LOGGING SECTOR REVIEW

CONNING THE CONGO

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1 EXECUTIVE SUMMARY

'Illegal logging robs national and subnational governments, *forest owners and local communities of significant revenues and benefits, damages forest ecosystems, distorts timber markets and forest resource assessments, and acts as a disincentive to sustainable forest management.* ***International trade in illegally harvested timber, including transfer pricing, under-invoicing and other illegal practices, exacerbates the problem of illegal logging.'*** *[emphasis added]*
G8 Action Programme on Forests 1998

In April 2007 Greenpeace International published an investigative report exposing the social chaos and environmental destruction brought about by the logging sector operating in the Democratic Republic of the Congo (DRC). *Carving up the Congo* was released at a time when all logging titles in the DRC were beginning to be evaluated under a World Bank-sponsored legal review process, which is still ongoing.

This new investigative report exposes another hidden aspect of export-driven resource extraction in the DRC and the neighbouring Republic of the Congo. Internal company documents obtained by Greenpeace International show how the German owned, Swiss-based logging multinational Danzer Group, one of the largest players in the Congo logging sector, is using an elaborate profit-laundering system designed to move income out of Africa and into offshore bank accounts, thereby appearing to evade tax payments in the countries in which its companies operate.

Moreover, evidence has also been uncovered of various other questionable means employed by the Group to minimise its tax burden in those countries

FALSE ACCOUNTING – THE DANZER GROUP'S TRICKS OF THE TRADE

The Danzer Group is owned by the German Danzer family, but based in Switzerland. Previous Greenpeace International reports on the Danzer Group have exposed the company's involvement in activities including trading in illegal timber, bribery and dealing with a timber trader blacklisted by the United Nations Security Council for illegal arms trafficking in Liberia. Now it is the turn of the Group's financial affairs to come under the spotlight.

Internal Danzer Group documents show in great detail the price fixing arrangements between the Group's Swiss-based trading arm Interholco AG and the parent firm's logging subsidiaries in the DRC and the Republic of the Congo. The DRC-based Siforco sells its wood to Interholco at an official price below the true market value of the wood. The shortfall is made up through unofficial payments into offshore bank accounts in Europe, enabling the Danzer Group to evade the payment of a variety of taxes to which it is liable in the DRC. Greenpeace International has evidence that the trick has been concealed by encoding the full market prices shown on order sheets and price lists, and by issuing official invoices that show only the local price while the offshore payment is invoiced internally.

Greenpeace has also obtained a 2003 PricewaterhouseCoopers audit of the Danzer Group's holding company ANBE AG (today Danzer AG). This points out that the transfer mispricing methods outlined above may not be in compliance with the local laws applicable to Siforco and IFO respectively.

One Danzer Group document, showing internal accounting procedures, reveals that Siforco and IFO intended to under-invoice Interholco in recent years by an average of 35% and 13% respectively.

A 2003 Siforco business plan shows a 2002 local (DRC) loss of €1 million and offshore profit of €444,000 for the same year. Projected results for 2003–05 follow the same pattern – losses in the DRC, profits in Switzerland – except that in all years the offshore profit is actually greater than the local loss, meaning that an overall profit was predicted. For 2005 a local 'loss' of €557,000 and an offshore profit of €2,730,000 were projected, giving an overall profit of €2,173,000 on which corporate profit tax would have been due in the DRC had the money not been intended to be transferred.

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Evidence obtained by Greenpeace International estimates that the Danzer Group's proposed profit laundering and suspected non-compliance with tax exemption agreements may have denied the governments of the DRC and the Republic of the Congo at least €7.8 million in tax revenue. This would be equivalent to any of the following at 2000 prices:

- over 80% of the DRC Government's investment in public healthcare for the year 2000
- the cost of vaccination for over 700,000 Congolese children under five years of age
- 50 times the DRC Ministry of Environment's annual operating budget

There is equally a fundamental conflict between the industrial logging model of development and protection of forest areas for climate protection. One calculation shows that the projected carbon debt from Siforco's selective logging alone carries a potential financial liability (notional cost premium for carbon offset) between 1.5–2.5 times greater than the total forestry and export-related taxes paid by the company in 2004.

DANZER GROUP PRACTICES THE NORM NOT THE EXCEPTION

Export figures for the whole of the DRC (2002–05) and the Republic of the Congo (2004–06) indicate that the phenomenon of tax evasion through under-invoicing of the sales value of exported timber from both countries is by no means restricted to the Danzer Group. The average export value for logs in both countries is very close to the average declared (under-invoiced) export value of Siforco logs for 2004, indicating that the majority of logs are exported at below the true market value.

Moreover, published industry-wide market prices for individual species for the region are close to Siforco's true export (local plus offshore) market values, and much higher than the national average export prices from the DRC and the Republic of the Congo

CONCLUSIONS

In an environment of endemic corruption, logging companies inevitably operate beyond the rule of law. In the Congo Basin, the logging industry continues to feed the networks of corruption that are obstacles to genuine development. Through support for an extractive industry-based model of development, donor countries and agencies such as the World Bank are effectively undermining their own rhetoric on establishing good governance and alleviating poverty.

Even as the World Bank and its donors continue to pour billions of taxpayers' dollars into the Congo Basin countries in the name of eradicating poverty, international players in the logging industry, such as the Danzer Group, are laundering untaxed profits to offshore bank accounts – in effect stealing from the region and its people.

If left unchecked, this unscrupulous behaviour will continue to make a mockery of the international donor community's poverty reduction efforts. It poses a major challenge to the World Bank's aim of tackling corruption within the logging sector and slowing the expansion of logging. In effect, in being allowed to get away with evading tax, logging companies are being given a financial incentive to continue expanding their operations into some of the world's last intact rainforests.

International donors, including the World Bank, must prevent further fraudulent expatriation of wealth and profits from the DRC and the Republic of the Congo by companies engaged in tax evasion, capital flight and aggressive tax avoidance. To this end they must:

- **demand that the International Accounting Standards Board (IASB) establish a requirement for all multinational companies to report their trading activities on a country-by-country basis within their consolidated accounts. This approach would identify a group's internal and external income and costs in each country where it operates, hence minimising the risk of transfer pricing abuse occurring. Such a requirement on the part of the IASB would have the status of international law, and would thus not require local legislative consent.**

2 INTRODUCTION

THE WORLD BANK

'The $1 trillion or more a year of illicit money that flows across borders … is the most damaging economic condition hurting the poor in developing and transitional economies. It drains hard-currency reserves, heightens inflation, reduces tax collection, worsens income gaps, cancels investment, hurts competition, and undermines trade. It leads to shortened lives for millions of people and deprived existences for billions more.'

Raymond Baker, Director, Global Financial Integrity[1]

The debate over how poor and heavily indebted countries with high levels of corruption and weak governance can escape from poverty has in large part focused on the need to increase international donor funding in order to stimulate domestic economic growth. One such heavily indebted country is the Democratic Republic of the Congo (DRC), where the World Bank is by far the largest financial donor and most influential international actor behind the reform of the logging sector, which it sees as a key means of boosting the country's GDP.

In April 2007 Greenpeace International published an investigative report exposing the social chaos and environmental destruction brought about by international logging companies operating in the DRC. *Carving up the Congo*[2] was released at a time when all logging titles in the DRC were beginning to be evaluated under a World Bank-sponsored legal review process.

However, the legal review – which is still ongoing – has not succeeded in verifying even the very basic criteria set by the government, the most important being the 'legal validity of the titles' (ie ensuring that they have been obtained in accordance with the correct procedures), establishing that forest holdings 'comply with boundaries as defined by the title and the topographical map attached to the title', and verifying 'full payment of forest area taxes since 2003'. In short, it only deals with the enforcement of laws relating to logging companies' land holdings.

As a result of its restricted scope, the legal review will have only a limited impact on the corruption endemic within the DRC's logging sector. One area it is failing to tackle is the issue of tax evasion by logging companies. The review is looking at only one of the forms of taxation specifically relevant to the logging industry – the forest area tax.

The World Bank, the International Monetary Fund (IMF) and the DRC Government have yet to address the logging companies' failure to make full and fair payment of other taxes due on revenues they generate in the country, such as corporate profit tax and export-related taxes (some of them specific to the logging industry), and the impact of this tax evasion on development. The general development strategy has been to focus on how money and resources flow into the DRC, rather than on how financial wealth leaks away from the country – although a report published by the IMF[3] does admit that as far as corporate profit tax is concerned 'transfer pricing practices [see below] and the global characteristics of most timber-producing companies pose significant administrative challenge.'

In 2006, nearly three-quarters of DRC timber exports were controlled by just four foreign-owned logging groups: the Danzer Group (German owned, Swiss based[4]), the NST Group (Portuguese owned, Liechtenstein based[5]), Olam (Indian owned, Singapore based[6]) and Trans-M (Lebanese[7]). The Danzer Group alone accounts for 40% of such exports (See Table 11).[8]

This latest Greenpeace International investigation exposes how the Danzer Group – one of the largest logging companies operating in both the DRC and the neighbouring Republic of the Congo – is laundering its untaxed profits in offshore bank accounts, and describes the internal procedures the Group uses to achieve this. The Danzer Group is deliberately under-invoicing its timber exports and provision of services between subsidiaries to avoid paying taxes, a practice which creates a hole in the government revenues of the two countries.

The report is based on confidential Danzer Group internal documents, all of which are held by Greenpeace International. Quotations from documents written in German have been translated by Greenpeace International; the original text is given in the endnotes. Quotations without such endnotes are from documents written in English.

While this report focuses solely on the practices used by the Danzer Group, tax evasion by under-invoicing may be assumed to be the rule rather than the exception in the logging sector in the DRC and the Republic of the Congo. The practice calls for immediate and tough action by the governments of the DRC and the Republic of the Congo, the World Bank and the IMF.

3 TRANSFERRING WEALTH OFFSHORE – TAX ME IF YOU CAN!

UNITED NATIONS

'Of the $1–1.6 trillion of illicit money that crosses borders annually … the commercially tax-evading component, driven primarily by falsified pricing in imports and exports, is by far the largest, at some 60 to 65 percent of the global total.'

Raymond Baker, Director, Global Financial Integrity[9]

According to the Organisation for Economic Co-operation and Development (OECD), up to 60% of the world's trade may take place between subsidiaries of the same multinational corporation.[10] Transactions across international borders between different parts of the same corporation offer ample scope to shift profits and/or escape paying tax.[11] Such transactions are subject to what is known as 'transfer pricing' – so called because the price is set not by the market but internally by the corporation, as a means of transferring ownership between different companies in the same group.[12]

Manipulation of transfer prices – 'transfer mispricing', in effect – allows corporations to engage in capital flight, channelling billions of dollars each year out of developing countries and into offshore tax havens.[13] The volume of mispriced (under- or over-invoiced) trade has been estimated at more than $600 billion a year, nearly half of the illicit money that crosses international borders.[14]

DEFINITIONS

Profit laundering

This term refers to the business practice of moving profit from the country in which it was earned, and where it would incur tax, into a tax haven, with the aim of minimising tax liability. Mechanisms for achieving this include the practice of transfer mispricing.[16]

Transfer pricing and the arm's-length principle

Transfer pricing is the process of setting the prices at which sales between related companies within a corporate group take place. Such prices have to be set in order for there to be trade within the group.[17]

In an international context, transfer pricing is considered a legitimate practice so long as it is undertaken using the 'arm's-length principle' – that is to say, the price set should be equivalent to the open market price that would be charged between unrelated and independent companies.[18] Both the OECD and the United Nations have endorsed this arm's-length principle for transfer pricing.[19]

However, many corporate groups do not respect the arm's length principle and launder their profits into tax havens through transfer mispricing. For instance, by charging low transfer prices from a company based in a high-tax country that is selling to a company in a low-tax country, a group can record a low profit in the first country and a high profit in the second.

