on shareholder value must be put in perspective of the observation in Ahmed et al. (2020), that tax haven use appears to be correlated with firm performance, especially in the short term, in the context of foreign direct investment from multinationals into developing countries.[85]

In an effort to examine the possible means of actions against the harmful social and ecological impact of commodity traders, Baines and Hager summarize the factors of resilience of the industry against pressure from financial activists in shareholding and divestment campaigns:

- The predominance of private ownership, as in the case Cargill and Dreyfus, insulates them from shareholder resolutions and divestment initiatives.
- Shareholder resolutions are rare and far between.
- The Big Three asset managers always vote in favour of dividend payouts and stock buybacks, and nearly always against ESG resolutions.
- The threat of debt divestment is attenuated by the dispersion of holdings in the commodity bond issuance as well as company debt deleveraging and shadow banking activities.

This list may be augmented by tax haven financing, since the secrecy allowed by tax havens protects forest-risk groups from investigations in their harmful activities and investments, while shadow banking concentrates in tax havens.[86]

An illustration of the use of tax havens outside of BlackRock's forest-risk assets can be found in Vitol, the first commodity firm examined by Baines and Hager by order of revenue in 2019. The authors established that the Dutch group earned $225 bln that year, mostly in oil trading, but also in other energies and diverse commodity sectors. Vitol has a reputation of secrecy and is fully owned by its 350 senior employees. However, the wikipedia page mentions Vitol Holding II S.A., a company located in Luxembourg, to be the parent company of Vitol. Very little information is publically available on this parent company, except that it seems to have only one employee and a modest annual revenue. But the Legal Entity Identifier database, set up at the initiative of the G20 post-2008, offers a long list of subsidiaries for the luxembourg entity, all

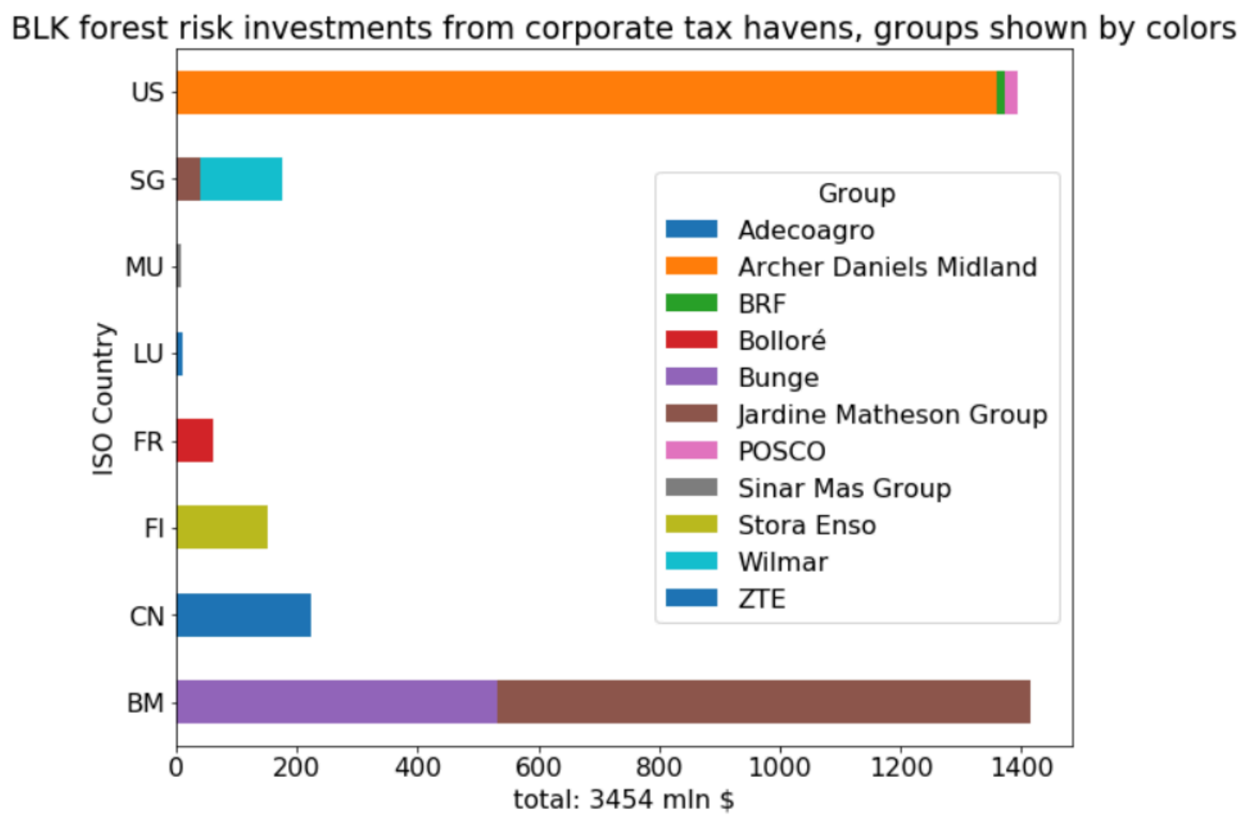
[84] Clapp, J. (2019). The rise of financial investment and common ownership in global agrifood firms. Review of International Political Economy, 26(4), 604-629. https://www.tandfonline.com/doi/full/10.1080/09692290.2019.1597755
[85] Ahmed et al. (2020), p. 22.
[86] Rodrigo Fernandez, 2014, Shadow banking and tax avoidance, The Centre for Research on Multinational Corporations (SOMO). https://www.somo.nl/shadow-banking-and-tax-evasion/

