Tax Avoidance By Offshore Wind Through Offshore Banking

Brendan McNamara, BMcNrgy@gmail.com

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Grand Cayman island (264 sq km.) superposed at the same scale on the chart of Eneco's NAVITUS Wind Park (total 276 sq. mi.) proposed for Poole Bay, Dorset. Grand Cayman has over 93,000 registered companies with secret accounts, including 300 banks, 800 Insurance companies, and 10,000 Mutual Funds. It draws about the same number of tourists per year as Bournemouth.

Summary

It is by now well understood that UK industry will gain little from the massive Wind Energy programme being pushed forward by the LibDems and the captive DECC. Here we show how this financial bonanza will also yield little return to UK finances and will in fact be a huge burden on our economy.

Wind Energy companies are set to pay little UK tax by use of offshore banking facilities. The convoluted subsidy schemes via Renewable Obligation Certificates enables the government to conceal the scale of the subsidies which will appear as increases in individual energy bills.

The contracting and regulation of the Wind industry promises to be as onerous to the UK as any MoD or private finance project. Wind energy promises to be a financial feast for every foreign participant.

Here we give a brief view of how Offshore Banking works, the true scale of Wind costs, and the Offshore Financing and planning of tax avoidance by the EU Wind industry.

Offshore Banking.

A fascinating book, Treasure Islands by Nick Shaxson, documents the workings of the massive offshore banking schemes operated in the British territories of the Channel Islands, Isle of man, Virgin Islands, Bahamas and Cayman Islands and Panama, Cyprus and elsewhere. Multinationals buy resources, services, and manufactured goods in many countries and sell them in many others. Taxes should be paid on local activities by the local subsidiary registered in each country but, by agreement, should not be paid in multiple countries on the same activity. The final reconciliation is with the country where the headquarters are registered. This is in many ways reasonable.

Subsidiaries charge each other for goods and services supplied and also pay fees to lawyers and accountants and consultants to manage the regulatory requirements. Almost all multinationals are then able to arrange the costs and fee structures so that subsidiaries in high tax countries make little or no profit and those offshore places with the lowest (about zero) record most of the profit. This allows the companies to retain most of their real profit offshore for future growth. The offshore banks are physically tiny companies holding billions of £'s for hundreds of clients. British Airways runs 5 or more return flights per day between Heathrow and Cayman Islands. Even small companies with turnovers of a few £M's with some international business are now using offshore banking as a means to reduce their taxes.

In order to keep all tax authorities ignorant of the true scale of the funds deposited offshore, the islands have constitutions and treaties which forbid the banks to reveal any details of ownership, transactions, or any other information which may be used to identify untaxed money. This meant that in the crash of 2008 the trail of debt and assets for all the major players in the UK, the USA, and the EU ran cold into this wall of secrecy.

The Royal Bank of Scotland bought ABN-AMRO, a nearly bankrupt Dutch bank which turned out to be stuffed with worthless assets. Due diligence on the debts had been effectively blocked by offshore secrecy and so assurances were accepted. Only when they acquired the keys to these accounts did RBS discover they too were now bankrupt. This is the (very) negative side of the offshore banking system.

This offshore banking scene is compelled to be tolerated by onshore tax authorities as part of the great growth of virtual wealth generated by the capitalist system. Real wealth is generated by new products and inventions and the engagement of more people in making new things. Onshore, the banks are allowed to behave in arbitrary ways because, collectively, they sit on some 50% of the entire business activity of the world. A comical example is the way that UK Banks inflate their claims for paying UK tax by including the income taxes and National Insurance of their own employees. On this basis they might also claim that the VAT their employees pay on purchases and the Council Tax they pay on homes is also attributable to them. Their employees would not see it this way.

Wind Energy costs and 'Off the Government Books' Finance

The cost of the largest and tallest windmills required by a 20-30 giga-Watt scheme is truly enormous. The wind farms are only a fraction of the total costs which include a long list of further infrastructures. Due to the erratic wind flow, the programme will only deliver an average 30% of the peak rating, some 6-9 GW, but the National Grid must be expanded to handle the maximum output of 20-30GW. The average power needs a renewed fleet of Gas fired power stations to provide 100% backup for when the output is near zero and to smooth the often rapid variations. This Gas fleet must be recompensed for running inefficiently and thereby emitting almost half the CO2 emission savings from Wind energy, which was the sole reason for running a non-competitive energy scheme. Even worse, when the windmills are delivering above their average and up to their maximum, the backup fleet and a further 14-21 GW of the main power stations have to be idled and compensated.