Tax avoidance

Tax avoidance describes any action taken to minimise tax liability that does not involve deception or breaking the law, in contrast with tax evasion.[20]

Aggressive tax avoidance

This process occurs when people and companies exploit loopholes and flaws with tax laws in order to avoid tax (ie they abuse the spirit of the tax laws).[21]

Tax evasion

Tax evasion is paying less tax than you are legally obliged to through the non-payment or underpayment of taxes, usually effected by making a false declaration (eg through false accounting) or no declaration to the tax authorities.[22]

Tax haven

A tax haven is a country or designated zone that has low or no taxes.[23]

'The difference between tax avoidance and tax evasion is the thickness of a prison wall.'

Denis Healey, a former British chancellor[15]

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A company wishing to under-invoice the value of goods it is exporting can do this by selling the goods to another company within the same group. The recipient company is almost invariably based in a tax haven.[24] This intermediate company then sells the goods on to yet another company within the same group, this time based in the country where the goods will be resold to the ultimate third-party customer. For the purposes of this second intra-group transaction, the goods will be priced at an arm's-length value.

The result of this process is that part of the profit is diverted from the tax system of the country where the goods originated, and the value of the tax that should have been paid is fraudulently expatriated to the tax haven. This value will, of course, typically be unknown to the authorities in the country of origin to whom tax should have been paid on the full arm's-length value of the goods.[25]

If the goods were sold at arm's-length value by the group member in the country of origin to the group member making the sale to a third-party customer, an appropriate split of costs and profits out of the sale proceeds might look like this:

Group member (country of origin)		**Group member (country of sale)**	
Costs: 40%	Profit: 20%	Costs: 30%	Profit: 10%

But if an intermediate tax haven company were introduced into the transaction the split might be:

Group member (country of origin)		**Group member (tax haven)**		**Group member (country of sale)**	
Costs: 40%	Profit: 2%	Costs: 1%	Profit: 17%	Costs: 30%	Profit: 10%

Note that while the profit from the country of origin is mostly shifted to the tax haven, the profit in the country of sale is unaffected. It is the country of origin that loses out, the vast majority of its potential tax revenue having been diverted to a tax haven. A small proportion of the profit in the country of origin may be retained to give the impression that something is being earned locally. Profits are being apportioned in this way because the countries of origin are almost always in the developing world. These countries generally have poor or completely non-existent measures to control transfer pricing abuse. In contrast, the country of sale is usually in the developed world where controls on transfer pricing exist.

4 FALSE ACCOUNTING – THE DANZER GROUP'S TRICKS OF THE TRADE

'Rather than reaping short-term profits, Danzer Group's entrepreneurial activities support social principles. For years, our work in Africa has involved large investments, which have made significant contributions to local development. Danzer Group is one of the most important foreign investors in the Republic of Congo and the Democratic Republic of Congo.'
Danzer Group website[26]

This section illustrates how trading within the Danzer Group of timber products from two of its African subsidiaries does not comply with the arm's-length principle for determining transfer prices, resulting in the apparent underpayment of tax in both the DRC and the Republic of the Congo.

The trade in question is between, on the one hand, the Danzer Group logging companies Siforco (DRC) and IFO (Republic of the Congo) and, on the other hand, the Danzer Group timber trading subsidiary Interholco (Switzerland).

Since Interholco is knowingly involved in setting the rates of under-invoicing for Siforco and IFO, and even controls the offshore accounts maintained in the names of these companies, Greenpeace International argues that this practice also represents profit laundering.

THE EVIDENCE – UNDER-INVOICING FOR EXPORTS

The Danzer Group appears to have been making use of transfer mispricing and offshore accounts since at least the late 1990s. A memo dated July 1998 addressed to Ulrich Grauert,[27] one of the two executive directors of Interholco, refers to the outcome of a meeting between Mr Haag of Siforco with Jean Calvin Kandolo, the then State Secretary to President Kabila:

> *'The monetary value of exported goods does not flow back into the D.R. Congo, instead gets transferred to a blocked account in Europe in order to buy road building machinery, public transport buses etc.'*[28]

An unsigned draft contract (most likely between 2000 and 2002)[29] between Interholco and Siforco shows the arrangements between the two companies for the transfer mispricing of timber intended for export.[30] In it, they agree that Siforco will sell its timber products to Interholco at an internally fixed price which *'for business reasons, is set too low'*.[31]

Vertrag

zwischen

SIFORCO S.C.A.R.L.
B.P. 8434
Kinshasa 1
Rép. Dém. du Congo

und

INTERHOLCO AG
Schutzengelstrasse 36
CH-6342 Baar ZG

Die Siforco Scarl (nachfolgend "Siforco" genannt) verkauft Holzprodukte an die Interholco AG (nachfolgend „IHC" genannt) zum valeur mercuriale, welche aus geschäftlichen Gründen zu tief angesetzt ist.

Die Interholco bezahlt den valeur mercuriale direkt an die Siforco und einen sogenannten Überpreis auf ein Konto in Europa. Auf dieses Konto werden dann sogenannte offshore-Zahlungen vorgenommen, welche durch die Siforco aus devisenrechtlichen Gründen selbst nicht bezahlt werden können (Europäische Versicherungen, Saläre von Expatriates, Ersatzteile zu Maschinen, Rückführung von nicht registrierten Darlehen usw).

Zwischen den beiden Parteien wird folgendes vereinbart:

1. Es wird jährlich nebst dem offiziellen valeur mercuriale ein zusätzlicher Überpreis für die von der Siforco verkauften Holzprodukte vereinbart.
2. Die Kalkulation des Überpreises basiert auf den handelsüblichen Verkaufspreisen ex Afrika.
3. Dieser Überpreis wird von der Interholco direkt auf ein „Konto" in Europa bezahlt.
4. Über dieses Konto werden Aufwände, die Siforco betreffend, welche durch die Siforco offiziell nicht bezahlt werden können, beglichen (z.B. Europäische Versicherungen, Saläre von Expatriates, Ersatzteile zu Maschinen, Rückführung von nicht registrierten Darlehen usw.).
5. Über sämtliche Transaktionen dieses „Konto" betreffend wird bei der Interholco in Baar Buch geführt und jährlich extern revidiert.
6. Die Interholco AG erstellt quartalsweise eine Gutschrift über den gutgeschriebenen Überpreis. Nach Kontrolle sendet uns die Siforco ein unterschriebenes Exemplar zurück. Die Gutschriften werden aus buchhalterischen Gründen tagesfertig gebucht, sind aber erst nach Unterzeichnung durch die Siforco rechtsgültig.

Ort: Datum:	Ort: Datum:
INTERHOLCO AG	**SIFORCO S.C.A.R.L.**
René Giger Ulrich Grauert	Dieter Haag

According to the proposed procedure, Interholco is then to pay that fixed price '*direct to Siforco and a so-called excess price to an account in Europe*'.[32] The account in question is an offshore bank account held in the name of Siforco, but directly managed by Interholco in Switzerland.[33] Another document dated November 2002 indicates that this account is held with French bank Credit Lyonnais, the same bank with which other African subsidiaries of the Danzer Group (including IFO and SIFCI (Côte d'Ivoire) and Cotraco (DRC)) have offshore accounts.[34]

The element of the overall timber price that Interholco pays to the African subsidiaries' offshore accounts and which is not declared in the country from which the timber originates is generally referred to as the '*Filialbuchhaltung*' (FBH) or '*branch accounting*' element.[35]

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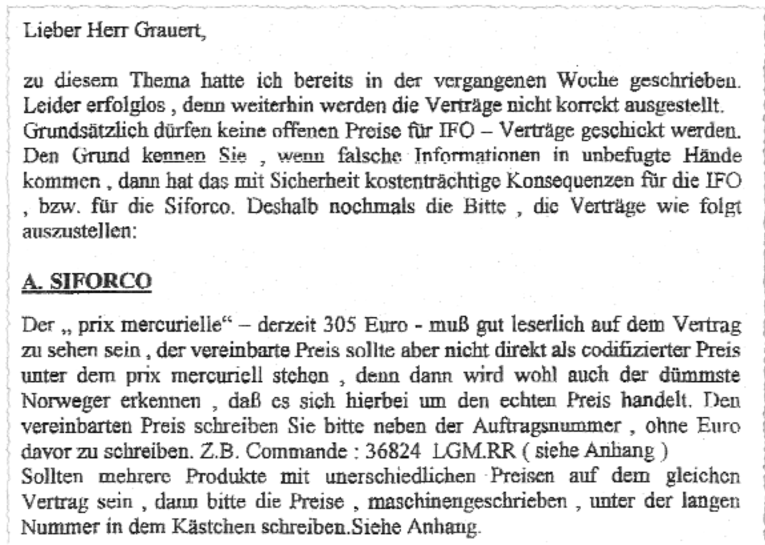
In a letter dating from 2002,[36] Mr Schmidt of IFO complains to Ulrich Grauert of Interholco that '*contracts are still being issued incorrectly. Basically, no overt prices must be sent for IFO contracts. You know the reason: if false information gets into unauthorised hands this will certainly lead to costly consequences for IFO or for Siforco.*'[37]

Schmidt then explains how the '*codified* [sic]'[38] total price should not be listed directly below the local price, as otherwise '*even the stupidest Norwegian will see, no doubt, that this is the real price.*'[39] The coded pricing method is described in examples attached to the letter.[40]

Schmidt finally instructs Grauert that '[t]*he word "prix" should vanish altogether from the order sheet. Since all prices are in Euros, only coded prices should be there, without the Euro prefix. The less indication of price there is, the better.*'[41] The coded pricing method has been found in use on orders placed with Siforco by Interholco in 2003.[42]



Lieber Herr Grauert,

zu diesem Thema hatte ich bereits in der vergangenen Woche geschrieben. Leider erfolglos , denn weiterhin werden die Verträge nicht korrekt ausgestellt. Grundsätzlich dürfen keine offenen Preise für IFO – Verträge geschickt werden. Den Grund kennen Sie , wenn falsche Informationen in unbefugte Hände kommen , dann hat das mit Sicherheit kostenträchtige Konsequenzen für die IFO , bzw. für die Siforco. Deshalb nochmals die Bitte , die Verträge wie folgt auszustellen:

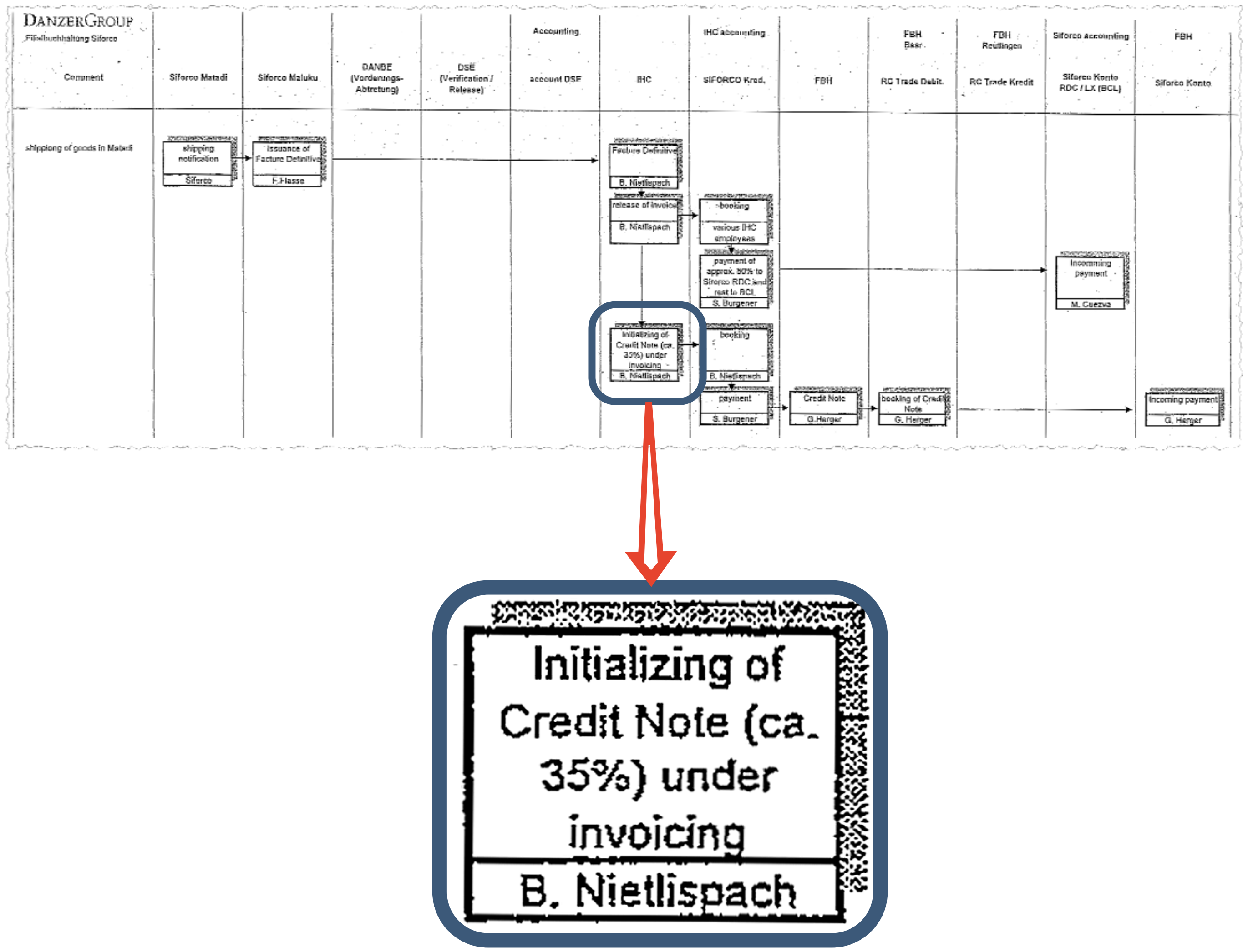
A. SIFORCO

Der „ prix mercurielle" – derzeit 305 Euro - muß gut leserlich auf dem Vertrag zu sehen sein , der vereinbarte Preis sollte aber nicht direkt als codifizierter Preis unter dem prix mercuriell stehen , denn dann wird wohl auch der dümmste Norweger erkennen , daß es sich hierbei um den echten Preis handelt. Den vereinbarten Preis schreiben Sie bitte neben der Auftragsnummer , ohne Euro davor zu schreiben. Z.B. Commande : 36824 LGM.RR (siehe Anhang)
Sollten mehrere Produkte mit unterschiedlichen Preisen auf dem gleichen Vertrag sein , dann bitte die Preise , maschinengeschrieben , unter der langen Nummer in dem Kästchen schreiben.Siehe Anhang.

A diagram attached to an email dated November 2002 explains in detail the new under-invoicing procedure for the Danzer Group subsidiaries Siforco, IFO, SIFCI and Cotraco,[43] covering both timber exports and services. The comprehensive diagram shows how the Danzer Group finance staff issue invoices and payments to various accounts, including the FBH account. For example, the diagram shows that, Siforco and IFO intended to under-invoice Interholco in recent years by an average of 35% and 13% respectively.

Interholco and its African counterparts Siforco and IFO regularly agree internal price lists used to determine the amounts to appear on official and unofficial invoices to Interholco. The lists cover prices by species and by product (ie logs, sawn timber and veneers), with each one having its own distinct rate of under-invoicing. Some products are under-invoiced as much as 85%, whilst others are under-invoiced at around 3%.

The most recent price list held by Greenpeace International is a Siforco list for 2007, which (although the coded pricing method is no longer used) still maintains the split between the fixed local price and the additional offshore price.[44] 2007 invoices from Siforco to Interholco show the local price but not the total price:[45] the difference between the invoiced local price and the total price is invoiced internally via a credit note and transferred into the offshore account.[46]



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The Siforco internal price lists specify three different prices for each timber species and product type (eg logs, sawn timber or veneer), their relative proportions varying according to the species concerned:

1. Siforco invoice – the fixed local price for Siforco's official invoices to Interholco
2. Siforco FBH – the additional price to be paid to the offshore account
3. Total price – the sum of the fixed local price and the additional offshore price.

Using the 2007 price list we can calculate just how much money is sent to the offshore account in a typical timber transaction between Siforco and Interholco. Figure 1 shows the sale value of a shipment of 100 cubic metres of sawn first- and second-grade kiln-dried wenge timber.[47]

FIGURE 1: Siforco's local vs offshore payments for a shipment of wenge
Fixed price in the DRC = €47,854
Offshore FBH account payment = €112,146
Total price (Switzerland) = €160,000

In this case, 70% of the sale value bypasses the DRC's customs and tax authorities. Admittedly, wenge is one of the high-value species for which the 2007 price list indicates that a higher proportion of the total value should be channelled into the offshore account.

Nevertheless, even averaged across all species, as Table 1 shows, each year Siforco fails to declare 20% to 40% of its true gross sales values (ie including both domestic and export sales), while IFO fails to declare between 15% and 20%. Gross sales figures given in Siforco's and IFO's 2004–06 business plans, drawn up by the Danzer Group, indicate what proportion of sales was invoiced or projected to be invoiced unofficially (offshore). Of course, since the gross sales figures include domestic sales that would not have been subject to transfer mispricing, the actual percentages by which each year's total export sales were under-invoiced would have been somewhat higher than shown.[48]

Table 1: Estimated under-invoicing by Siforco and IFO as a percentage of their gross sales[49]

Gross sales (€'000)	Consolidated 2002	Forecast 2003	Budget 2004	Budget 2005	Budget 2006
Siforco					
Local account (export and domestic sales) †	2,077	3,209	8,467	17,964	22,996
Offshore account (export sales) †	657	2,185	3,701	4,847	5,788
Integrated (local plus offshore) †	2,734	5,394	12,168	22,811	28,785
offshore as % of integrated ‡	**24%**	**41%**	**30%**	**21%**	**20%**
IFO					
Local account (export and domestic sales) †	12,349	9,536	15,148	22,144	23,394
Offshore account (export sales) †	2,973	1,775	3,742	5,194	5,680
Integrated (local plus offshore) †	15,322	11,311	18,889	27,338	29,074
offshore as % of integrated ‡	**19%**	**16%**	**20%**	**19%**	**20%**

† original data from the Danzer Group; ‡ calculated by Greenpeace International (figures are rounded)

THE EVIDENCE – UNDER-INVOICING FOR SERVICES

In addition to the under-invoicing of its own exports, Siforco appears to under-invoice for services provided to other Danzer Group companies, such as the milling or transporting of logs.

Timber processing services supplied by Siforco to IFO are referred to in an email dated February 2002[50] from Martin Cuezva (responsible for the FBH at Danzer Services Europe (DSE)[51]) to Georg Herger (then the Company Secretary (*Prokurist*) of Interholco).

Cuezva states: '*I already mentioned to you that, in order to avoid tax deduction at source* [ie the payment of a withholding tax[52]], *we only record in the official accounts a small proportion of Siforco payment claims for services liable to source tax deduction. (Arthur knows about this.)*'[53] Arthur Burgener was one of four CEOs of Interholco at least until 2000. By 2007 he had become the Company Secretary (*Prokurist*) of Interholco and Danzer AG, the Danzer Group's holding company.[54]

Cuezva goes on: '*For this purpose the official debit notes for Siforco are divided into two debit notes. One sum is officially recorded in the IFO accounts, and the remainder of the Siforco payment claim is kept in a second set of records only included in the branch* [ie FBH] *accounts*'. [55]

THE EVIDENCE – OTHER POSSIBLE MANIPULATED TRANSACTIONS FOR SERVICES

Other inter-group services liable to tax deduction at source are referred to in a detailed memorandum by Samuel Zürcher (a Danzer Group manager) about a visit to IFO which he undertook at the end of 2001.[56] One section deals with the need for Martin Cuezva to reconcile specific inter-group bookkeeping '*issues not possible for "outsiders"*'.

Zürcher lists the inter-group bookkeeping relations between IFO and the other Danzer Group companies Siforco, Cotraco, Danzer Furnierwerke, Jura Placage SAS and Danzer Anlagen und Beteiligungs GmbH (DANBE).[57]

He then explains how loans provided by DANBE to the Danzer Group companies (eg Siforco and IFO) are '*considered under A/P* [accounts payable] *affiliates in order to avoid tax at source*'.[58]

He also explains how IFO avoided paying tax at source on the purchase of an aircraft: '*IFO's aircraft was purchased by Siforco. The debt was "sold" to Jura Placage SAS* [a Danzer Group company in France], *which is receiving the repayments directly from IFO (the reason being that the* [Republic of the] *Congo and France have a tax treaty, so no tax at source).*'[59]

2.13.4 Intergroup Reconciliation

Intergroup relations consists with SIFORCO, COTRACO, Danzer Furnierwerke, DANBE and Jura Placage SAS.

As per Mr. M. Cuezva, the reconciliation is due to the following issues not possible for 'outsiders':

- Debit notes to affiliates partially with wrong amounts (100% of price charged, separation IFO Filialbuchhaltungen not made – 80%/20%)
- As per payment conditions, IFO invoices are paid 80% on placing the order and 20% on delivery. Payments on the other side consists of 20%, 80%, 100% plus sometimes amount to be paid into Filialbuchhaltungen
- A part of the debits have been passed to DANBE
- Lending's from DANBE are considered under A/P affiliates in order to avoid 'Quellensteuer'
- IFO Airplane was purchased by SIFORCO. The debt was 'sold' to Jura Placage SAS, which is getting the repayments directly from IFO (reason for: Congo and France have tax treaty, no Quellensteuer)

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THE EVIDENCE – AVOIDING OR EVADING TAXES ON EXPATRIATE SALARIES?

The DRC government introduced a tax in 1969 (updated in 2002)[60] to encourage companies to support locally sourced labour rather than recruiting expatriate personnel from outside the Congo region. The Exceptional Tax on Expatriate Remuneration (*Impôt Exceptionnel sur les Rémunérations des Expatriés – IERE*) is levied on employers at a rate of 25% of the salaries of expatriates who are paid in local currency.[61] The IERE tax is not deductible from the employer's taxable profits.[62]

The draft contract between Interholco and Siforco already mentioned[63] explicitly states:

> '*Siforco-related expenses which Siforco cannot pay officially (European insurance,* **expatriate salaries**, *machine replacement parts, repatriation of unregistered loans etc) are settled via this* [offshore] *account*' [emphasis added].[64]

Furthermore, the diagram in the November 2002 document mentioned above[65] shows that not only Siforco expatriates, but also expatriates working for IFO, are being paid out of the offshore banks accounts.

In the case of Siforco, the Danzer Group is at the very least escaping taxes on expatriate salaries by paying them offshore (ie so-called aggressive tax avoidance[66]).