parts of Vitol, which might represent the entirety of the group.[87] The Legal Entity Identifier public database is a demonstration of how financial transparency has the potential to hold corporations accountable.

Finally, Baines and Hager signal underwriters are interesting as targets for campaigners because their activity is concentrated in few specialized banks, whereas bondholding and shareholding can be dispersed among many different actors in one given commodity sector. This is true for loan underwriting but also for equity, bonds and insurance products. Underwriters are finance professionals who supervise the paperwork of every new financial product emitted on every financial market. Their role is to evaluate the risk associated with a financial product, ensure that all regulation is complied with and in the case of equity and bonds, find investors who will be the first buyers. As such, underwriters are among the first concerned with any new regulation, should it be related to financial transparency, ecological risk or tax avoidance.

3.7. Relationships between tax havens and forest-risk companies

Figure 5



[87] Legal Entity Identifier database, Vitol Holding Ii S.a. https://lei.report/LEI/5493009C94ZZV7J5IO93

In Figure 5, the investment managed by BlackRock in forest-risk equity is assigned to each issuing tax haven (on the left) and broken down by company (the colors on the right). The data covers the year 2020 and the total assets under management amount to $ 3,4 bln.

3.7.1. A view on Bermuda

With a little bit more than $1,4 Bn, Bermuda is the largest issuer of tax haven equity in BlackRock's forest-risk investment (figure 5). Jardines and Bunge were discussed previously in section 3.6. In this section certain specificities of Bermuda as a tax haven will be detailed, and what they could imply for BlackRock and the application of environmental, social and governance (ESG) principles on global finance. Bermuda is the third tax haven in the ranking of the Corporate Tax Haven Index, by combining the maximum score of "tax havenry" and a Global Scale Weight of 1,6%. This means that Bermuda accounts for 1,6 percent of all financial transactions executed by corporations globally, according to the Tax Justice Network. The "tax havenry" score shows the extension by which corporations are able to use the jurisdiction to avoid paying taxes (section 2.7) and keep their operations secret. The maximum score in "tax havenry" is also achieved by the two other British dependencies at the top of the CTHI ranking, the Cayman (#2) and the Virgin Islands (#1). The British "treasure islands" are under increasing pressure to suspend their tax dodging facilities since the 2021 G7 summit, where the US administration obtained an agreement on a minimal corporate income tax.[88]

In an interview for the Financial Times, Bermudian finance minister and former Wall Street investment banker Curtis Dickinson reacted to the G7 announcement by pleading for the sovereignty of his country, an argument leading to question the role of the British authorities in maintaining the status quo in "British" tax havens. Although the island has grown a strong community of financial professionals since the 80's, when the first multinationals arrived [89], not everyone in the population has been able to reap the benefits of the absence of corporate tax. Indirect tax on consumption and imports have been weighing on the working class and income inequality is staggering[90]. Dickinson deflected criticism: "The system works for us".

[88] According to the Guardian: "Details contained in the OECD statement confirmed an exemption for financial services and natural resources companies as part of the "pillar one" agreement. Finance firms and mining giants will, however, be subject to the minimum tax rate."
Richard Partington, 7/1/2021, Global tax reform: 130 countries commit to minimum corporate rate, The Guardian.
https://www.theguardian.com/business/2021/jul/01/global-tax-reform-130-countries-commit-to-minimum-corporate-rate
See also:
Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy, 1/7/2021, OECD.
https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.pdf
[89] Jardines established its domicile in Bermuda in 1984 (section 3.6.2).
[90] Robert Stubbs, economist and former Head of Research at the Bank of Bermuda, documented rising levels of inequality in Bermuda in a 2018 report published by the Tax Justice Network:

