# Mexican IFFs 1AC

# Wayzata KM

## Contention 1

#### Contention 1 is the International Tax Regime

#### An international tax regime is inevitable but initial choices are key – promoting multilateral Automatic Exchange of Information – AEI – is essential to solidifying this approach as the global standard

**Grinberg, 12** – Associate Professor at Georgetown University Law Center, former attorney at the Office of International Tax Counsel at the U.S. Dept. of Treasury, where he worked on FATCA from its inception (Itai, Georgetown Law: The Scholarly Commons, “Beyond FATCA: An Evolutionary Moment for the International Tax System,” January 27, 2012, http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1162&context=fwps\_papers&seiredir=1&referer=http%3A%2F%2Fwww.google.com%2Furl%3Fsa%3Dt%26rct%3Dj%26q%3Deconomist%2520automatic%2520exchange%2520tax%26source%3Dweb%26cd%3D40%26ved%3D0CGsQFjAJOB4%26url%3Dhttp%253A%252F%252Fscholarship.law.georgetown.edu%252Fcgi%252Fviewcontent.cgi%253Farticle%253D1162%2526context%253Dfwps\_papers%26ei%3DoR7xUcbIIYXVqAHo3YCQCw%26usg%3DAFQjCNFxQNj6scIncBgqKuT1xDxPA7bOrQ%26sig2%3D1NeWwQFotuiB8rpri\_Wtnw%26bvm%3Dbv.49784469%2Cd.eWU#search=%22economist%20automatic%20exchange%20tax%22).

In just a few short years, the world has gone from assuming financial institutions generally do not support residence country taxation cross-border to arguing about how they should act as tax agents for residence countries. This is a remarkable shift in international norms. Focusing exclusively on the novel contest between the information reporting and anonymous withholding models for a new regime inappropriately obscures this growing consensus. The competing initiatives for cross-border tax administrative assistance put forth by the United States, the EU, the OECD, and Switzerland, and the response of financial institutions to those proposals, all highlight the development of a new international regime in which financial institutions will be tax intermediaries cross- border. Nevertheless, a great deal is at stake in the decisions currently being made between an anonymous withholding and information reporting regime for administrative assistance cross-border. The choice between the two approaches is real even if the consequences of the choice seem somewhat distant for most jurisdictions. Path dependence and the tendency for institutional structures in this area to become embedded suggests that sub- optimal initial choices made by a small number of powerful actors may dictate outcomes for both those actors and the rest of the world for a prolonged period. Thus the choices being made in the current evolutionary moment in cross-border administrative assistance are important. Anonymous withholding is not likely to be made available to most countries. In contrast, information reporting provides a workable architecture for an emerging regime of financial institutions as cross-border tax intermediaries in which most countries may reasonably aspire to

participate. Even though some jurisdictions can be counted on to resist a broadly diffused routine information reporting system, if these countries become outliers, international regimes will evolve around them, and eventually pressure may make non-compliance with the regime unsustainable. Emerging economy governments and other stakeholders, including civil society, have many reasons beyond sheer revenue to weigh in on the choices made by the major actors in this evolutionary moment.

#### **U.S.-Mexico agreement brings all NAFTA members on board with AEI and demonstrates commitment to systemic exchange with regional trading partners**

Lawton, 12 – Former Canadian policy analyst who worked on anti-money laundering initiatives (Christopher, “U.S. Should Expand Automatic Exchange Of Tax Information To Mexico”, January 31, 2012, Financial Transparency Coalition, http://www.financialtransparency.org/2012/01/31/u-s-should-expand-automatic-exchange-of-tax-information-to-mexico/)//AE

There is one most obvious way that the U.S. could make its financial system a less attractive destination for Mexico’s illicit outflows – through the introduction of automatic tax information exchange agreement with Mexico on U.S. deposit accounts held by Mexican residents.¶ The Mexican government formally requested such an agreement with the Treasury Department in 2009, in order to help counter the laundering of Mexican criminal proceeds and tax evasion through U.S. banks, but it has yet to receive a reply. While Mexico and the U.S. do exchange tax information on a case-by-case basis in instances of suspected tax evasion, moving to automatic exchange would greatly simplify the exchange process, and would curtail unreported cross-border interest income by citizens of both countries.¶ Such a policy change would not be unprecedented. Though the U.S. does not currently collect information on interest payments made to most non-resident account holders, U.S. financial institutions are required to provide the IRS with such information regarding account holders that are residents of Canada. This information is in turn automatically supplied to the Canadian tax authority under an exchange agreement. The IRS benefits from the receipt of similar tax information in return.¶ In addition to the automatic exchange of tax information on non-resident account holders between Canada and the U.S., Mexico and Canada also have a similar agreement in place. This leaves the U.S. as the only NAFTA country that has not fully committed to the systematic, dynamic exchange of deposit account information with its major regional trading partners.¶ An agreement on automatic exchange of tax information on accounts could be readily implemented between the U.S. and Mexico, drawing on the experience xin administering the existing agreements in North America, and in accordance with OECD standards. Given the likely volume of illicit funds being covertly transferred from Mexico to the U.S., such an agreement would go a long way towards interrupting the illicit outflows from Mexico, and would demonstrate the U.

