

ABC of Economics, Multilateral Trade Agreements, price fixing, VL/VO

©Francois Humbert, 2018

Other articles from The ABC of Economics in 2018 :

- Repairing Australia's Vertical Fiscal Imbalance, WA Economic State of Play(2018)
- Retirement Income systems in Australia and around the world in 2018
- Derivatives, Collateral Debt Obligations and the Glass-Steagall, Crypto-Currencies
- Strategic planning, Government Economics & Technology
- Public Private Partnership(PPP), Rating agencies
- Politics versus policies in 2018

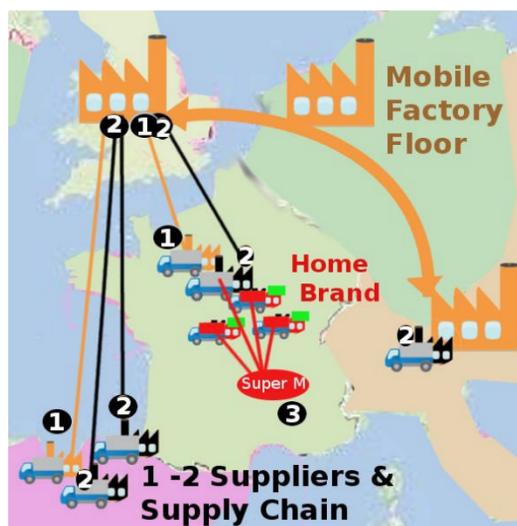
Most of the tax systems in use today around the world including consumption taxes have been designed 50 years ago or more, in these days large paper based ledgers where running the world, not computer and information systems, even banks have been using punch tapes and punch cards and electronic boards to sort cheques on magnetic strips well into the nineteen sixties, a long way from the distributed ledgers with blockchains of today with or without virtual currencies(see this link).

The speed of computers and the interconnected world of the Internet have transformed the pioneers of the initial mail order companies into eCommerce across borders, the eBay, Amazone of today's world etc...

During the last thirty to forty years, education systems churned out a vast majority of students into law literature and administration rather than STEM and as a result a new breed of parliamentarian is occupying most of the Western World Political System, the "Legalmentarians", ruling by smallprints in policies, and almost only interested by the regulatory aspect of policy making and the all bookkeeping approach to policies and running government, the politic versus policy(see Politics versus policies in 2018).

The legalmentarians transformed parliaments into a political arena based on bean counting to evaluate the number of votes at the next election, paper based systems gave rise around the Western World to government pen pushers and paper shufflers and the paper based approach with the proverbial red tape most taxation systems are now based on, although the paper work can be entered into a computer, the system is feeding the political system on itself, feeding a political elite completely disinterested by what is taking place along the business chain across technology and borders, feeding a political elite putting technical things such as eCommerce in the "too hard basket" with a big smile, protecting themselves through branch stacking.

With the fast advance in all technologies, information systems and robotics plus a mobile factory floor with CKDs (Completely Knocked Down) input/ output, a new breed of Assemblers-Maitre d'oeuvres(MOs) transformed manufacturing and services. The ever interconnecting internet enabled MOs a vast array of business practices including tax optimization and price differential approaches integrated with services and manufacturing, along with a very mobile supply chain that MOs would thrive on, pitting one supplier against the other along the chain while moving across borders, see image below.



Distribution monopoly and Mos would mix up their own subsidized suppliers(1) in orange/ red from local suppliers(2) to push prices down, see above.

“From there MOs were able to eliminate smaller local competition and dominate the supply chain, tax systems and governments, to build new vertical empires based on vertical ownership(VO)”

Typical examples of Vertical Ownership is visible in the VL/VO diagram, with Shipyard, Cruiser, Tourist Excursions Travel Agents Souvenir shops and Hotel Chains(4-5).

MOs also try to enforce these empires into law through a trade agreement's tribunal at La Hague no one really knows about, apart from corporate lawyers. Voters in most country are kept uninformed about the real agenda of corporations while their politicians are taken around for dinner.

This is what Donald Trump was talking about, local jobs first and multi bilateral agreement between governments rather than Wall St Corporations creating their own rules with multilateral agreements and secret nasties in the tail end for Governments committing themselves to something they cannot control and their tax payers will pay the bill for.

Business entities though are not waiting for government to legislate and regulate, armed with the best tax specialists they go around the world in search of the best tax differential, always one step ahead as soon as government put one regulation / legislation in place, they have the escape route already ready.

The only inescapable route for government revenue is collecting all in front no matter the POS and the internet facility you can only purchase through the Government front desk and its consumer taxes and being on the attack regarding Corporate Tax that escapes multinationals and replace it progressively by a monthly tax on turnover.