According to Bermuda's official statistics, financial activities account for 25 percent of its gross domestic product. A large portion of this activity is insurance and reinsurance, the insurance policies that insurance companies take against the risk of extreme events.[91] With the increasing frequency of catastrophes caused by climate change, the demand for reinsurance is booming. The absence of corporate tax in Bermuda is a significant factor of this growth. Although extreme weather events can be costly for reinsurers, years without large-scale disasters are very profitable. Things could change if the minimum corporate tax suddenly jumped to 15% for reinsurers, as proposed by the USA, but nothing is certain. The notion of "substance carve-in" has been reported by specialists around the discussions at the G20 and G7.[92] This fiscal concept would entail that businesses with "substantial" business operations could still benefit from tax reductions. In that case, the 15% corporate tax rate would be more like a "maximum" nominal tax rate, and the many insurers and reinsurers physically present in Bermuda would be less likely to move camp to New York, London or Singapore, for example. However, a minimum rate wherever reinsurers might settle would not solve the problem of the unpaid tax in the country where facilities and operations are covered by the insurer.

Meanwhile, Bermuda is competing to stay on top of the merry world of the catastrophe insurance market. The island became the leading marketplace for insurance-linked securities (ILS), collateralized financial products meant to share the profits and losses of the reinsurance market with financial investors[93]. Insurance-linked securities fall in the category of structured financial products, or derivatives, like the collateralized debt obligations (CDO), which famously caused the 2008 subprime crash. Here's a rough idea of how insurance-linked securities work. Investors buy ILS like any other product on the financial market. Just like bonds, the ILS have an interest rate and a maturity date. If all goes well, the investors receive a high interest rate during a given period. When the maturity date comes, they recover the money invested in the beginning. The catch appears if a large catastrophe happens before the maturity date. In that case, the investor owning the ILS is legally bound to pay a share of the loss caused to the reinsurer by the catastrophe. The ILS are a high-risk, high return proposition that is only attractive to investors with the capacity to diversify their risk exposure. If investors buy ILS covering the risk of catastrophe everywhere on the planet, they are sure to make enough profit in countries A, B and C, even if countries D and E suffer catastrophes. These global investors are the typical customers of BlackRock. In July 2021, BlackRock announced the incorporation of

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Naomi Fowler, 6/21/2018, Bermuda: inequality and poverty in UK Overseas Territory, Tax Justice Network. https://taxjustice.net/2018/06/21/bermuda-inequality-and-poverty-in-uk-overseas-territory/
Similar observations in the Economist in 2021:
6/3/2021, Twilight of the tax haven, The Economist.
https://www.economist.com/finance-and-economics/2021/06/03/twilight-of-the-tax-haven
[91] Oliver Ralph, 11/23/2019, Bermuda's status as safe harbour for insurers under threat, Financial Times. https://www.ft.com/content/2f7efed0-15db-11ea-9ee4-11f260415385
[92] Alex Cobham's comments for CNBC on the substance carve in:
Sam Meredith, 7/16/2021, G-20's global crackdown could create a new kind of tax haven, CNBC. https://www.cnbc.com/2021/07/16/oecd-tax-reform-g-20s-crackdown-may-create-a-new-kind-of-tax-haven.html?
See also the OECD's Statement on a Two-Pillar Solution in note 88.
[93] See note 91.

ILS products in some of its ESG packages, because ILS are supposed to be protecting society against the risks of climate change.[94] They certainly are protecting investors and insurers, but it is not clear how the population suffering from climate catastrophes will see the benefit of it, if none of the profit generated by the ILS market is used to pay for hospitals and emergency rescuers.

3.7.2. A hub for insurance tech

As advances in data science nourish the risk management industry, new companies arrive in Bermuda to sell innovation to insurers and investors. One of them is Stable, which launched in 2021 a Bermudian platform of agricultural commodity hedging.[95] The project of Stable offers a glimpse at the reinsurance industry's future and expansion. The pitch is to help farmers and market participants to stabilize the price of their commodities by offering commodity-based derivatives, which would guarantee a certain price for their trade and make their life easier. In practice, the most likely customers for such derivatives are the worldwide grain traders of the ABCD club (section 3.6.1) and the largest investors with an appetite for disruptive insurance products. The Stable derivative facility was settled in Bermuda with the help of Aon, the biggest reinsurer on the island, and Appleby, the law firm known for unwillingly originating the Paradise Papers. Stable claims to cover trillions of dollars in agricultural commodities that have not been traded on stock markets until now by processing untapped indexes, expanding the current coverage of commodity risk-management and competing with other Bermudian residents such as Jardines and Bunge (section 3.6). Data science and derivatives are not likely to help the smallholder farmers who clear the rainforest to expand their pastures and crops. They could, if the profits of such hedging instruments contributed to building the infrastructure, institutions and schools necessary for transitioning to a sustainable agriculture. But tax haven financing is a different kind of model. The founders of Stable are not unaware of the severe inequality of access to their financial products. The Stable foundation was created to help the most destitute farmers by contributing "a fixed percentage of sales" in projects "they care about".[96] The percentage is not specified, but it is quite like a corporate tax on their own terms, outside of any democratic establishment. According to an Oxfam briefing, the financialization of agricultural commodities was the cause of a hunger crisis in developing countries due to a sharp increase in food prices in the aftermath of the 2008 stock market crash.[97]