WHAT PRICEWATERHOUSECOOPERS TOLD THE DANZER GROUP'S BOARD OF DIRECTORS

In May 2003, PricewaterhouseCoopers presented a draft report for final approval to the Danzer Group's Board of Directors documenting the principal findings from an audit of the consolidated accounts of ANBE AG – the Group's holding company – for the year ending 2002.[67] (In July 2005, ANBE AG changed its name to Danzer AG).[68]

The report discloses that financial statements for Siforco and Cotraco[69] were not included in the accounts for Danzer Anlagen and Beteiligungen GmbH (intermediate holding company for Siforco and Cotraco),[70] although this was required in order to '*comply with local business law*' within Germany.[71] As a result of this omission, it is doubtful whether either company's offshore profits were included in any consolidated account within the Danzer Group.

The PricewaterhouseCoopers report devotes a section to the Group's grounds for setting up and using '*branch accounts*' (ie offshore accounts) for its African subsidiaries Cotraco, SIFCI, Siforco and IFO. In the case of Siforco and IFO, the auditors were unable to reconcile '*all the intercompany balances*'.

PricewaterhouseCoopers states candidly that some of the Siforco's costs are paid outside the country of production and outside the subsidiaries' own local accounts. In particular, the PricewaterhouseCoopers auditors questioned the use of offshore accounts as a source of '*additional income in Switzerland*' to pay for '*foreign originating costs*' such as the salaries of expatriates, spare parts and foreign exchange. The following conclusion is repeated for each of the African subsidiaries:

'*These transactions might not fully comply with local law. Due to the fact that the existence and the transactions of* [Cotraco, SIFCI,[72] Siforco and IFO] *Branch accounts are not fully known locally (Africa), we are not in a position to finally assess a possible risk of Danzer Group*.'

Danzer Group

Report to the Board of Directors
Year ended December 31, 2002

These transactions might not fully comply with local law. Due to the fact that the existence and the transactions of SIFORCO Branch accounts possibly are not fully known locally (Africa), we are not in a position to finally assess a possible risk for Danzer Group.

These transactions might not fully comply with local law. Due to the fact that the existence and the transactions of IFO Branch accounts possibly are not fully known locally (Africa), we are not in a position to finally assess a possible risk for Danzer Group.

'Donors in general and international development finance institutions in particular should not only verbally, but also practically recognise and reward the developmental potential of our industry.'
Olof von Gagern, Danzer Group 2006[73]

THE DANZER GROUP'S PRACTICES – CLEAN-UP OR COVER-UP?

Previous Greenpeace International reports on the Danzer Group have exposed the company's involvement in forest crimes, including trading in illegal timber, bribery, suspected forgery of documents, and dealing with a timber trader blacklisted by the United Nations Security Council for involvement in illicit arms trafficking activities in Liberia.[74]

Since the publication of these reports, the Danzer Group has undertaken a public relations offensive in an attempt to clean up its tainted image, publishing new African timber buying policies[75] while continuing to deny its past activities.[76] It has also been trying to win back valuable lost business with companies such as the Swedish furniture retailer IKEA, whose orders were worth around €5 million to the Danzer Group in 2002.[77]

In late 2006 the Danzer Group's Senior Vice President for sales, wrote a circular letter to customers stating:

'We are pleased to inform you that discussions with representatives of IKEA and Danzer Group arrived at the conclusions that IKEA will again accept all companies from Danzer Group as their veneer contractor immediately effective … As you might know, this longtime relationship was discontinued because of aggressions in the range of environment protection against the Danzer Group.'[78]

Other corporate groups that have large contracts with the Danzer Group include the Saint-Gobain Group,[79] a major supplier to the construction industry with operations in 57 countries.[80] In 2006 Interholco signed an agreement with the Group to develop '*commercial relationships*' with two of its timber trading subsidiaries, Point P (France) and International Timber (UK).[81]

In its recent public relations material the Danzer Group tries to portray itself as one of the more progressive logging companies in the Congo region. For instance, Group CEO Hans-Joachim Danzer proclaimed in a joint press release with WWF:

'Illegal logging is a threat to serious producer companies and fair competition on world markets, and must be stopped.'[82] The Group's website claims its own values now include making '*every effort to help underdeveloped regions … find sensible paths to the future*'.[83]

In September 2006, the Danzer Group joined forces with WWF to '*jointly undertake long-term efforts to effectively promote prudent and responsible forestry in the Central African forests*', through WWF's Global Forest and Trade Network (GFTN).[84] In 2007, IFO was accepted as a member of GFTN, while Siforco's membership application is subject to the outcome of the legal review process in the DRC.[85] (It is worth noting that for the purposes of GFTN membership, WWF defines the terms 'illegal logging' and 'forest crime' as including transfer pricing abuses.)[86]

The Danzer Group has also been asking the German development bank KfW[87] and the French development corporation Agence Française de Développement (AFD)[88] to provide low interest loans to Siforco to help meet the cost of expanding the company's logging operations in the DRC – in effect, a public subsidy. These loans would be used by the Danzer Group to help it meet its existing legal obligation to develop management plans for its forest holdings in the DRC,[89] as well as assisting with the cost of forest certification for some of its operations.[90] Expenditure on assisting an already profitable company to fulfil its statutory requirements, or to meet criteria for a certification which will further increase its potential profitability, represents a questionable use of international development funding.

Dear Customer,

we are pleased to inform you that discussions with representatives of IKEA and Danzer Group arrived at the conclusion that IKEA will again accept all companies from Danzer Group as their veneer contractor immediately effective.

As you might know this longtime relationship was discontinued because of aggressions in the range of environment protection against the Danzer Group.

For further information about this topic, please follow the below mentioned link to Danzer Group internet page

http://www.danzergroup.com/FAQ.44.0.html.

It is in anybodies interest that we resume and intensify the business relationship we built up for many years.

Detailed information will be given by the local IKEA purchase office.

Best regards,

[redacted]
Senior Vice President
Sales

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5 TAX IMPLICATIONS – SIPHONING OFF THE WEALTH

INTERHOLCO TRADE WITH SIFORCO – EXPORT TAXES EVADED

Potential total 2002–04: approx €278,000
Potential total 2006: approx €352,000

The practices described above strongly suggest that Siforco and IFO do not declare their full turnover and profit to the relevant tax authorities in the DRC and the Republic of the Congo. Instead they appear to declare only their 'official' invoices based on the lower fixed price, thus saving on various forms of tax payable within their respective countries of operation.

ESCAPING TAXES ON TIMBER EXPORTS

Setting an artificially low transfer price – as with Siforco's and IFO's systematic under-invoicing of the export value of timber they sell to Interholco – helps an exporting company to reduce the level of export-related taxes it pays.

Export taxes are levied on the declared export values of the timber and timber products exported: in most exporting countries these are reported as free-on-board (FOB), which includes the transaction value of the goods and the value of services performed to deliver goods to the border of the exporting country.[91]

A Danzer Group document dated February 2003 forecasts export-related taxes for Siforco in that year on the basis on the following rates: [92]

Ministry of the Environment[93]

- An export tax which goes towards the *Fonds de Reconstitution du Capital Forestier*, levied at:
  - 4% of FOB value on logs
  - 1.5% of FOB value on sawn timber and veneer

Ministry of Commerce

- An export inspection fee, the *Frais de Contrôle à l'Exportation*, levied by the Office Congolais de Contrôle[94] at:
  - 1.2% of FOB value on logs
  - 0.6% of FOB value on sawn timber and veneer

Ministry of Finance

- A turnover tax, the *Contribution sur le Chiffre d'Affaires* (CCA), levied by the Office des Douanes et Accises (OFIDA)[95] at:
  - 3% of FOB value on logs only

Maritime Freight Management Office[96]

- A freight handling tax, levied at:
  - 0.24% of FOB value on logs, sawn timber and veneer

An unpublished 2006 report on Siforco gives the company's own locally declared export figures for logs, sawn timber and veneer for the three-year period 2002–04.[97] On the basis of these export values, and if Interholco achieved its target rate of under-invoicing of 35% (the figure shown in the November 2002 diagram already referred to[98]) and the same rate of taxes mentioned above, it is possible to estimate that the Danzer Group would have evaded almost €278,000 of export-related tax revenue in 2002–04 (see Table 2).

Table 2: Interholco trade with Siforco – export taxes presumed evaded in 2002–04

(€)	Logs	Sawn timber	Veneer	Totals
Export value: local account *	3,851,000	7,186,000	956,000	11,993,000
Presumed % under-invoicing †	35%	35%	35%	35%
Presumed export value: integrated (local plus offshore) ‡	5,924,615	11,055,385	1,470,769	18,450,769
Presumed export value: offshore account ‡	2,073,615	3,869,385	514,769	6,457,769
Overall tax rates †	8.44%	2.34%	2.34%	4.3%
Total taxes presumed evaded (ie on offshore export value) ‡	**175,013**	**90,544**	**12,046**	**277,603**

* Siforco 2006 report; † original data from the Danzer Group; ‡ calculated by Greenpeace International

Siforco's 2006 total timber export value is provided by the DRC Direction de la Gestion Forestière in a 2007 FAO report.[99] On the basis of this, it is possible to estimate that the Danzer Group would have evaded almost €352,000 of export-related tax revenue in 2006 (see Table 3). As before, this assumes that Interholco achieved its intended rate of under-invoicing of 35% (the figure shown in the November 2002 diagram already referred to[100]) and the same average total rate of taxes given in Table 2.

Table 3: Interholco trade with Siforco – export taxes presumed evaded in 2006

(€)	Logs, sawn timber and veneer
Export value: local account *	15,200,421
Presumed % under-invoicing †	35%
Presumed export value: integrated (local plus offshore) ‡	23,385,263
Presumed export value: offshore account ‡	8,184,842
Overall tax rates †	4.30%
Total taxes presumed evaded (ie on offshore export value) ‡	**351,948**

* FAO (2007); † original data from the Danzer Group; ‡ calculated by Greenpeace International

INTERHOLCO TRADE WITH SIFORCO – OTHER EXPORT TAXES WAIVED OR FURTHER TAX EVASION?

Potential total 2000–02: €472,000
Potential total 2003: €82,000

The DRC's Office des Douanes et Accises (OFIDA) would at that time have charged a duty of 6% on logs based on FOB values (*Droits de sortie à l'exportation)*.[101] This was in addition to the turnover tax (CCA) described above.

However, the Danzer Group did not budget for these taxes in its 2003 budget[102] because Siforco had been exempted from them as part of a June 2001 agreement with the Ministry of Finance (the government department that oversees the Office des Douanes et Accises) under the DRC Investment Code.

c) Tax issues

SIFORCO
SIFORCO has signed an agreement with the government on June 7, 2001 and accordingly has been exempted from certain taxes under Congolese Investment Law. The related tax incentives are subject to the company spending in capacity improvements or new capacity some EUR 28.8 Mio during 2000 – 2002. At December 31, 2002 the investments amounted only to some EUR 0.7 Mio. In the event the government requires full compliance with the terms of the agreement, the company may become liable for taxes it was previously exempted. The local auditor estimates this amount about KEUR 472.

According to the PricewaterhouseCoopers report mentioned above, this agreement was subject to Siforco investing some €28.8 million in capacity improvements or new capacity during the three-year period 2000–02.[103] Under the Investment Code, a company receives exemption from export-related taxes for the investment period and a set period subsequent to it (ie goods resulting from the actual investment made are exempt from tax). So under the June 2001 agreement, the export taxes would probably have been exempted into 2003, as well as during 2000–02.