S. Government’s commitment to combating illicit financial activity on the Southern border in all its forms.

#### Ensuring uniform, multilateral AEI is key – benefits both emerging nations and multinational corporations alike

**Grinberg, 13 -** Associate Professor at Georgetown University Law Center, former attorney at the Office of International Tax Counsel at the U.S. Dept. of Treasury, where he worked on FATCA from its inception (Itai, Georgetown Public Law and Legal Theory Research Paper No. 13-031, “Will FATCA Open the Door to Taxing Capital Income in Emerging Countries,” June 20, 2013, http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2256587)

Internationally, automatic information reporting now has the upper hand over anonymous withholding, largely as a result of the United States’ willingness to aggressively leverage its financial markets to coerce asset management jurisdictions into accepting automatic information reporting.11 However, to date both U.S. and European efforts have focused primarily on addressing their jurisdiction-specific concerns with offshore tax evasion by their own citizens and residents. Tax administrations in emerging countries have a significant stake in ensuring that whatever benefit the large, developed economies obtain in the form of automatic information exchange is available to them, too. For these countries, a uniform multilateral automatic information exchange system could positively affect their ability to address offshore tax evasion and, further, could serve to improve the structure of their domestic information reporting and withholding regimes more generally. However, the prospect of these countries benefitting from automatic information exchange turns heavily on the question of whether any new regime provides for uniform or fragmented compliance by financial institutions. Meanwhile, most multinational financial institutions12 would also benefit from a single internationally consistent system for cross-border tax administrative assistance. Financial institutions are interested in avoiding a situation in which they are required to implement multiple different systems in order to satisfy different sovereigns’ demands.13 Therefore, although their starting points are different, both multinational financial institutions and emerging countries have a shared interest in a single, uniform, broadly multilateral regime for addressing offshore accounts. Their prospects for successfully influencing the architecture of an automatic information exchange regime may be improved if they cooperate with one another.

#### Global Illicit Financial Flows – IFFs – structurally undermine government legitimacy and development while increasing dependence and the risk of economic crises

**Le Billon, 11 –** Associate Professor of Geography and Liu Institute for Global Issues, University of British Columbia (Philippe, CMI (Chr. Michelsin Institute, “Extractive Sectors and Illicit Financial Flows: What Role for Revenue Governance Issues?” U4 Issue, October 2011, No. 11,<http://www.cmi.no/publications/file/4248-extractive-sectors-and-illicit-financial-flows.pdf>)

The Norway-sponsored Task Force on the Development Impact of Illicit Financial Flows (2008) has stressed the negative development impacts of IFF and particularly those coming from natural resource sectors in developing countries. The Task Force observes that IFF undermine health, development, and government legitimacy, while increasing debt, aid dependence, and the risk of economic crises. Quantitative studies specifically testing for these impacts are lacking, largely because of the relative novelty and persistent uncertainty of IFF data. However, it is estimated that developing countries experienced approximately US$1.2 trillion in illicit flows during 2008, 10 times the amount of overseas development assistance provided by members of the OECD Development Assistance Committee that year (Kar and Curcio 2011). A major concern of extractive sector governance is the collection and allocation of revenue flows to maximise government revenue share, eradicate corruption, and ensure fair and efficient use of the revenues. Illicit financial flows constitute a serious threat to several objectives: • IFF coming from corruption encourage such illegal activities by establishing transfer networks that facilitate the outflow of proceeds. Corruption undermines the sound governance of resources, notably by facilitating illegal exploitation and poor environmental and social practices, as well as by eroding the tax base. • IFF undermine the maximisation of government revenues through tax evasion practices, including transfer mispricing and misinvoicing. African governments have been particularly vulnerable to this, in part because of “inadequate institutional capacity to ensure tax compliance” (ATAF 2010, 1). In turn, this significantly reduces the contribution of mineral resource revenues to national development. IFF exacerbate inequalities (by increasing private gains for a few at the expense of public gains for the many) and inefficiencies (by resulting in suboptimal policies). Because national companies are less able to lower their effective tax rates, trade mispricing advantages multinationals. This, in turn, negatively affects the domestic private sector. The developmental impact of domestic companies, moreover, is frequently undermined by predatory practices. There is a fine balance between granting sufficient autonomy to a national resource company to allow it to thrive, and controlling it so it does not become self-serving. • IFF discourage accountability and encourage discretionary decision making, short-term thinking, and favouritism by bureaucrats and officials. These practices, in turn, drastically reduce total earnings that a country derives from extractive assets.