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[94] As reported in August 2021 in Artemis.bm, a reinsurance news publisher.
Steve Evans, 8/18/2021, BlackRock launches ESG fund with cat bonds a targeted asset, Artemis. https://www.artemis.bm/news/blackrock-esg-fund-catastrophe-bonds-target-asset/

[95] Stable was launched at TechCrunch' Disrupt Berlin 2019, then moved operations to Bermuda in 2021.
Steve Evans, 1/18/2021, Commodity risk insurtech Stable launches collateralized insurer in Bermuda, Artemis.
https://www.artemis.bm/news/commodity-risk-insurtech-stable-launches-collateralized-insurer-in-bermuda/

[96] As retrieved on Stable's website in September 2021: "A fixed percentage of our global sales goes directly to our foundation, and the whole team at Stable decides how and where we invest this money into projects we care about." https://www.stableprice.com/2684-2/

[97] "High and volatile food prices have caused two global food price crises in three years. Both crises had dramatic consequences in many poor countries: increased hunger, conflict and instability. The 2008 spike

3.7.3. Captive insurance

The historical specialty of the Bermudian financial sector is captive insurance. A captive insurer is an insurance company created and owned by a single group to provide coverage for its own operations. The wikipedia page mentions mostly commercial sources, offering an interesting perspective on the public image that the captive insurance sector would like to give. The claimed purpose is to avoid traditional insurance and their volatile pricing, adjust the insurance to a specific activity, reduce the overhead cost and access the (mostly offshore) reinsurance market. Captive insurance was invented in the 1950's inside a US steel group. A decade later Bermuda was chosen to host the first captive management company, leading to the island becoming the world's central hub for captive insurance[98]. Although it is never stated plainly by the interested parties, the main purpose of an offshore domiciliation is to evade taxes. The list of jurisdictions hosting captive insurers is quite similar to the Corporate Tax Haven Index, in fact the ten first countries by number of captive domiciles cover 30% of the world's risk of corporate tax abuse, with an average tax haven score of 88 points out of 100.[99]

The US Internal Revenue Service (IRS) calculated that the tax gap, the difference between tax paid and tax due, was $381 billion per year on average between 2011 and 2013.[100] How much of this number is caused by captive insurance is unknown. There is no accurate estimation of the worldwide loss in tax caused by captive insurance, but as we will see in the case of oil companies, the system has been used to avoid taxes due in many other jurisdictions, not just the USA.

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in food prices pushed 100 million people into poverty, and by 2009 the number of people hungry passed one billion."
M.-O. Herman, R. Kelly, R. Nash, 2011, Not a Game, Speculation vs Food Security: Regulating financial markets to grow a better future, Oxfam International.
https://policy-practice.oxfam.org/resources/not-a-game-speculation-vs-food-security-regulating-financial-markets-to-grow-a-143669/

[98] According to the World Domicile Update 2020 published by Cutts-Watson Consulting, from Guernsey, Bermuda is first in number of captive insurers, although slowly declining, while US states like Vermont and Utah are on the rise. A third of all captives are domiciled in Bermuda and the Caribbeans, nearly half in US state jurisdictions. The remaining captives are domiciled in Europe and the rest of the world. The majority of captive insurers are created by US companies.
Lauren Ingram, 3/21/2021, World Domicile Update 2020, Cutts-Watson Consulting.
https://cuttswatson.com/2020-world-domicile-update/

[99] Ibid. Top ten captive domiciles by number of captive insurers: Bermuda, Cayman Islands, USA, Guernsey, Luxembourg, Anguilla, Isle of Man, Singapore, Ireland, Turks and Caicos. Three island states are mentioned by the World Domicile Update but are not present in the Corporate Tax Haven Index: Barbados and Nevis, in the Caribbean sea, and Labuan, a Malaysian federal territory.