The wind frequently delivers energy when it is not needed and expensive inefficient schemes are proposed to try and store the energy for later use. Most of the wind energy generated in Denmark goes by high voltage lines to pumping Norwegian Hydro power so DECC is examining schemes to add more dams and Hydro power. It is proposed that an EU-wide high voltage Super Grid be built to distribute unwanted wind energy.

When the Wind Farms will run near their peak output but it may often be better to idle some windmills than to idle all of the Gas fleet. Under present arrangements these windmills can be compensated at up to 10 times the normal production cost, a masterpiece of inept contracting and regulation. There is no penalty for windmills being unable to run.

The cost of all this far exceeds the cost of conventional Gas or Nuclear power and is therefore commercially uneconomic. The total is in the range of £150-300Bn over 25 years when all the windmills must be replaced. This expense is a huge burden on the economy.

The capital will be provided by banks and over 30% of the costs will be in interest to them. At a 5-10% rate, the Banks or other investors will draw £50-100Bn from the project. With all the government guarantees backing the programme an interest rate of 5% should be the maximum. A system of Renewable Obligation Certificates (ROCs) enables the government to remove what is essentially a Green tax from their books. This also enables the Wind energy companies to claim they receive no subsidies. The Greens choose to believe this. Being 'Green' used to be a pejorative term for people who did not yet know what they were doing.

Offshore Finance for Offshore Wind

The windmill components and the highly skilled technical jobs are sourced from Germany, Holland, Denmark, and other EU countries, but not the UK. The Wind programme will not generate jobs but merely redirect jobs for tradesmen and standard civil engineering as the wind farms are built. The UK, due to its history of running down manufacturing in favour of financial services means we get no significant financial or industrial benefit from the Wind Energy programme. With the huge cash flows involved it is unsurprising that the Wind industry will use Offshore Banking for its finances.

Eneco and Infinergy are two major Dutch companies who might be constructing offshore and onshore wind farms in England. Infinergy is owned by the inscrutable KDE Holdings as part of the Koop Group. Infinergy works closely with Eneco on many projects. The group has huge resources to deploy in seeking contracts and approvals across Europe. The Infinergy website points to the Dutch Triodos bank where you may invest money in portfolios of renewable enterprises. As investors in Spanish renewables have found, if the absurd subsidies are reduced or repealed, your money may be at risk.

Eneco and other Dutch renewables companies participated in a Dutch Trade Mission to Panama in 2011 which has signed a Tax treaty with Holland which will charge almost no tax to multinationals or other 'investors'. Eneco may bid for a 4 turbine wind farm there to qualify as a real investor in Panama. Offshore accounts there will ensure that Eneco and others will pay little tax in the UK.

The UK government departments have developed a reputation for agreeing to binding contracts with little or no protection from failure to perform, absurd fees in the event that a project is cancelled, and no openings for renegotiation of terms which turn out to be unfair to the departments. Many Private Finance initiatives have been found to be ridiculously more expensive than any other form of finance and yet with no escape clauses. These are contracts which no two commercial companies would sign between them. The UK Wind Energy programme offers a financial bonanza to any corporations which are granted contracts.

The cash flows are large enough for the companies to offer substantial inducements to property owners to install windmills or solar panels. This seeds this influential group with the mistaken idea that renewables are profitable.

One has to also question how Banks which are in financial difficulty can produce such sums. It is, of course, all virtual money which becomes real as the clients make payments. Using such money the Market is able to bail out countries and continents at guaranteed rates.

Concluding Remarks

The UK government, having ceded control of the Energy department to the LibDems, has created a pyramid of follies where renewable energy companies can treat MPs, MEPs, local and regional Councilors and the British public with complete disdain. Our landscapes and seascapes and their ecologies can be trashed at will in the greatest assault by any industry in history. The supposed goal of reducing our puny 1% of global CO_2 emissions cannot be met by these schemes. The tax avoidance is readily done through UK owned territories or places like Panama. The only obvious effect is to organize an immense cash flow out of the country.

Any 'stress test' of the value of the entire Wind programme would see it crumble.