# Panama Papers implicate Pacific Island states

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The leaked documents from Panamanian law firm Mossack Fonseca, which exposed the global network of tax havens used by rich individuals, politicians and companies to hide their wealth, have implicated a number of Pacific countries, including New Zealand, Samoa, Niue and Vanuatu. According to the International Consortium of Investigative Journalists (ICIJ), which obtained the documents, Niue and Samoa are Mossack Fonseca's fifth and six most-used tax havens.

The activities of Mossack Fonseca and its clients in the Pacific shed some light on the predatory nature of tax havens. The micro-states are targeted by financial sharks because of the impoverished Pacific islands' desperate need for foreign "investment." Their isolation and relative backwardness also make them useful for semi-legal and illegal dealings.

Malakai Kolamatangi, Pacific director at New Zealand's Massey University, told Radio NZ last week that "the problem we've got in the Pacific, is the lack of the ability to generate income." He said "this type of activity," offering dubious financial services, had been going on for a long time in Samoa, Niue, Vanuatu, Cook Islands, Tonga and Nauru.

Washington had applied pressure on the region to "clean up its act" after the 9/11 terrorist attacks on New York, raising questions over whether money laundered in the Pacific had links to terrorism. However, Kolamatangi declared, if there were "remnants of these tax havens or tax avoidance and tax evasion schemes still in the Pacific, I wouldn't be surprised."

Tax havens are a significant factor in deepening global inequality, both within and between countries. The impact of financial crime and tax evasion on the poorest countries is devastating. According to one estimate by the Global Financial Integrity group, $US1 trillion a year is diverted from public funds in developing countries.

The Pacific island elites, which are generally based on systems of patronage, inherited title, seniority and family ties, are notoriously corrupt. Protests involving hundreds of people erupted last June outside Nauru's parliament over government corruption. In November 2006, riots caused widespread damage, deaths and injury in Tonga amid deepening hostility toward the country's absolute monarchy and its lucrative business interests.

The main imperialist powers in the region—the US, France, Australia, New Zealand and previously Britain—bear principal responsibility for this state of affairs. A century of colonial rule, ruthless exploitation and periods of military domination—including the decade-long Australian-led RAMSI operation in the Solomon Islands—have left the island countries impoverished, underdeveloped and fragile.

The use of tax havens in the Pacific first came to notice in New Zealand during the early 1990s with the case of the Cook Islands and the "Winebox" scandal—named after the container in which the documents were discovered. New Zealand corporations and financiers were found to have evaded their tax obligations by using bank accounts in the Cook Islands, a New Zealand dependency. One scheme involved a subsidiary of European Pacific (EPI), owned by prominent NZ merchant bankers Michael Fay and David Richwhite. The Cook Islands government received $NZ50,000 but in return EPI got a New Zealand tax credit of $2 million.

In Nauru, tax haven activities took off during the 1990s as phosphate deposits, the island's main source of income, began running out. According to NZ-based Pacific affairs correspondent Michael Field, 450 banks were registered to a single Nauru mailbox, which acted as a money laundering front. Victor Melnikov, deputy chairman of the Russian Central Bank, said in 1999 over $US70 billion of Russian mafia money had been laundered through Nauru. Field claims that a third of these paper banks were of Middle Eastern origin, including Al Qaeda fronts.

In Samoa, hundreds of shell companies operate through the country's branch of Mossack Fonseca. The Panamanian company set up in Samoa in 2004, after it quit Niue, taking advantage of Samoa's laws covering international financial operations that had been in place since 1987.

Leaked emails showed that Mossack Fonseca urged the Samoan government to stall Australia's request to sign a Tax Information Exchange Agreement, although Samoa eventually signed. They also showed that Samoa's High Commission in Australia routinely assisted Mossack Fonseca in creating shell companies, including in other countries, such as the United Arab Emirates and Uruguay.

Samoa's government said last week that 10 licensed trustee companies, including Mossack Fonseca, currently operate under its international financial centre. It said the practice was "legal and common." Samoa prided itself on "leading efforts to ensure the conduct of businesses was regulated and supervised in compliance with international standards."

However, the head of Samoa's Money Laundering Prevention Authority, Maiava Atalina Ainuu-Enari, issued a warning last month to money launderers. "One professional money launderer can move tens, or hundreds of millions of tala [the Samoan currency] out of, or through, Samoa in a matter of minutes," Maiava said. He vowed to shut them down, in order "to reduce the harm caused to Samoans by money laundering and the crimes that generate laundered funds such as drug crime, corruption, tax evasion, fraud, scams and extortion."

In the case of Niue, Mossack Fonseca won a 20-year exclusive right to operate offshore companies in the tiny island state in 1996. The firm wrote the legislation governing foreign business operations for Niue's parliament. Mossack Fonesca's co-founder Jürgen Mossack told Field in an interview in New Zealand in 2000: "We figured that if we had the exclusivity, we would avoid the price wars because in offshore jurisdictions there is a lot of competition going on." Mossack, who defended the legality of his actions, said Niue was chosen because he wanted a location outside the Caribbean, in an Asia-Pacific time zone and part of the British Commonwealth, with no "scandal" attached.

Niue made just $NZ150 for every international company set up through Mossack Fonseca. Some 6,000 accounts were established, earning Niue around $NZ1 million a year over eight years. According to Field, "Niue sold itself cheaply," but nobody else was offering "that kind of money." Niue registration offered "total secrecy and anonymity," with no need to file annual returns, according to Mossack Fonesca's former web site. Lawyer Peleni Talagi, daughter of the current prime minister, was the firm's agent.

Niue's activities, Field says, attracted close attention from the OECD and the G-8 nations, as well as New Zealand. The US State Department's 1999 International Narcotics Control Strategy Report declared: "Niue's thriving offshore financial sector has been linked with the laundering of criminal proceeds from Russia and South America." Mossack Fonesca's use of Niue as a tax haven peaked in 1999, five years before it relocated to Samoa.