[100] Abusive Tax Schemes: Offshore Insurance Products and Associated Compliance Risks, 7/30/2020, U.S. Government Accountability Office, p. 5 https://www.gao.gov/products/gao-20-589

According to a paid Forbes article published in 2013,[101] 95% of the companies in the Fortune 1000 have a captive insurer, while an unnamed IRS official estimates 85%.[102] The IRS itself recognizes verifying the offshore paperwork track of each corporation is using tremendous resources, which, judging by the tax gap, the service has not been able to deploy successfully against a barrage of layered offshore contracts set up by finance and law professionals. The IRS specifies that offshore insurance is particularly difficult to act against because of the legal complexity of the sector and the banking secrecy laws in offshore jurisdictions.[103]

The basic mechanism of tax avoidance is to create a captive insurer in a no-tax jurisdiction which will charge high premiums to cover risks that rarely, if ever, translate into effective losses for the captive insurer, therefore allowing the captive insurer to channel untaxed profit out of the country where "real" operations take place. Some of this activity is perfectly legal (lawful), while some of it proceeds from an erroneous interpretation of the law (unlawful).[104] The IRS's hurdle is to sort out this maze of insurance contracts to find the fraud. If the tax collector of the largest economy in the world finds it difficult to confront the complexity of offshore corporate insurance schemes, there is little chance that the developing economies of forest-risk countries are able to do much better.

3.7.4. Oil captives

Journalists at Reuters tackled the complexity of offshore finance, reporting that major oil companies used captive insurance to shift profit from oil-drilling countries to affiliates in tax havens such as Bermuda, Switzerland or the UK Channel Islands.[105]. In 2018 and 2019, Shell earned $2.7 billion, or 7% of its income, in the zero corporate tax jurisdictions of Bermuda and the Bahamas. If Shell had declared the same sum in the Netherlands, where the company is headquartered, it would have paid $700 million to the Dutch state, at a rate of 25%. In oil-producing countries, Shell could have disbursed up to 80% of its profits. BP's captive insurer, domiciled in Guernsey in the UK Channel Islands, had collected $6.5 billion in cash by 2018, accounting for as much as 14% of BP's global profits.

Captive insurers created within big oil groups generate much more profit than regular insurance companies by charging high premiums and paying little claims to the affiliates of their parent group. Insurance premiums are tax deductible everywhere, so it results in taxable profit fleeing oil-drilling and oil-consuming countries to zero-tax jurisdictions. Because the insurer is entirely owned by the same group, the capital hoarded by the offshore affiliates belongs to the same

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[101] Christine Hall, 2/28/2013, Why Companies Are Opting For Captive Insurance Arrangements, Forbes. https://www.forbes.com/sites/bmoharrisbank/2013/01/28/why-companies-are-opting-for-captive-insurance-arrangements/?sh=67f2d9d3787d
[102] Abusive Tax Schemes, p. 8.
[103] Ibid. p. 6
[104] Ibid. p. 7 :" We previously reported that tax shelters can be legitimate to the extent they take advantage of various provisions in the tax code to lawfully avoid paying federal taxes; however, according to IRS, abusive tax shelters result in unlawful tax evasion. Abusive offshore insurance tax schemes include transactions that are also considered scams or schemes based on erroneous interpretations of tax law."
[105] T. Bergin, R. Bousso, 12/9/2020, How oil majors shift billions in profits to island tax havens, Reuters. https://www.reuters.com/article/global-oil-tax-havens-specialreport-int-idUSKBN28J1IE

owners. Captive insurers are managed by a small staff who usually offer the same service to many other corporate customers, at a minimum cost for the parent group. The offshore capital can then be sent back to the other affiliates of the group in the form of loans and debt financing that are also tax deductible.

Oil companies questioned by Reuters claimed no wrong-doing and denied choosing the location of their captive insurers for tax-dodging purposes. No evidence was found by the journalists to suggest that any law was broken. But the legal loopholes through which multinationals manage to lawfully escape the tax collector are blatant.

Margaret Cooper, researcher at the Henley Business School, and Richard Murphy, political economist at the City University of London, commented on the information provided by Reuters. Both found the high profitability and the dependence on income from affiliates of the same oil groups to indicate that the offshore captive insurers are designed to avoid taxes.

Captive insurance is not illegal, but even Deloitte, one of the Big Four accounting firms, warns its clients against the risk of “increased tax authority scrutiny” in captive insurance schemes.[106]

In 2010, the largest oil spill in history was caused by the explosion of BP’s Deepwater Horizon rig. Although the industrial disaster cost $70 billion in damages, BP’s captive insurer had capped payouts to affiliates at $1.5 billion for any event. As a result, BP’s offshore insurer kept a loss below 15% between 2009 and 2013, while lending cash to BP’s London branch. Richard Murphy estimated that BP’s Guernsey captive saved BP hundreds of millions of dollars annually, by stripping countries from the high tax rates on oil production. According to Forbes, US tax payers subsidized BP for $15,3 billion of the $20 billion oil spill settlement, in the form of tax deductions.[107]

While it is impossible to cover the topic of captive insurance and reinsurance in full within the scope of the present research, a few concluding notes can be made.