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For the period 2000–02, the PricewaterhouseCoopers report concluded:

> *'At December 31, 2002 the investments amounted only to some €0.7 Mio* [€700,000, or 2.4% of the promised investment]. *In the event the* [DRC] *government requires full compliance with the terms of the agreement, the company may become liable for taxes it was previously exempted. The local auditor estimates this amount about KEUR 472.* [€472,000].'

The €472,000 of taxes exempted for the period 2000–02 was entered into the accounts as a tax liability in the audit adjustments at the end of the report, showing how seriously the PricewaterhouseCoopers auditors viewed this breach of the 2001 tax exemption agreement ('*no compliance with tax agreement June 7, 2001*').

For 2003 it is possible to estimate – on the basis of the total local export value given in the unpublished 2006 report and the rate of under-invoicing – that Siforco's liability for the duty would have been around €82,000 (see Table 4).

Table 4: Siforco's estimated export duty liability in 2003, assuming non-compliance with 2001 tax exemption agreement

(€)	Logs only
Export value: local account *	888,000
Presumed % under-invoicing †	35%
Presumed export value: offshore account ‡	478,154
Presumed export value: integrated (local plus offshore) ‡	1,366,154
Office of Customs and Excise export duty rate	6%
Presumed total export duty liability ‡	**81,969**

* Siforco 2006 report; † original data from the Danzer Group; ‡ calculated by Greenpeace International

INTERHOLCO TRADE WITH IFO – EXPORT TAXES EVADED?
Potential total 2005: approx €470,000

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In the Republic of the Congo, certain export taxes are calculated on FOB prices and hence can again fall victim to under-invoicing. In 2005, according to a report compiled by Ernst & Young for the Republic of the Congo's Ministry of Finance,[104] IFO paid a total of FCFA 2.1 billion (approximately €3.2 million[105]) in forestry-related taxes, of which FCFA 1.3 billion (approximately €1.98 million) was based on FOB values and hence vulnerable to under-invoicing (eg harvest/cutting and export taxes).

Given that in 2005 IFO appears to have been expecting to under-invoice by about 19% (see Table 1), its underpayment of FOB-related taxes may have amounted to FCFA 305 million (about €470,000).

PROFIT LAUNDERING – ESCAPING TAX ON CORPORATE INCOME

In addition to reducing the level of export-related taxes paid, setting an artificially low transfer price helps reduce, or even eliminate, the amount of tax paid on profits made in the country of origin of the timber. According to the World Bank, tax on corporate income in the DRC is currently levied at 40%[106] of gross profit and in the Republic of the Congo at 38%.[107]

The business plans already referred to show that between 2003 and 2006 neither Siforco nor IFO was projected to pay any local tax on profits, not only because of tax exemptions (discussed below) that covered the whole period (IFO) or the bulk of the period (Siforco), but also because, with the exception of a small proportion of Siforco's projected 2006 profit, any overall profit made by the companies was being transferred offshore via the under-invoicing practices described in Section 3.

The detailed plans show actual profit before and after tax for 2002, forecast profit before and after tax for 2003 and budgeted profit before and after tax for 2004–06.[108] They contain three sets of tables detailing incomes, expenses and profits for each part of the company's book-keeping system: one set for '*local*', one for '*offshore*' and one for '*integrated*', which as already explained combines the local and offshore categories. In all three financial accounts, for this whole period, the '*profit before tax*' is identical to the '*profit after tax*', while the line labelled '*tax*' always remains empty (see Tables 5 and 6). In other words, it is clear that Siforco and IFO did not expect to pay any taxes during the period 2002–06.

As can be seen from Table 5:

- Siforco's local account (DRC) shows a loss for 2002 and a predicted loss for the years 2003–05.
- Siforco's offshore account, into which Interholco pays the difference between the under-invoiced price on the official invoice and the true export price, shows a profit for all these years. Moreover, the predicted profits shown for the years 2003–05 exceed in each case the loss shown for the local account, resulting in an overall profit when the local and offshore accounts are integrated. Hence, in 2003–05, all potentially taxable profit, and in 2006 the majority of potentially taxable profit, made by Siforco in the DRC is proposed to be transferred to an offshore account managed by Interholco in Switzerland.
- Siforco's integrated accounting shows a projected overall potentially taxable profit for the five-year period 2002–06 amounting to €5.6 million.

Table 5: Siforco projected 'profit before and after tax', 2002–06[109]

€'000[110]	Local accounting (DRC)	Offshore accounting	Integrated accounting (local + offshore)
2002 (consolidated)	-1,006	444	-562
2003 (forecast)	-1,886	2,000	114
2004 (budget)	-2,187	2,318	131
2005 (budget)	-557	2,730	2,173
2006 (budget)	388	3,380	3,768
Cumulative profit/loss 2002–06	-5,248	10,872	5,624

INTERHOLCO TRADE WITH SIFORCO – CORPORATE TAXES WAIVED OR FURTHER TAX EVASION?
Potential total 2003–06: approx €2.2 million

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Whether Siforco fully realised, or indeed exceeded, its overall projected profit for the period 2003–06 remains unclear; however, an internal Danzer Group evaluation of the Group subsidiaries dated November 2006 proclaims that '*the company* [Siforco] *is making a profit.*'?[111] Another document dated February 2007 shows that for the calendar year 2006 the profit in the Siforco offshore account amounted to €2.85 million[112] – only a little less than the profit budgeted for in the 2004–06 Siforco business plan (ie €3.38 million).

As indicated in the previous section, Siforco has been the beneficiary of various tax exemptions by the DRC Ministry of Finance. As part of a new agreement reached with the investment authority, Agence Nationale pour la Promotion des Investissements (ANAPI), in November 2003, Siforco was exempted from corporate income tax for the three year period 2004–06 on any profits resulting directly from a proposed US$16.5 million investment.[113]

Whether Siforco made the entire investment in the timeframe proposed by the 2003 agreement (half in 2003 and half in 2004) is not fully known. However, the following observations can be made:

- The Siforco business plan for 2004–06,[114] also drawn up in 2003, did not foresee any such investments, either for 2003 or for any of the following years up to 2006.
- If indeed Siforco made no such investment, then the agreement would have been invalid and it would have been liable for corporate income tax on all its profits. However, by means of under-invoicing, local profit in the DRC was projected to be almost entirely eliminated for the years in question, as explained above and illustrated in Table 5.

Assuming that Siforco would be liable for corporate income tax – currently levied at 40% – on its projected profits for 2004–06, and that it had not transferred nearly all of its taxable profit offshore, it would have had to pay the DRC Ministry of Finance some €2.2 million. Thus it may be that Siforco's systematic under-invoicing over that period enabled the Danzer Group to evade €2.2 million of corporate income tax from which its exemption would otherwise have been doubtful.

IFO's situation is not dissimilar, with the company benefiting from an exemption on corporate income tax running from 1999 to 2007,[115] based on an investment period during the first two years of the agreement.[116] Whether IFO made the entire investment in the timeframe proposed by the agreement is not known. However, this seems unlikely given that at the time the IFO business plan was drafted (December 2003) the company was technically 'insolvent' and new investments were not being made. A memo to the Danzer Group management from René Giger of Interholco reporting a visit to IFO in April 2003 and copied to members of the Danzer family, reveals considerable anxiety on the subject: [117]

> '***Solvency Planning:*** *Because of the uncertain fiscal situation, planning is very difficult. However, it is clear that with today's FOB prices* ***IFO is only just keeping in the black but has not yet made any investments.*** *With the extra tax* [referring to an increase in the rate of export-related taxes in the Republic of Congo] *IFO will need approx. another EUR 2 million. We will have to check whether this can be offset by the subsidiary-BH* [ie the offshore account].' [emphasis added]

In its December 2003 business plan, IFO planned to continue transferring funds into its offshore account by means of its under-invoicing practices, maintaining the local account in a state of ongoing losses. By this means, the local account would be left with zero liability to taxes on profit.

The business plan does not show the carrying forward of any losses from previous years. However, in most tax systems around the world, including the Republic of the Congo,[118] such losses can be offset against future profits (ie tax only becomes due when a real profit is earned after the earlier losses have been taken into account).

INTERHOLCO TRADE WITH IFO – CORPORATE TAXES WAIVED OR TAX LIABILITY DEFERRED?

Potential total 2002–06: approx €4 million

As can be seen from Table 6:

- IFO's local account (Republic of the Congo) shows projected cumulative losses for the years 2002–06 amounting to €17.3 million.
- IFO's offshore account, into which Interholco pays the difference between the under-invoiced price on the official invoice and the true export price, shows projected cumulative profits for the years 2002–06 amounting to €10.6 million.
- IFO's integrated account thus shows projected cumulative losses for the years 2002–06 amounting to €6.7 million.

Table 6: IFO projected 'profit before and after tax', 2002–06[119]

€'000	Local accounting (Republic of the Congo)	Offshore accounting	Integrated accounting (local + offshore)
2002 (consolidated)	-1,591	325	-1,266
2003 (forecast)	-5,440	5	-5,435
2004 (budget)	-5,012	2,254	-2,758
2005 (budget)	-2,876	3,782	906
2006 (budget)	-2,385	4,268	1,883
Cumulative profit/loss 2002–06	-17,304	10,634	-6,670

Even if IFO had not transferred any profits to its offshore account, and could have carried forward the losses shown for its integrated account, it would still not have been liable to any tax on profits for the period shown. This would remain the case even if its exemption had lapsed as a result of failure to make the agreed investments, as discussed above. This is because losses brought forward would probably have cancelled any tax liabilities in 2005 and 2006.

However, by proposing to transfer €10.6 million to the offshore account over the period 2002–06, the company has effectively exaggerated the cumulative losses in the local account by an equivalent sum. If IFO were in future to offset its inflated losses against its profits, the Republic of the Congo would be deprived of an estimated €4 million of corporate income tax (currently levied at 38%).

The profit taxes calculated above for both Siforco and IFO may have been avoided under the terms of tax exemptions granted to the companies by the governments of the DRC and the Republic of the Congo. It remains very doubtful, however, particularly in the case of Siforco, whether the two companies did fully comply with the terms of their respective tax exemption agreements. If that was the case then the companies might have been liable to corporate income tax.tax liabilities might have fallen due.

Table 7 summarises our findings as to the revenue potentially lost to the governments of the DRC and the Republic of the Congo through the Danzer Group's projected tax evasion (through under-invoiced trade between Interholco and its subsidiaries Siforco and IFO) and possible non-compliance with tax exemption agreements.

COUNTING THE COST OF DANZER GROUP'S 'CON IN THE CONGO'

Potential total tax liability accrued 2000–06 **approx €7.8 million**

Table 7: Estimated tax liability accrued by the Danzer Group subsidiaries through projected tax evasion and assumed non-compliance with tax exemptions, based on data for 2000–06

The Danzer Group subsidiary	Tax	Tax status	Years	Projected revenue lost (€)
Interholco trade with Siforco	Ministry of Finance export taxes	assumed non-compliance with tax exemption agreement (2001)	2000–02	472,000
Interholco trade with Siforco	Ministry of Finance export taxes	assumed non-compliance with tax exemption agreement (2001)	2003	82,000
Interholco trade with Siforco	Various export taxes	projected tax evasion through under-invoicing	2002–04	278,000
Interholco trade with Siforco	Various export taxes	projected tax evasion through under-invoicing	2006	352,000
Interholco trade with Siforco	Corporate profit tax	assumed non-compliance with tax exemption agreement (2004–06) and under-invoicing (2003–06)	2003–06	2,200,000
Total Interholco trade with Siforco				**3,384,000**
Interholco trade with IFO	Various export taxes	projected tax evasion through under-invoicing	2005	470,000
Interholco trade with IFO	Corporate profit tax	taxes waived or tax liability deferred	2002–06	4,000,000
Total Interholco trade with IFO				**4,470,000**
Total Interholco trade with Siforco and IFO				**7,854,000**

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THE LOGGING MODEL OF DEVELOPMENT – BALANCING THE CONFLICT OF INTERESTS

Industrial logging is promoted as a model for development because of its notional contribution to government funds, notably for the provision of essential public services. It is also promoted more recently, included by the World Bank, as a means to mitigate climate change.[120]

Public health or private wealth?

