Tax Justice in Zambia

"God has blessed us with such an abundance of natural resources. The paradox is that Zambia gets ranked among the bottom 20 in terms of poverty... We are wealthy, yet we are poor." **Wylbur Simuusa, Former Zambian Minister of Mines.**

Methodist Tax Justice Network

Case Study #2

A Rich Land in Poverty

Zambia should be one of Africa's wealthiest countries. It is the world's eighth largest copper producer, with 6% of the world supply. It is also a major producer of cobalt and precious gemstones. Zambia is quite literally sitting on buried treasure. It's not just natural resources either - 58% of Zambia's land has been classified as medium to high potential for agriculture. Yet in 2010, it was estimated that 60.5% of the population live under the poverty line. 39% of the population don't have access to clean drinking water. It is ranked 163rd out of 187 on the UN's Human Development Index (2012). How can a country with such rich resources be so poor? There are a number of factors, but this leaflet will focus on one - tax avoidance.

The Mining Industry

At its peak, the state-run Zambian Consolidated Copper Mines (ZCCM) employed 65,000 people, built schools, hospitals and roads and ran waste collection and water delivery. However, with copper prices falling, infrastructure proving expensive and under increasing pressure from the IMF and World Bank to attract foreign investment, Zambia divided and sold off ZCCM for a total of $627m in 2000. The number of Zambians employed by the mines has more than halved since the privatisation. In 2012 alone, the mines produced $6bn worth of copper.

To make things worse, the private companies have been fleecing Zambia of the tax revenue it desperately needs. In 2006, Zambia exported $3bn worth of copper, and received only $50m in tax revenue. Many companies pay just 0.6% in royalties on the copper they produce, far below the industry standard 3%. Despite copper making up 71% of Zambia's exports, tax revenue from copper mining provided just 2.3% of its GDP.

It comes as no surprised that the main export market for Zambian copper is Switzerland, home to Glencore Xstrata. A 2011 audit showed that

Glencore's Zambian subsidiary, Mopani Copper Mines, had repeatedly under-reported and manipulated profits and taken part in a transfer pricing scheme. As a result, Zambia were paid less than market price for their copper, and Glencore got more for selling it on via Switzerland. If Zambia received the same tax revenue from copper exports as Switzerland, then their GDP would double. The issue has not been resolved as both parties have to co-operate for an OECD hearing to take place. Zambia is still seeking what it is owed.

Zambia Sugar

ActionAid have been looking into tax avoidance by another British FTSE 100 company who are siphoning money out of Zambia - Associated British Foods, makers of the Silver Spoon brand. Since 2007, their Zambian subsidiary, Zambia Sugar, has paid virtually no corporation tax on their profits of $123m. Caroline, a market stallholder who earns $4 per day, has paid more business tax in some years than Zambia Sugar, whose factory overlooks her stall. Approximately $83.7 has flown out of Zambia through a variety of tax avoidance schemes - Zambia Sugar firstly pays 'management fees' and interest on loans to an Irish firm, also an ABF subsidiary. Secondly, the ownership of Zambia Sugar is moved regularly between Mauritius, Ireland and the Netherlands to reduce the withholding tax it pays. Finally, ABF took the Zambian government to court in 2007 in order to get a tax break which they claimed would benefit local farmers. This took their tax bill down from 35% to 10%. ABF have denied doing anything illegal (true) or immoral (not so true).

Zambia's response - a brighter future?

While previous attempts to change e the tax regime in 2008 were revoked due to heavy resistance by multinational firms, the current government under President Michael Sata have made some progress. A new law was introduced in May 2013 which forced companies exporting goods worth over $10,000 to repatriate the proceeds. The country's authorities will scrutinise the dividends and assess the legitimacy of their going offshore. Furthermore, imports over $10,000 will also be monitored to see if the value of the goods or services imported are correct.

Current attempts at changing international tax legislation are doing little to help developing countries. The decisions reached at the G8 and G20 on automatic information exchange have so far not included developing countries. Furthermore, the OECD's Base Erosion and Profit Shifting (BEPS) action plan has little in it that suggests a focus on developing countries, having rejected unitary taxation and with US companies lobbying against measures that would force companies to report their profits in all countries in which they are present (country-by-country reporting). The European Parliament and council of member states both recently rejected country-by-country reporting, although the parliament included a review clause. The UK was part of the blocking minority in the council.

"The United Church of Zambia is aiming to study the issue of tax in more depth, motivated by our poor tax revenue over the last decade. Zambia could raise more tax revenue, to pay for the social services we need and help those in poverty, by putting better tax policies and practices in place. Increasing the tax we get from international trade will allow the government to reduce inequality among the people of Zambia."

Rev Peggy Mulambya Kabonde, United Church of Zambia

What can we do?

- Take part in ActionAid's campaigns against Associated British Foods and Barclays, whose 'Offshore Corporate division' helps companies avoid tax in Africa. See their website at http://www.actionaid.org.uk/campaign
- Write to your MP, and your MEP, asking them to urge the Government and the European institutions to support both country-by-country reporting by transnational corporations and automatic information exchange – especially for developing countries - and to support the strengthening of the OECD's action plan on BEPS and the work of the UN Tax Committee.