3.7.5. Disputable legitimacy

It is desirable for the resilience of the global economy that companies insure themselves against legitimate climate risk. However, tax avoidance through captive insurance and reinsurance implies that the countries where the operational risk is covered will not obtain any redistribution on the value created by the insurance service, and offers an incentive for abusive “fake” insurance, sheltered from the tax collector by the intricacies of corporate legal entities. The

[106] Captive insurance: Time to rethink Tax implications for captive insurance, 2021, Deloitte. https://www2.deloitte.com/uk/en/pages/tax/articles/captive-insurance-time-to-rethink.html
[107] R. W. Wood, 4/6/21, In BP's Final $20 Billion Gulf Settlement, U.S. Taxpayers Subsidize $15.3 Billion, 4/6/21, Forbes. https://www.forbes.com/sites/robertwood/2016/04/06/in-bps-final-20-billion-gulf-settlement-u-s-taxpayers-subsidize-15-3-billion/?sh=6fb5c45236b2

benefit of the coverage is only going to the multinationals and their shareholders, leaving the poorest populations to face the brunt of climate change catastrophes. Additionally, capped insurance policies such as the one used by BP's captive insurer in the case of the oil spill indicate that at least some of the insurance contracts are meant to shelter the group's capital against the consequences of a catastrophe, in what appears to be an effective financial impunity in the face of disastrous negligence.

3.7.6. Political and environmental risk

Considering the amount of corporate denial regarding the tax evasion purpose of locating captive and re-insurance in tax havens, it is no surprise that the social and political impact of tax evasion and capital flight on the countries where multinationals operate is completely forgotten by those who defend the stabilizing role of the offshore insurance industry on the global economy. As it has been discussed previously, tax haven financing by multinationals is correlated with high capital flight (section 2.6). It has a particularly destructive effect in developing countries, where institutions and infrastructure meant to stimulate economic growth and implement the rule of law are deprived of vital budgets (sections 2.4 and 2.5). Ensue the over-exploitation of natural resources like the rainforest, accelerating climate change and the frequency of extreme weather events against which multinationals and financiers such as BlackRock will not only be insured but stand to profit from, using structured products hedging against the losses suffered by victim regions. It seems inconceivable that such profit would never be taxed and redistributed in the form of social service and infrastructure. For BlackRock to include offshore reinsurance in sustainable investments packages is cynical at best (section 3.7.1).

3.7.7. Transparency

Corporate and banking secrecy laws in tax havens are not only obstacles for tax collection but also for establishing sustainability criteria of investments. There can be no common environmental, social and governmental (ESG) framework for finance if companies and financiers are allowed to hide their responsibility in the exploitation of natural resources (section 3.5). In the absence of international standards for sustainability, insurers and reinsurers are covering all climate change risks on equal footing regardless of the effect of the covered activities on planetary systems. This is detrimental to Sustainable Developments Goals and unfair to companies and investors who divest from harmful activities.

3.7.8. Tacit complicity of the USA, UK and EU

The business model of offshore captive insurance and reinsurance can only be explained by the complacency of jurisdictions in the United States, United Kingdom and European Union, where

Luxembourg has taken the lead in the industry. It remains to be seen if the proposition for a global tax reform at the G7 and G20 summits of 2021 will be followed by positive results for forest-risk countries. If agricultural commodities and insurance services continue to be allowed to shift profit from developing countries, it could have little to no effect at all.

4. Conclusion

- The first objective of this report was to show that BlackRock was unfit to advise the European Commission on ESG financial regulation.

    - Firstly because of the conflict of interest arising from being the largest asset manager in the world and informing the rules that regulate finance. BlackRock manages investments with direct interest in forest-risk groups, but it also manages a much greater position in the food supply chain, which sources its materials in forest-risk groups.

    - BlackRock makes almost no mention of the tax avoidance problem in its report to the European Commission. However, academic research summarized in the present report connects tax haven financing with environmental abuse, for instance deforestation, while also accentuating human right abuse and endangering democracy.

    - Tax haven financing facilitates the growth of environmental crime.

    - Quantitative analysis documents the mechanisms by which forest-risk groups and illegal fishing companies use tax havens to finance their operations

    - Tax havens accentuate the resource curse in developing economies by incentivizing rent-seeking and abusive exploitation of natural resources such as the primary forest. They also incentivize agents in power to undermine public institutions and the rule of law, ultimately endangering democracy.

    - Quantitative analysis indicates a correlation between foreign direct investment (FDI) from tax havens into developing economies and high capital flight. Forest-risk countries are both subjects to FDI from tax havens and high capital flight, which impacts their institutions.

    - BlackRock, by leaving tax avoidance out of its report, is putting fiduciary duty above the rule of law, endangering the Earth’s economic, ecological and political systems.

- The second objective was to identify the forest-risk groups (a) in BlackRock's assets that emit equity shares in tax havens so that legal and financial measures (b) can be taken to end the practice of financing deforestation through tax avoidance.

a) Forest-risk groups in tax havens

    - ADM, Bunge and Jardines are the three largest forest-risk groups using tax haven financing in BlackRock's assets under management.