It will take more than the Swedish cashless system, a first step, and will take the best internet gurus to control local trading and import/export processes combined with top software engineer and system designers with real policy planning and implementation expertise to put into place a system that will be able to control all domestic movements of all goods and services and ditto for the import export see further on and article(Strategic planning, Government economics & Technology)

Distribution monopolies and MOs exercise their technology advantage, using "slightly in excess" techniques to stock supplies entering assembly lines, thus avoiding the pitfalls of the jit(Just in Time) and with it supplier's blackmail when you depend critically on a certain type of supply.

Distribution monopoly and MOs would mix up their own subsidized suppliers(1) from local suppliers(2) to push prices down sometime to a level no competitor on the supply chain can ever compete with unless playing the same VL/VO game.

To some extent it is the same technique that is used when a couple of super market / giant distribution chains(3) in the diagram on the left, start to interfere with the supply chain having their Home Brands type and partly owned suppliers mixed along the same route, this is another form of vertical landing although absolutely legal.

Farmers find themselves in all sort of troubles in the food chain when suddenly they discover that the distribution monopolies force them to sell at a loss to buy them or buy them out of the system first unless farmers themselves find a way to play the VL/VO tax minimization game.

Despite all what the politicians are saying the process of price shifting and profit shifting and even dumping is unstoppable when a discount store opening just for a couple of weeks to dump products around a region where market shares have been built across years by businesses having patiently been building their links and customers, making dumping illegal has become almost impossible!

Some form of Dumping have been fought by Governments with various level of success and the solution to create a level playing field has to be more systemic toward local businesses and jobs, a variable corporate tax replaced progressively by a monthly tax on turnover is part of the solution.

A lot of what we call price transfer or price shifting or profit shifting is a bit fuzzy to grasp because the world of corporate foreign finance is not visible at first.

Anyone able to look into it will feel dizzy about what is happening there not only on the trading floors but also in the corporate wheeling and dealings taking place behind close doors with expert accountants and lawyers to minimize tax in a perfectly legal way.

Let see how large corporations minimize tax, and transfer costs and profits around the globe in a perfectly legal way.

A corporation called Gizmo Ltd registered in the Bahamas, Panama and the US(to pay dividends) is making and selling gizmos(diagram below).

Gizzmos Services in the US(A), Gizzmos Mechanics(A) in Germany/ Eurozone and Gizzmos Energy in South East Asia and Middle East(A) are ordering gizmo parts from one each other in \$US, Euros and Yens. As an "Hors d'oeuvre", appetizer, zakouskis,... they buy or sell gizmo parts from each other but playing with maximizing differential values between currencies to transfer moneys between each entities(A), a higher Euro currency than "normal" is used to purchase gizmo parts in Europe from the US to allow US money and gizmo's to be transferred to the Eurozone, a lower Euro than "normal" enables the opposite, sometime all mixed up with hybrid derivatives to muddle the water a bit more!

For the main course profits and moneys are transferred to Panama or the Virgin Islands(B) out of corporate tax, (B) then splits reusable extras between Gizzmos Material in South America and Gizmo Chemical in South Africa.

What has been said for currencies and gizmo parts is similar to what is happening in real time also in parallel with PRICING, costs and benefits transfer around the Group of companies in an absolute legal way.

Ultimately a change to Turnover testing/ taxation and Sales tax and better control of new technologies and the internet and a more interactive taxation is becoming unavoidable.



If we were talking of PPPs(Private public Partnership) with the diagram above it would be even more mind boggling yet it was the type of scenario involving one of the largest US Corporation and a very large French Corporation in a PPP. Fortunately it turned out it finished very well, with a gentleman agreement between the French Premier Raymond Barre and the US Executive Board, making everyone happy, through an agreed formula and programs(the author was involved with) just to minimize excesses to an acceptable level.

Note: Raymond Barre a senior lecturer in Economics and Lord Maire of Lyon, appointed French Finance Minister and Premier from outside the House! had the same flexible attitude with the PPP's Renault group when it came to profits and investments and with Valery Giscard d'Estaing(a brilliant Polytechnician, head of his promotion) they formed the same type of duo we had downunder with Paul Keating and Bob Hawke. The duo Giscard-Barre did not privatize any institution and paid all the debt of France, started Ariane Space, Airbus and the TGV and the Euro(with Chancellor Schmidt and Mario Monti).

They wanted a Eurozone with full fiscal integration but it did not happen, unfortunately for Europe.

Vertical Landing and Vertical Ownership.

The diagram on the right shows a book printing company based in the Philippines(X) or other far away country, an Editing Company based in Geneva and Panama(Y), and a distributing company with subsidiary in France Germany Italy UK, etc..(Z), all belong to the same ownership a Private equity fund in the Virgin Islands or other Republic Island of the Southern Pacific.

The group has no official known Shareholder nor any known listed financial ownership in any of the countries mentioned but operate share arrangements through a private equity fund based far far away in the galaxy with a different jurisdiction/ laws!