The ongoing conflict in the DRC is considered the world's deadliest documented conflict since World War II: some 5.4 million people have lost their lives through war-related causes in the country since 1998.[121]

Although a formal peace accord was signed in December 2002, sporadic fighting has continued, and the International Rescue Committee estimates that a further 45,000 lives are still being lost every month, and that nearly half of those dying are children under five.[122] The vast majority die from non-violent causes such as malaria, diarrhoea, pneumonia and malnutrition – conditions that are easily preventable and treatable so long as people have access to basic healthcare and nutritious food.[123]

Against this background of extreme poverty, it is clear that the misappropriation of even relatively moderate sums, in corporate terms, will have severe implications for the state's potential to improve the welfare of its people.

On the basis of the estimated tax revenues lost through the Danzer Group's projected tax evasion and assumed non-compliance with tax exemption agreements, as shown in Table 7, the tax revenues suspected lost from Siforco and IFO (a minimum of €7.8 million) would be equivalent to any of the following, in 2000 prices:

- over 80% of the DRC Government's investment in public healthcare for the year 2000[124]
- the cost of vaccination for over 700,000 Congolese children under five years of age[125]
- 50 times the DRC Ministry of Environment's annual operating budget[126]

Climate protection or climate chaos?

There is a fundamental conflict between the industrial logging model of development and protection of forest areas for climate protection. Even so-called 'selective logging', as practiced in the DRC, causes considerable greenhouse gases (GHG) emissions through fragmentation and degradation of forest biomass. In the case of Siforco's operations in the DRC, the clearance for logging roads and infrastructure can cause 2.5 times more emissions than the selective logging itself.[127]

Table 8 shows that the projected carbon debt from Siforco's selective logging alone carries a potential financial liability (notional cost premium for carbon offset) 1.5 times greater than the total forestry and export-related taxes paid by the company in 2004. These figures do not include GHG emissions from logging roads and infrastructure, nor those associated with the timber removed from the forest.

If the carbon held in the timber extracted is included in the calculation,[128] a further €1 million of potential offsets costs would need to be added, making it nearly 2.5 times greaterthan the total forestry and export-related taxes paid by the company in 2004.

The conclusion one can draw is that the value of DRC's forests as a carbon store is potentially greater than the tax revenues generated from selective logging. International agreements to pay for protection of forest areas for climate protection, and national industry regulations and taxes, should reflect the true value of this resource.

Table 8: Siforco taxes paid vs potential offset costs of estimated direct carbon impact of selective logging, 2004

Volume of timber extracted (m^3) *	37,000
Carbon stored in vegetation damaged and left to decompose per m^3 of commercial timber extracted (tonnes C)†	0.46
Total carbon stored in vegetation damaged and left to decompose (tonnes C) ‡	17,020
Total emissions released from vegetation damaged (tonnes CO_2) ‡	62,361
Carbon offset prices predicted by Point Carbon under Phase II of the Kyoto Protocol, 2008–2012 (€ per tonne CO_2) †	30
TOTAL potential offset costs of direct carbon impact of timber extraction (€) ‡	1,870,838
TOTAL forestry and export-related taxes paid by Siforco (€) *	1,213,000

* Siforco 2006 report; † Brown et al 2005;
‡ calculated by Greenpeace International; ± Point Carbon;

6 DOES THE DANZER GROUP REPRESENT AN ISOLATED CASE, OR IS UNDER-INVOICING INDUSTRY-WIDE?

Here we give six separate comparisons that are a strong indication that the phenomenon of tax evasion through under-invoicing of the sales value of timber exported from the DRC and the Republic of the Congo is by no means restricted to the Danzer Group. If other timber exporters were declaring full FOB prices – reflecting the full market price in accordance with the arm's-length principle – the total value of exports would need to be much greater than appears to be the case.

Comparison 1: national average log export values versus Siforco's local prices

According to the PricewaterhouseCoopers report to the Danzer Group's Board of Directors discussed above, the DRC Government sets industry-wide minimum prices for the export of timber that *'are below production cost and also below market price.'*[129] These minimum prices are the so-called *'prix mercurials'*.[130]

If a large part of the timber sector in the DRC were exporting logs at below market prices – using the *prix mercurial* as a basis for setting their export values – then it should be expected that the overall average value per cubic metre of logs exported would reflect such a below-market price.

Using export data published by the DRC Ministry of Environment for logs of all species, Greenpeace International calculates an average FOB export value for logs ranging from €131/m^3 in 2002 to €153/m^3 in 2004 and 2005 (see Table 9).

Table 9: Average export values of DRC logs, 2002–05[131]

Year	Volume exported (m^3)	Value of exports (€ 000)	Calculated average FOB value – value divided by volume (€/m^3)
2002	27,720	3,632	131
2003	58,307	7,724	132
2004	94,390	14,626	153
2005	111,243	17,009	153

SIFORCO Branch Accounts
The Democrat Republic of Congo fixed minimum prices for the export of wood. SIFORCO complies with these prices and sells the wood to Interholco, Switzerland. The governmental minimum prices are below production cost and also below market price.

Assuming that the composition of the species exported by Siforco as logs in 2004 was roughly the same as that of the species exported overall (as both logs and sawn timber) by the company in 2003 (for which data is available in the form of an Interholco shipping list[132]), the average declared (under-invoiced) FOB export value of Siforco logs for 2004 can be estimated at around €151/m^3 (see Table 10). This figure is obviously very close to the 2004 national average FOB value of €153/m^3 given in Table 9. The average market FOB export value of Siforco logs for 2004 can be estimated at around €287/m^3.

The implication is therefore that national average FOB prices do indeed reflect widespread under-invoicing.

Table 10: Estimated average export value of Siforco timber, 2004

Species name	Proportions of Siforco exports (logs and sawn timber) 2003 †	Siforco local FOB value for logs (€/m^3), 2004 †	Proportions of exports x local FOB (€/m^3) ‡	Siforco integrated FOB value for logs (€/m^3), 2004 †	Proportions of exports x integrated FOB (€/m^3) ‡
Sapele	39%	146.42	57.1	220	85.8
Tola	9%	87.74	7.9	218	19.62
Sipo	16%	177	28.3	278	44.47
Iroko	14%	162.1	22.7	231	32.34
Tiama	3%	79.38	2.9	172	5.16
Bosse	1%	153.14	1.5	334	3.34
Wenge	14%	188.22	26.4	600	84
Aniegre	1%	90	0.9	548	5.47
Doussie	0.10%	296.98	0.3	260	0.26
Khaya	3%	106.81	3.2	220	6.6
Average price across all species (weighted by share of species)			151.2		287.08

† original data from the Danzer Group; ‡ calculated by Greenpeace International

Einkaufspreise Siforco ab 2004 — ab erster Siforco Rg 2004

SIFORCO (FOB MATADI)

	Ab Matadi		Mercurial par m³ SIFORCO - Rechnung EURO en m³	Preise pro m3 in Euro Int. Kto SIFORCO	Preise pro m3 in Euro Total Wareneinkauf SIFORCO
Grumes	Anigre	B	90.00	458.00	548.00
Grumes	Bosse	B	153.14	180.86	334.00
Grumes	Dibetou	B	94.00	78.00	172.00
Grumes	Sapelli	LM	162.89	57.11	220.00
Grumes	Sapelli	B	146.42	73.58	220.00
Grumes	Sipo	LM	196.66	81.34	278.00
Grumes	Sipo	B	177.00	101.00	278.00
Grumes	IROKO	LM	180.69	50.31	231.00
Grumes	IROKO	B	162.61	68.39	231.00
Grumes	KHAYA	B	106.81	113.19	220.00
Grumes	KOSIPO	B	86.95	59.05	146.00
Grumes	TIAMA	B	79.38	92.62	172.00
Grumes	DOUSSIE	B	296.98	-36.98	260.00
Grumes	TOLA	LM	97.49	120.51	218.00
Grumes	TOLA	B	87.74	130.26	218.00
Grumes	WENGE	B	188.22	411.78	600.00

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Comparison 2: ITTO published prices vs Siforco's integrated prices

Published industry-wide FOB export prices for the region are close to Siforco's true market (local plus offshore) FOB values shown in Table 10.

Log export prices for Francophone West African logs (B grade, FOB), as published by the intergovernmental International Tropical Timber Organisation (ITTO) in April 2004,[133] were as follows: sapele – €244/m³; sipo – €259/m³; iroko –€309/m³.

Comparison 3: ITTO published prices vs average export value of top traded DRC species

Using government export data available in 2006, Greenpeace International has calculated an average FOB export value for six of the most traded timber products (expressed as 'Round Wood Equivalents' (RWE)); see Table 11. Together these species accounted for over 90% of DRC's timber exports by value.[134]

Table 11 indicates that the average export values of sapele, sipo, iroko and tola are only slightly higher than Siforco's local FOB value for logs in both 2004 and 2007.[135] These smaller differences can be attributed to the fact that the average FOB values in Table 11 cover both logs and processed goods, while Table 10 covers logs only. In addition, processed goods are sold at higher prices also when the calculation is based on RWE figures. In relation to wenge, the greater price difference is probably due to most of the exports being higher-valued sawn timber than unprocessed logs.

Furthermore, published industry-wide FOB log export prices for the region indicates that the value of individual species exported (shown in Table 10) are below true market value. Log export prices for Francophone West African logs (B grade, FOB), as published by the ITTO in July 2006,[136] were as follows: sapele – €229/m³; sipo – €259/m³; iroko – €259/m³.

Table 11: Estimated average export value of top traded timber species (all products), 2006

Species	Volume (RWE) m³	Value (€000)	Proportions by value (%) ‡	Average value (€/m³) ‡
Sapele	52,376	8,420	23.82	**161**
Wenge	29,392	7,036	19.9	**239**
Sipo	28,886	5,522	15.62	**191**
Iroko	26,566	4,603	13.02	**173**
Tola	23,493	2,325	6.58	**99**
Afrormosia	18,344	4,217	11.93	**230**
Other species (of which comprise less than 3% of national exports by value)	35,356	3,232	9.14	
Total	**214,413**	**35,356**	**100**	**165**

* DGF (in Mbala 2007); † original data from the Danzer Group; ‡ calculated by Greenpeace International

Comparison 4: timber export values of the main foreign-owned logging groups

Table 12 shows total FOB export values across for all timber products (logs, sawn timber, veneer, etc) of the main foreign-owned logging groups exporting from the DRC in 2006, provided by the DRC Direction de la Gestion Forestière in a 2007 FAO report.[137] This shows that the average export values for the NST Group, Trans-M and Olam are actually lower than Siforco's average export values.