    - ADM is domiciled in the USA (Delaware), Bunge and Jardines in Bermuda.

    - Brazil and Indonesia exemplify the resource curse and its amplification by tax haven financing.

b) Recommendations

    - Country by country reporting (CBCR)
      The increased public income gained from minimum corporate tax should be reallocated to ESG research (in public and private sector, depending on the jurisdiction) and establishing global ESG reporting standards encompassing both ecological and fiscal dimensions.

    - The FACTI panel
      The most appropriate proposition addressing both tax avoidance and environmental conservation is coming from the UN FACTI panel, suggesting a global overhaul of the financial system and the creation of a new supervising institutional body inside the UN.

    - In any case, any proposition suggesting to let banks and asset managers lead an ESG reform of the financial world (as the Cop26 seems to imply) will likely fail to preserve the primary forest and continue to increase tax haven FDI into developing economies, as a result of prioritizing short-term shareholder value.

5. Appendix

5.1. Data and method

5.1.1. Following the ISIN codes

The International Securities Identification Number (ISIN) is the most common standard for identifying financial products. It is a unique twelve-digit number recognized by every international financial institution.

ISIN identifier codes can be used to identify where a financial product is emitted by following the two-letter ISO country code at the beginning of the ISIN. For example, the first ISIN code in the table by alphabetical order is “BMG169621056”, a Bunge group equity share, where “BM” stands for Bermuda Islands. This method proved reliable for the seventy-three equity shares in the data set, but not for the eighty-six bonds managed by BlackRock in forest-risk groups.

Specifically, bonds show discrepancies between the two-letter country code at the beginning of the ISIN, and the country of emission mentioned by the Refinitiv database. For example, for ISIN codes starting with “US”, the ISO code for the USA, Refinitiv mentions eleven different countries of issuance, including the United States, Austria, Bermuda, Chile or the Cayman Islands. Another problem is caused by ISIN codes starting with “XS”, which seem to be issued under a special status by the two main global clearing houses, Clearstream and Euroclear, respectively domiciled in Luxembourg and Belgium, although the countries of issuance mentioned in the data set are others, such as Brazil, USA, Japan or the British Virgin Islands. Because of these discrepancies, bonds in BlackRock’s assets under management were left out of the analysis. Standardization of the numbering standard to identify bonds and debt certificates would improve financial transparency globally.

Transnational companies issue equity and bonds in various countries corresponding either to their country of incorporation or to the country where their activities are conducted: the country of risk. It also happens that companies issue equity in a country with lax financial regulation, high banking secrecy or low taxation rate. The ultimate reason for choosing a specific market to issue equity varies from one company to the other, but some jurisdictions are prioritized for tax avoidance.

The same method could be applied to all equity investments managed by Blackrock, provided access to the appropriate database.

5.1.2. Original data set subject to legal protection

The original dataset was a list of forest-risk investments managed by Blackrock and its branches during 2020, as found in the Refinitiv database. Each financial product, identified by an ISIN code, was emitted by a forest risk company and was assigned a forest impact estimated in millions of dollars. The forest impact is the result of the adjustment of the original value of the investment to the exposure of a company to a specific sector and region.

The original data set is subject to legal protection. The organization which provided me with the original dataset should be credited for the great work they have done with finding forest-risk groups inside BlackRock’s assets in the Refinitiv database. Without their work, I wouldn’t have been able to add the layer of tax haven research and this report wouldn’t exist. Unfortunately, this report has not been sufficiently approved, corrected or peer-reviewed by this organization, which is why I prefer not to name them, for now. The questions of tax haven financing and deforestation are quite sensitive and the association of both topics can create opposition at different levels of the publishing stage. Although many people should be credited for their work, I chose to leave their names out in case of any legal problems, until further notice. I hope they will understand. In any case, I would be glad to add their names and reference their work, provided that they support the methods and conclusions.