X – Books are printed in the Philippines and purchased by Y in Panama for \$5 each, then sold in France Germany Italy UK, etc..to the distribution company subsidiaries (Z) for \$20 each. The books are then sold to readers in these countries by the distributing company for \$15 each making a loss of \$5 on each book.

This mechanism is perfectly legal although it is presented and constructed in a more sophisticated way, even sometime using hybrid derivatives in remote trading places to be less visible to law enforcement agencies, the result is the same, a perfectly legal tax optimization strategy to transfer profits out of sight!

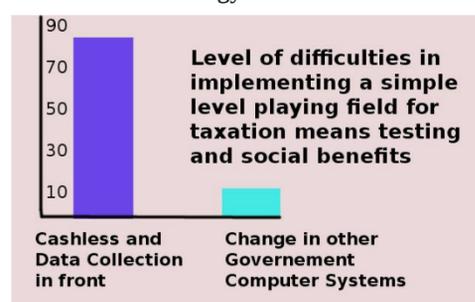
Finally a Private Equity Fund in a completely different jurisdiction, with completely different corporate laws shuffle the funds around completely hidden from any Western taxation or even at full sight, transferring funds around, as well as creating new liabilities when they want to get rid of undesirable links with governments or shareholders.

Typically to purge undesirable links or shareholders from the system, a common scenario is for PEF3 Finance to take a massive loan which disappears into thin air through complex derivatives or even very very simple schemes leaving PEF1 - Infrastructure' s shareholders with some massive liabilities and mostly worthless shares, does it ring a bell?

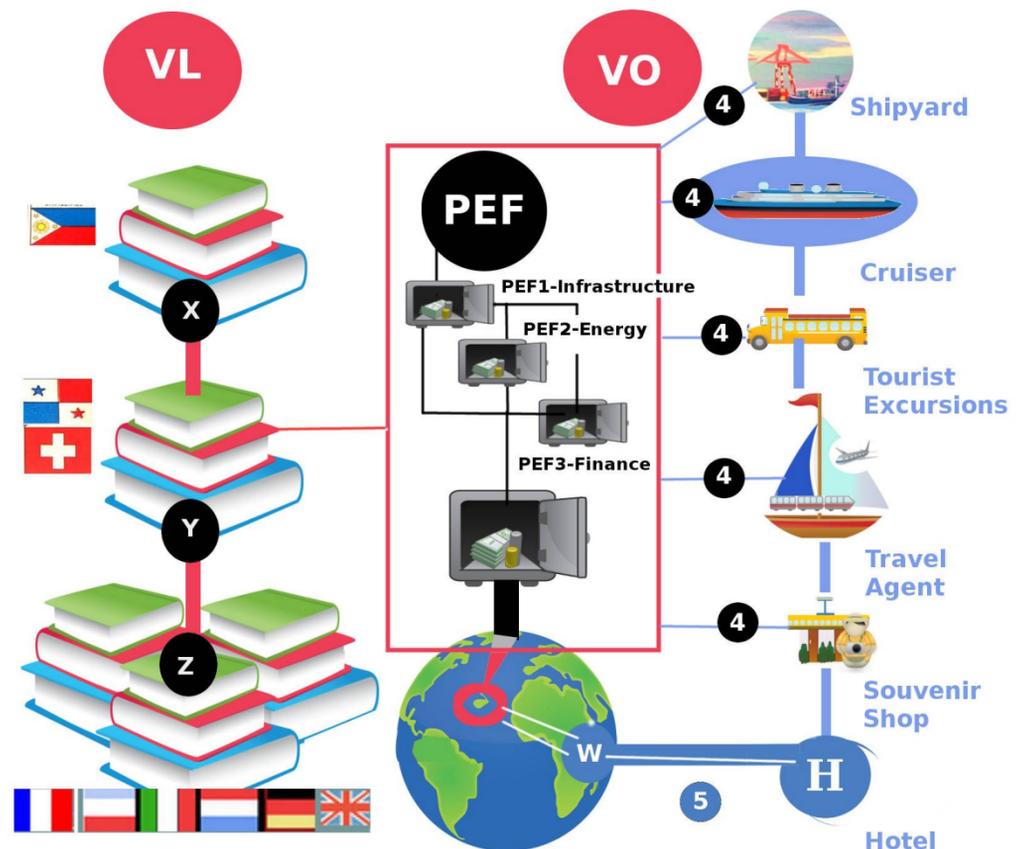
This type of Scenario has happened twice in Australia in the last ten years remember PCW and Telstra or Alinta and Babcock Brown. It will happen again and again with non-bank investments(remember Banksia) and/ or developers around Australia ripping off assets from councils but you wont hear much about these ones.

There is little the government can do apart from measuring turnover with sales to impose a corporate minimum tax or levy on turnover and controlling purchases at point of sale(POS) to impose an all at front tax and data collection.