Furthermore, they are lower than the national average FOB prices (Table 9) and Siforco local FOB value for logs in 2004 (Table 10). This is despite that the figures in Table 12 include processed timber products, which should have a higher value than the FOB log prices. For example, Siforco's local FOB value (2004) for sapele logs was €146.42/ m³, while sapele sawn timber was €306 m³. Based on an average RWE conversion rate of 1.8 for Africa,[138] 1m³ of sawn timber would the equivalent value of 1.8 m³ of logs or €264 in RWE. Hence export values expressed as RWE, which include sawn timber and veneers, should increase the average €/m³ value of exports.

Table 12: Main foreign-owned logging groups exporting from the DRC, 2006

Group (subsidiaries)	Export volume (RWE) m³ *	Overall export value (€ 000) *	Overall export value (as % of national exports) *	Average export value (€/RWE m³) ‡
The Danzer Group (Siforco)	86,754	15,200	43	175
The NST Group (Sodefor, CFT, Forabola and Soforma)	54,728	7,143	20	130
Trans-M	26,252	3,472	10	132
OLAM	6,686	925	3	138
Other companies (below 2% of national exports)	39,993	8,616	24	215
Total exports	214,413	35,356	100	165

* FAO 2007 (includes all timber products – ie logs, lumber, veneer, etc); ‡ calculated by Greenpeace International

Comparison 5: Olam's export vs market values

In the case of Olam, the company's website discloses the true market value for logs sourced for the financial year ending 30 June 2007:[139]

'Olam sourced approximately 10,000 cubic meters of logs from DRC valued at about US$5 million. This represents about 3% (log equivalent) of the total estimated wood harvested in the country'.

The assumed average market value would be around €400/m³ (RWE), almost three times greater than the average export value in Table 12.

Comparison 6: ITTO published national export values for Republic of Congo

The ITTO Annual Review *'compiles the most up-to-date and reliable international statistics available on global production and trade of timber with an emphasis on the tropics.'*[140] The 2008 report provides the latest timber export figures provided by the Republic of the Congo Government. The DRC Government did not provide any figures.[141]

Log export figures for the Republic of the Congo (Table 13) indicate that the average national FOB values in 2004–06 were close to the national average FOB values in the DRC for 2004–05 (Table 8). They are also similar to the average declared (under-invoiced) FOB export value of Siforco logs for 2004 (Table 9).

Table 13: Average export values of Republic of the Congo logs, 2004–06 [142]

Year	Volume exported (m³)	Value of exports ($ 000)	Average FOB value – value divided by volume ($/m³)	Average FOB value (€/m³)
2004	844,000	166,932	198	158
2005	710,000	134,139	189	151
2006	633,000	129,899	205	164

* FAO 2007 (includes all timber products – ie logs, lumber, veneer, etc); ‡ calculated by Greenpeace International

7 CONCLUSION – INTERNATIONAL DONORS STAND BY WHILE THE CONGO'S WEALTH IS PLUNDERED IN THE NAME OF DEVELOPMENT

'The World Bank is not encouraging commercial logging in DRC. Our main advice to the DRC Government is NOT to expand industrial logging, and NOT to allocate any new concessions until satisfactory standards of governance and management are achieved in existing concessions and the country is able to enforce laws.'
World Bank website[143]

The Congo rainforests of Central Africa form the second largest rainforest block on Earth after Amazonia. They are of incalculable importance for the global climate and the planet's biodiversity, as well as to the forest-dwelling communities who depend on them for resources and livelihoods.

Fifty million hectares of rainforests in Central Africa are controlled by the logging sector, with the vast majority of this area being in the DRC and the Republic of the Congo.[144] As elsewhere, endemic corruption and an absence of government control[145] have attracted the most unscrupulous logging companies, providing a stimulus to further corruption.

In an environment of endemic corruption, logging companies inevitably operate beyond the rule of law. In the Congo Basin, the logging industry continues to feed the networks of corruption that are obstacles to genuine development. Through support for an extractive industry-based model of development, donor countries and agencies such as the World Bank are effectively undermining their own rhetoric on establishing good governance and alleviating poverty.

Within the DRC logging sector there are international companies from all over the world, including France, Belgium, Germany, Italy, Portugal, Switzerland, the USA, Lebanon and Singapore/India. The activities of these companies have been documented in the Greenpeace International report *Carving up the Congo*.[146]

In a context of corruption and weak governance in the DRC, the World Bank and its donors have so far failed in its stated objectives of controlling the expansion of industrial logging and improving governance of the sector. In fact, some international donors are contemplating providing financial incentives to the sector to help implement their expansion plans.

The central plank of the World Bank strategy is the ongoing legal review process – initiated as long ago as 2005 – that aims to cancel logging titles issued since the May 2002 moratorium prohibiting the awarding of new titles and the extension and renewal of old ones, as well as those issued prior to that date that are found to be non-compliant with the terms of the original contract. One criterion of contract compliance is whether the logging company has paid its forest area tax.[147]

However, the legal review does not concern itself with the other economically important taxes to which the industry is liable, and so does not tackle the issue of the evasion of these taxes by the logging groups concerned. As documented in this report, logging companies can evade paying tax by under-declaring the true market price of the timber they export and/or their full turnover and profit.

While the World Bank and its donors continue to pour billions of taxpayers' dollars into the DRC in the name of '*working for a world free of poverty*',[148] international players in the logging industry, such as the Danzer Group, are laundering untaxed profits to offshore bank accounts.

If left unchecked, this unscrupulous behaviour will continue to make a mockery of the international donor community's poverty reduction efforts. It poses a major challenge to the World Bank's aim of tackling corruption within the logging sector and '*slow*[ing] … *the expansion of logging*'.[149] In effect, in being allowed to get away with evading tax, logging companies are being given a financial incentive to continue expanding their operations into some of the world's last intact rainforests.

8 ACTION – TIME TO CRACK DOWN ON CORRUPTION AND STOP THE PLUNDER

'Donors cannot go to their parliaments, to their taxpayers, and say that we want to support nations with millions of dollars in aid when these very nations are losing, through poor forest management and governance, billions.'
Odin Knudsen, Senior Advisor, Sustainable Development, World Bank[150]

International donors, including the World Bank and the IMF, which have the power and resources to lead change in the DRC and the Republic of the Congo, must not permit these countries to repeat the dismal history of other Central African states, where reliance on the short-term economics of extractive export industries has only exacerbated political corruption and poverty.

Indeed, it is time the donor community realised that the industrial logging model of development does not work in a context of existing poor governance and does not generate the desired long-term economic, social and environmental benefits. Good governance principles must ensure that the money delivers long-term economic, social and environmental benefits and that these aims are not undermined by international companies flouting the rule of law.

WHAT DO THE DRC GOVERNMENT AND THE WORLD BANK NEED TO DO?

The DRC Government and the World Bank must prevent further expansion of industrial logging until comprehensive social and environmental land use planning has been conducted and basic governance and anti-corruption measures have been established. To this end they must:

- maintain and enforce the May 2002 moratorium on the awarding of new logging titles and the extension and renewal of old ones
- halt the expansion of existing or planned logging operations and infrastructure into intact forest landscapes and other key identified conservation areas
- cancel all illegally awarded and non-compliant titles, including those in breach of the moratorium or the DRC's Forestry Code
- impose punitive measures against companies and individuals who undermine the rule of law in the DRC, including by abuse of the transfer pricing process

WHAT DO INTERNATIONAL DONOR GOVERNMENTS NEED TO DO?

International donor governments must prevent further fraudulent expatriation of wealth and profits from the DRC and the Republic of the Congo by companies engaged in tax evasion, capital flight and aggressive tax avoidance. To this end they must:

- demand that the International Accounting Standards Board (IASB)[151] establish a requirement for all multinational companies to report their trading activities on a country-by-country basis within their consolidated accounts. This approach would identify a group's internal and external income and costs in each country where it operates, hence minimising the risk of transfer pricing abuse occurring. Such a requirement on the part of the IASB would have the status of international law, and would thus not require local legislative consent[152]

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ACRONYMS

AFD – Agence Française de Développement

ANAPI – Agence Nationale pour la Promotion des Investissements

CCA – Contribution sur le Chiffre d'Affaires

DRC – Democratic Republic of the Congo

DGF – Directeur de la Gestion Forestière

FBH – Filialbuchhaltung (branch accounting)

FOB – Free on Board

FCFA – Franc de la Communauté Financière d'Afrique

GFTN – Global Forest and Trade Network

IASB – International Accounting Standards Board

IERE – Impôt Exceptionnel sur les Rémunérations des Expatriés *(*Exceptional Tax on Expatriate Remuneration)

IFO – Industrie Forestière d'Ouesso

IMF – International Monetary Fund

ITTO – International Tropical Timber Organisation

KfW – Kreditanstalt für Wiederaufbau

OECD – Organisation for Economic Co-operation and Development

OFIDA – Office des Douanes et Accises

RWE – Round Wood Equivalents. A measure of the volume of logs (roundwood) used in the manufacture of wood-based products (including sawn timber, plywood, veneer, etc).

SIFORCO – Société Industrielle et Forestière du Congo

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2 Greenpeace International (2007)

3 Schwidrowski and Thomas (2005): p8

4 Danzer Group (2007a)

5 Dun & Bradstreet (2006)

6 Chanrai Group (2007)

7 eg Greenpeace International (2007)

8 FAO (2007): p45

9 Baker (2007)

10 Neighbour (2002)

11 Economist (2000)

12 eg Murphy et al (2007)

13 Baker (2006)

14 Mispricing and abusive transfer pricing represents between $500 and $750 per annum. $600 represents the mean average. Source: Baker (2005): Table 4.4, p172

15 eg www.economist.com/research/Economics/alphabetic.cfm?letter=T

16 eg Tax Justice Network (2005)

17 Murphy et al (2007)

18 OECD (2001)

19 OECD (2005)

20 Tax Justice Network (2005): eg p67

21 Tax Justice Network (2005): eg p25,58

22 eg Tax Justice Network (2005): eg p67

23 Tax Justice Network (2005): eg p67

24 Murphy et al (2007)

25 Murphy et al (2007)

26 Danzer Group (2007b)

27 Internal memo to Ulrich Grauert on the potential purchase of concessions in the DRC, 13 July 1998

28 German original: 'Es geht nun darum, dass der Geldwert der Ware, welche aus der R.D. Congo exportiert warden, nicht ins Land hineinfliesst, sondem auf ein Sperrkonto in Europa überwiesen wird und mit diesem Geld z.B. nötige Maschinen zum Strassenbau, Verkehrsbusse, etc. gekauft warden.'

29 By 2002 the current under-invoicing system was in place

30 Draft contract (unsigned) between Siforco and Interholco detailing trade relationship between the two companies. Copy held by Greenpeace International

31 German original: 'welche aus geschäftlichen Gründen zu tief angesetzt ist.'

32 German original: 'direkt an die Siforco und einen sogenannten Überpreis auf ein Konto in Europa.'

33 Draft contract (unsigned) between Siforco and Interholco detailing trade relationship between the two companies. Copy held by Greenpeace International

34 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

35 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

36 Letter from Schmidt (IFO) to Grauert (IHC) on the practice of using sales prices on contracts (January 2002). Copy held by Greenpeace International.

37 German original: '... denn weiterhin werden die Verträge nicht korrekt ausgestellt. Grundsätzlich dürfen keine offenen Preise für IFO – Verträge geschickt werden. Den Grund kenne Sie, wenn falsche Informationen in unbefugte Händer kommen, dann hat das mit Sicherheit kostenträchtige Konsequenzen für die IFO, bzw. für die Siforco.'

38 German original: 'codifizierter.'

39 German original: '... denn dann wird wohl auch der dümmste Norweger erkennen, daß es sich hierbei um den echten Preis handelt.'