5.1.3. Reshaping to have one ISIN per row

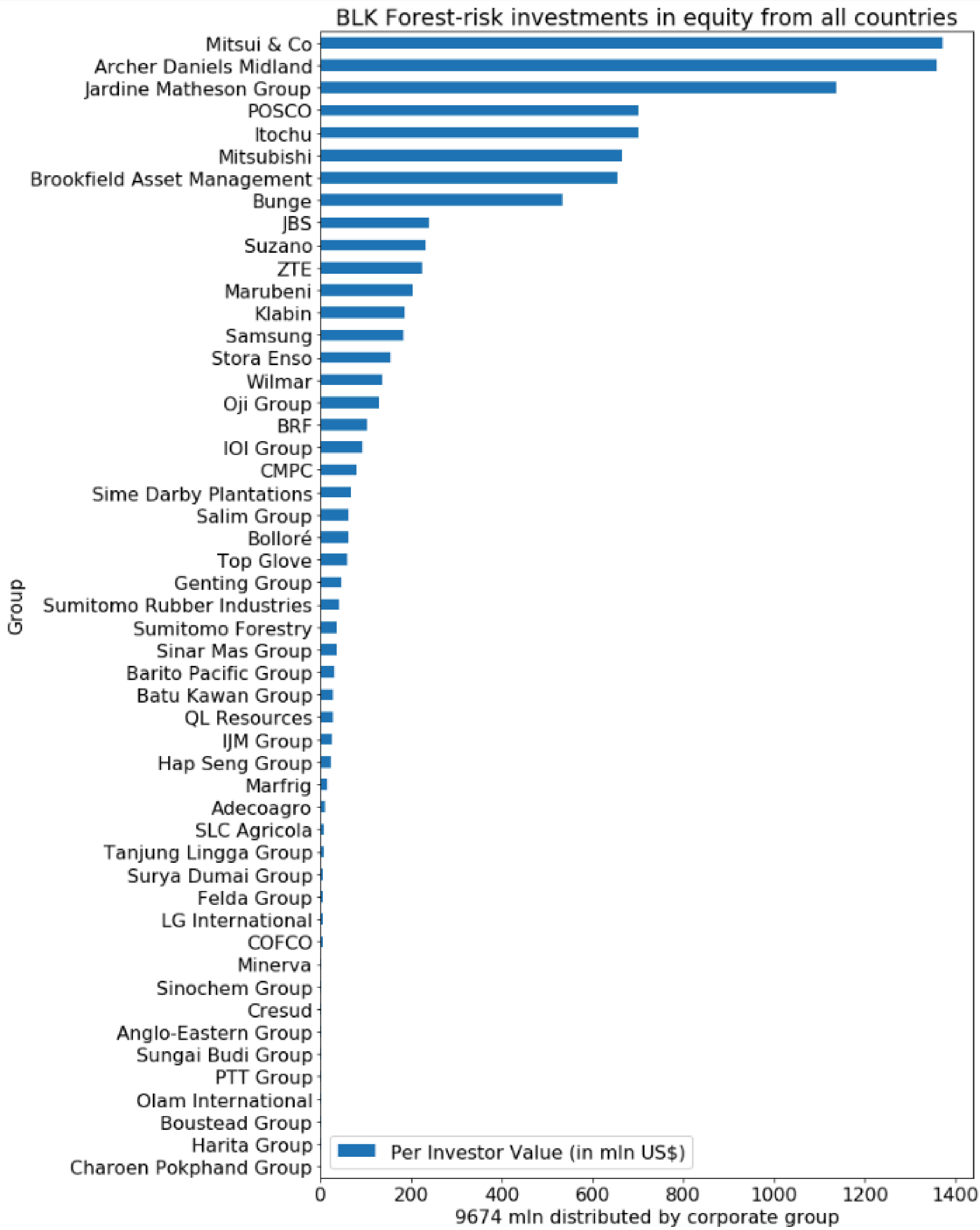
The first step of data wrangling was reshaping the original dataset to obtain one ISIN code per row. This reshaping was necessary to be able to re-allocate each equity to their country of emission. In the process of reshaping, the branches of Blackrock responsible for managing the portfolios of their specific clients were removed from the dataset to simplify the analysis, but this is reversible. The original dataset also covers ETF's, but adding columns for each ETF would have made the table too large for analysis. It should be emphasized that ETF asset management data is available in Refinitiv and that the present report does include assets packaged in BlackRock ETF's.

5.1.4. Filtering for equity vs bonds

The total capital managed by Blackrock, "Per investor value" in the dataset, amounts to ten billion dollars. Out of this sum, about four hundred millions are in bonds and the rest is in equity. Given their relatively lower volume and discrepancies in the data (see above 5.1.1. "Following the ISIN codes"), bonds were dropped from this report. But debt emission in tax havens should not be underestimated and presents specific challenges. The method described for allocating equity to tax haven countries of emission may not apply to bonds and corporate debt.

5.2. Groups in BlackRock forest-risk equity

Figure 6



In Figure 6, the equity investment in forest-risk groups managed by BlackRock in 2020 was broken down at group level.

5.3. ISO country codes

JP : Japan
BM : Bermuda Islands
US : United States of America
KR : Korea
BR : Brazil
CA : Canada
MY : Malaysia
ID : Indonesia
CN : China
SG : Singapore
FI : Finland
CL : Chile
FR : France
LU : Luxembourg
MU : Mauritius
HK : Hong Kong
GB : United Kingdom
TH : Thailand