Both of these require expertise embedded in the Swedish Cashless model that will be explained in the article Strategic planning, Government Economics & Technology.



Sweden was the first country to use bank notes and is today the first fully cashless country. To control properly taxes and social benefits, the Electronic cashless approach, with a mobile data collection device in front is the first step making 90% of the difficulties in implementing a level playing field with taxes.



VL/VO-Diagram : Vertical Landing(VL)- Vertical Ownership(VO) Private Equity Funds

There is nothing illegal about Vertical Ownership(VO), as presented above, it may even in some cases bring cheaper price to consumers, however is there anything helping local businesses and revenue to build schools and hospitals? The concerning aspect in the diagram above is the **Private Equity Fund**

Private equity funds do not have the mission statement of a single business and its shareholders measuring rate and return of the business entity and the assets of the company given its market's share etc...instead PEFs buy businesses sometime selling part of their assets and act like predators when a company PE(Share Price vs Earnings) is right and its assets are undervalued, they are often called “vampires” sucking blood from companies until lifeless carcasses are left to rot.

At worst they form an amalgam of assets held together by a massive speculation escaping any real tax jurisdiction, at best they optimize some of the businesses before re-selling them. The situation is more neutral above, and the movement of funds between the entities(4) each entity is linked to the PEF or all entities in the VO are linked to it through a single entity(5), though there is no limit to the system as the VO could also include Ports, Berths, Shipping Agents etc etc...however once again, is there anything helping local businesses and the tax office with PEL and VO?

Finally there is a disturbing aspect of what PEL can be used for, as mentioned previously, it is the possibility of transforming equity into debt in an ephemeral way, this in turn could enable to bypass some of the CG/ NG taxation or Super concessions through SMSF.

As said before Sweden was the first country to introduce Bank Notes and has become the first to implement a totally Cashless society based on a completely new taxation technological paradigm, the internet usage of an individual Government Bank Business Household single card anyone can swipe on a mobile reader either for purchase or to find out instantly and interactively the business and/ or household taxation balance, including social benefits etc... even so ATMs are all disappearing in Sweden, Sweden has not made the last step yet, that is removing totally the gizzmos in vs gizzmos out 18th century VAT/ GST type of business system.

Ultimately a good POS(Point of Sale) model/ technology collecting all data in front should enable a government to assess the level of monopoly in distribution and the pressure on local suppliers. The pro-active interactive system should be able to immediately be deducting tax and be deciding whether a GST or VAT applies to this product/ service and collect it if it does and ditto if a turnover monthly tax applies. **What does happen with corporate tax and corporations becomes then less relevant, corporate tax will have to come down considerably anyway for the few, most often local industries that are left paying it and be replaced by a turnover tax.**

Even the best of the best cannot change things that are legal

Top notch MIBs in a couple of Western Governments, based on ultra secret data centers near the Northern Lights have been working on infiltrating Blockchains and peer to peer distributed Ledgers across tax havens following data building of information about Banks Derivatives etc..., the strategy for Governments is simple: Hack the data to prove it wherever it sits, and decrypt it, then find/ buy a body “on location” able to pretend to have gathered or leaked accidentally all this information on location, even undecrypted.

Any system that uses the internet with encrypted data or not, automatically exposes itself to the internet no matter the sophistication, a pair of Rottweiler(male and female) to defend a pen and paper secret is safer than a safe and a locksmith. Data can be gathered using the most simple hacking software, the programmer's ordinary phishing, or by electronic capture along copper lines, building lines transmitting data etc..., or both such as vans driving around streets to intercept communications from wifi with a software supplying both interception and storage of data including Voip. When you only have to know where is the data, the most simple way to capture it is simply to go and pick it up on the equipment itself, pointless to accuse the KGB to interfering with an election when a ten years old child can hack the data with a \$50 piece of software today, software available anywhere on the internet in most cases.

Trojan and viruses and phishing systems have been placed inside some of the most popular software and a very well known supplier of anti virus software has pointed out to customers a solution do disinfect a machine from a trojan sitting inside a well known software from the moment it was purchased. Hackers leaking fraud information take high risks because some stakeholders specialised in fraud are involved with drug cartels linked with terrorist groups.

Looking at corporations and business practices to minimize taxes, little can be done apart from what was mentioned but a stakeholder and activities based pro-active auditing can help to design better tax systems(see last two articles).

Capture data in front, modulate corporate tax to turnover and turn to simple all in front flat sale taxes at POS. In Australia the Swedish cashless approach and card reader would enable to simplify work for self employed specially seniors and would enable to **merge ATO and Centrelink means testing all in front**, remove red tape and paper work for businesses and half public service costs. Implementation through a small prototyping approach will be explained in the article Strategic planning, Government Economics & Technology.