40 Examples of coded prices used on invoices (attachment to the 2002 letter from Schmidt (IFO) to Grauert (IHC)). Copy held by Greenpeace International

41 German original: 'Das Wort "Prix" sollte aus dem Auftragsblatt komplett verschwinden. Da alle Preise in Euro sind, sollten nur jeweils verschlüsselte Preis[sic] stehen, ohne Euro davor zu schreiben. Je weniger auf einen Preis hindeutet, um so besser.'

42 Order – 'Commande' – from Interholco to Siforco and IFO, where coded pricing method is used, as explained in 2002 letter from Schmidt (IFO). Copy held by Greenpeace International

43 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

44 Internal price list for the trade of timber products between Siforco and Interholco (2007). Copy held by Greenpeace International

45 Interholco invoice ("commande") to Siforco, charging the local, fixed price, March 2007

46 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

47 Internal price list for the trade of timber products between Siforco and Interholco (2007). Copy held by Greenpeace International

48 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for Siforco in 2003. Copy held by Greenpeace International

Business plan for the years 2004 to 2006 drawn up by the Danzer Group for IFO in 2003. Copy held by Greenpeace International

49 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for Siforco in 2003. Copy held by Greenpeace International

Business plan for the years 2004 to 2006 drawn up by the Danzer Group for IFO in 2003. Copy held by Greenpeace International

50 E-mail from Cuezva (DSE) to Herger (IHC) on the reconciliation between the African Danzer subsidiaries (2002). Copy held by Greenpeace International

51 A Danzer Group company based in Reutlingen, Germany. Owned fully by Danzer Anlagen und Beteiligungen GmbH. Provides administrative services to the group. Source: Creditreform company profile 2004

52 According to PricewaterhouseCoopers (2007), withholding tax in the DRC relates to the repatriation of profits including tax on investment income, interest paid on loans and dividends to shareholders

53 German original: 'Ich habe Dir gegenüber bereits erwähnt, daß wir um Quellensteuer zu vermeiden, die Forderungen der SIFORCO aus quellensteuerpflichtigen Service-Leistungen nur zum kleinen Teil in der offiziellen Buchhaltung verbucht haben (Arthur ist hierrüber informiert).'

54 Handelsregisteramt des Kantons Zug (Switzerland), 31 August 2007

55 German original: 'Dazu wurden die offiziellen Debit-Noten der Siforco in zwei Debit-Noten aufgeteilt. Ein Betrag wird offiziell in der Buchhaltung der IFO erfaßt, die Differenz zur Forderung der SIFORCO in einem zweiten Beleg, der nur in der Filialbuchhaltung erfaßt wird.'

56 Samuel Zurcher, Memorandum the Management of the ANBE AG, 4 January 2002, untitled. This memorandum summarizes the results of a visit by Zurcher to IFO in the Republic of Congo, 23 pages

57 Samuel Zurcher, Memorandum the Management of the ANBE AG, 4 January 2002, untitled. This memorandum summarises the results of a visit by Zurcher to IFO in the Republic of Congo, 23 pages

58 Samuel Zurcher, Memorandum the Management of the ANBE AG, 4 January 2002, untitled. This memorandum summarises the results of a visit by Zurcher to IFO in the Republic of Congo, 23 pages

59 Samuel Zurcher, Memorandum the Management of the ANBE AG, 4 January 2002, untitled. This memorandum summarises the results of a visit by Zurcher to IFO in the Republic of Congo, 23 pages

60 Legalnet.cd (2008)

61 FIDAFRICA and Pricewaterhouse Coopers (2007); Diakolo (2007)

62 FIDAFRICA and Pricewaterhouse Coopers (2007)

63 Draft contract (unsigned) between Siforco and Interholco detailing trade relationship between the two companies. Copy held by Greenpeace International

64 German original: 'Über dieses Konto werden Aufwände, die SIFORCO betreffend, welche durch die SIFORCO offiziell nicht bezahlt werden können, beglichen (z.B. Europäische Versicherungen, Saläre von Expatriates, Ersatzteile von Maschinen, Rückführung von nicht registrierten Darlehen usw.)'

65 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

66 Tax Justice Network (2005): eg p25,58

67 Pricewaterhouse report to the Danzer Group Board of Directors, year ended 31 December 2002. Copy held by Greenpeace International

68 Creditreform Deutschland, Company profile Danzer AG, 9 May 2007

69 Danzer Group subsidiary, Cotraco, is a logistics company in the DRC

70 Confidential May 2006 report on Siforco (2006). Copy held by Greenpeace International

71 Pricewaterhouse report to the Danzer Group Board of Directors, year ended 31 December 2002. Copy held by Greenpeace International

72 Danzer Group subsidiary, SIFCI, is a logging and timber processing company in the Ivory Coast

73 Danzer Group (2006)

74 Greenpeace International (2004a); Greenpeace International (2004b)

75 Danzer Group (2007c)

76 eg Danzer Group (2007c), (2007d)

77 Turnover IKEA-Group. Copy held by Greenpeace International

78 Customer letter from the Danzer Group's Senior Vice President for sales (late 2006)

79 Copy of invoice from Saint-Gobain to Interholco AG, March 2007. Copy held by Greenpeace International

80 Saint Gobain (2007): p4

81 Copy of invoice from Saint-Gobain to Interholco AG, March 2007. Copy held by Greenpeace International

82 Danzer Group and WWF (2006)

83 Danzer Group (2007d)

84 Danzer Group and WWF (2006)

85 Pers comm. Elie Hakizumwami, Regional Forest Officer, WWF-Central Africa Regional Programme (CARPO). May 2007

86 WWF (2004)

87 Confidential May 2006 report on Siforco (2006). Copy held by Greenpeace International

88 Kiboko (2007)

89 DRC Forest Code Article 71

90 KfW (2007): p66

91 FAO. faostat.fao.org/site/379/default.aspx citing UNSD. 2004.

92 Budget Siforco 2003 New, 11 February 2003. Copy held by Greenpeace International

93 The Ministry of the Environment approves the export contract, which is required to obtain the export licence and the authorisation for export which is issued by the Ministry of Commerce. Source: USAID (2003): p36

94 The Office Congolais de Contrôle inspects the cargo to be exported and issues a report which is needed to obtain the export licence and the authorisation for export by the Ministry of Commerce. Source: USAID (2003): p36

95 The Office des Douanes et Accises oversees payment of export duties and control of the export parcel prior to loading. Source: USAID (2003): p36

96 The Maritime Freight Management Office oversees vessels entering and leaving the port of Matadi

97 Confidential May 2006 report on Siforco (2006). Copy held by Greenpeace International

98 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

99 FAO (2007): p45

100 Memorandum from Giger to von Gagern, Herger and Cuezva, November 2002, on new procedures for Filialbuchhaltung. Copy held by Greenpeace International

101 Ministre de L'Environnement et al (2004); CIRAD (2003)

102 Budget Siforco 2003 New, February 11 2003

103 Pricewaterhouse report to the Danzer Group Board of Directors, year ended 31 December 2002. .Copy held by Greenpeace International.

104 Ernst & Young (2006)

105 In 2004, the average exchange rate has been FCFA 656 to 1 Euro (exchangerate.com)

106 World Bank/IFC hosted website www.doingbusiness.org/ExploreTopics/PayingTaxes/Details.aspx?economyid=48

107 World Bank/IFC hosted website www.doingbusiness.org/Explore Topics/PayingTaxes/Details.aspx?economyid=49

108 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for Siforco in 2003. Copy held by Greenpeace International

109 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for Siforco in 2003. Copy held by Greenpeace International

110 All Euro figures quoted direct from the original Danzer Group documents. These are minor discrepancies in 2005 and 2006 for the integrated accounts (ie figures round down)

111 German original: 'Die Firma erzielt Gewinn und die Nettoforderungen sind gedeckt mit Gegenwert (Holzlager).' Source: Protocol on the evaluation of the Danzer Group's stakeholdings and accounts receivable (2006). Copy held by Greenpeace International

112 Printout from the Siforco Filialbuchhaltung income statement (2007). Copy held by Greenpeace International

113 Arrete Interministeriel No. 13/CAB/MIN/PLAN/2003 et No. 12/CAB/MIN/FIN/2003 du 19 Feb 2004 portant approbation de l'arragement du projet d'investissment de la Societe Industrielle et Forestiere du Congo 'Siforco scarl'

114 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for Siforco in 2003. Copy held by Greenpeace International

115 Samuel Zurcher, Memorandum the Management of the ANBE AG, 4 January 2002, untitled. This memorandum summarises the results of a visit by Zurcher to IFO in the Republic of Congo, 23 pages

116 Ministere des Finances (1992)

117 Danzer Group Travel Report April 2003. Copy held by Greenpeace International

118 Article 76, Code Général des Impôts (2008)

119 Business plan for the years 2004 to 2006 drawn up by the Danzer Group for IFO in 2003. Copy held by Greenpeace International

120 Knudsen (2003)

121 IRC (2007)

122 IRC (2007)

123 IRC (2007)

124 The DRC Ministry of Health spent around about $9.2 million in 2000, ten times more than in 1999. Source: Tshikala (2004): p23

125 In many countries across Africa, the World Health Organization promotes an Integrated Management of Childhood Illness programme to combat a range of potentially fatal childhood illnesses (Source: WHO 2008). For Tanzania, the cost of healthcare vaccination in 1999 was around $11 for a child under five years of age (Source: Adam et al. 2005). Assuming a similar cost for the DRC and the Republic of the Congo, €7.8 million would vaccinate 700,000 children

126 The operating budget for the Ministry of Ministry for Land Affairs, the Environment, Fishing and Forestry was around $156,000 in 2000. Source: Tshikala (2004): p23

127 Greenpeace International (2007): p71

128 Using a conversion factor of 0.27t C/m3. Source: Brown et al (2005)

129 PricewaterhouseCoopers report to the Danzer Group Board of Directors, year ended 31 December 2002. Copy held by Greenpeace International

130 MECNEF website www.mecnef.cd/etatlieuxenviron_forets_mercuriale.htm

131 MECNEF website www.mecnef.cd/etatlieuxenviron_forets_statistique.htm; export volumes correspond with DGF figures in Mbala (2007)

132 Interholco shipping list for the year 2003

133 ITTO (2004)

134 DGF (in Mbala 2007)

135 Internal price list for the trade of timber products between Siforco and Interholco (2007). Copy held by Greenpeace International

136 ITTO (2006)

137 FAO (2007): p45

138 ITTO data adapted (Source: globaltimber.org.uk/RWE-ITTO-UCBD.xls)

139 Olam website www.olamonline.com/htmlDocs/bd_tm.html#drc (accessed 11 June 2008)

140 www.itto.or.jp/live/PageDisplayHandler?pageId=199

141 ITTO (2008): Table 2, p3

142 ITTO (2008): p89 & p105; data for 2004 export values taken from ITTO (2005);Exchange rate US$1 = €0.8 (source: www.oanda.com/convert/fxhistory)

143 World Bank online Q&A http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CONGODEMOCRATICEXTN/0,,contentMDK:2114031~menuPK:2114031~pagePK:141137~piPK:141127~theSitePK:349466,00.html

144 CBFP (2006)

145 eg Trefon (2006); Global Witness (2007)

146 Greenpeace International (2007)

147 See Greenpeace International (2007)

148 eg www.worldbank.org homepage

149 World Bank online Q&A http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CONGODEMOCRATICEXTN/0,,contentMDK:20779255~menuPK:2114031~pagePK:141137~piPK:141127~theSitePK:349466,00.html

150 Knudsen (2003)

151 IASB (2007)

152 See Global Witness (2005)

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