#### We isolate 2 two impacts to global IFFs:

#### First is poverty – global poverty is the equivalent of a thermonuclear war every 15 years

**Gilligan, 00** – Department of Psychiatry Harvard Medical School (James, Violence: Reflections on Our Deadliest Epidemic, 2000, p 195-96)   
 The 14 to 18 million deaths a year cause by structural violence compare with about 100,000 deaths per year from armed conflict. Comparing this frequency of deaths from structural violence to the frequency of those caused by major military and political violence, such as World War II (an estimated 49 million military and civilian deaths, including those caused by genocide--or about eight million per year, 1935-1945), the Indonesian massacre of 1965-1966 (perhaps 575,000 deaths), the Vietnam war (possibly two million, 1954-1973), and even a hypothetical nuclear exchange between the U.S. and the U.S.S.R (232 million), it was clear that even war cannot begin to compare with structural violence, which continues year after year. In other word, every fifteen years, on the average, as many people die because of relative poverty as would be killed in a nuclear war that caused 232 million deaths; and every single year, two to three times as many people die from poverty throughout the world as were killed by the Nazi genocide of the Jews over a six-year period. This is, in effect, the equivalent of an ongoing, unending, in fact accelerating, thermonuclear war, or genocide, perpetrated on the weak and poor every year of every decade, throughout the world.

#### IFFs outstrip global efforts to reduce poverty – study shows they outpace foreign aid by a ratio of 10 to 1

**PR Newswire, 13** (January 7, “Financial Flows Out of Developing World Overwhelm Foreign aid,” http://www.prnewswire.com/news-releases/illicit-financial-flows-out-of-the-developing-world-overwhelm-foreign-aid-60786287.html)//SEP

WASHINGTON, Jan. 7 /PRNewswire-USNewswire/ -- Global Financial Integrity (GFI) released today a study estimating the annual value of illicit financial flows from all poor nations at approximately $900 million. Titled "Illicit Financial Flows From Developing Countries: 2002 - 2006," (<http://www.gfip.org/>)the ground-breaking report shows that the developing world is losing an increasing amount of money through illicit capital flight each year. Moreover, the value of the illicit flows surpasses the amount of Official Development Assistance (ODA) entering those countries by an order of magnitude. "Illicit financial flows siphon revenue out of poor countries, robbing them of much-needed assets and forestalling economic development," said GFI director Raymond Baker. "These new figures reveal that illicit financial flows outpace ODA by a ratio of nearly 10 to 1. This is critical to understanding global poverty and developing effective poverty alleviation and economic development strategies," Baker said. Primary findings of the report include: Total capital flight exiting the developing world may be as much as $1 trillion per year, The volume of capital flight is increasing at an average of 18.2% a year,

#### IFFs uniquely exacerbate the root causes of poverty and dependency – just keeping funds within home countries solves

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(Peter, Draining Development: Controlling Flows of Illicit Funds From Developing Countries, World Bank, https://openknowledge.worldbank.org/handle/10986/2242)

There is no doubt that illicit ﬁnancial ﬂows (IFFs) from developing coun- tries are substantial. Even if the correct ﬁgure is only a 10th of the often- cited Global Financial Integrity estimates (about US$1 trillion annually according to Kar and Cartwright-Smith 2008), that is, around US$100 billion, it is large relative to either ofﬁcial development assistance (about US$70 billion) or total foreign direct investment in the developing world (around US$250 billion in 2004 according to UNCTAD 2009). Eliminat- ing this outﬂow, all else being equal, would be an enormous gain to developing countries. This alone does not imply, however, that IFFs constitute a good focus for policy. IFFs are a speciﬁc consequence of more fundamental prob- lems that have long been of great concern. Most notably, corruption and the payment of bribes to major government ofﬁcials have become a cen- tral issue for the World Bank and for the development community gen- erally, at least since World Bank President James Wolfensohn put it on the Bank’s agenda in the mid-1990s. Similarly, the failure of developing countries to collect taxes has also come more into focus in the last decade; the reliance on ofﬁcial development assistance is seen as, impor- tantly, a consequence of the inability of these countries to tax their own resources (Bräutigam, Fjeldstad, and Moore 2008). The root cause argu- ment, then, is that one should focus on ways of reducing the underlying problems: corruption, tax evasion, and so forth. The international ﬂ ows are only a manifestation of these problems. Cut down on corruption, tax evasion, and the rest, and the IFFs will take care of themselves. The argument for focusing on causes rather than symptoms is a com- mon one in many domains of policy. For example, many analysts argue that crime is a manifestation less of individual failings or moral turpi- tude than of social failure (Sykes, Cullen, and Merton 1992). Thus, they say, the most effective way of responding to crime is not detection and punishment of offenders, which treat only the symptom, but elimina- tion of social inequality, improving the conditions in which the poor live, and better schools and social programs, which treat the true causes of crime. In fact, there is evidence that society can usefully do both. Police and prison do reduce crime, at least through incapacitation, and social programs such as early childhood interventions also reduce the propensity to crime (Spelman 2000; Greenwood et al. 1998). There are other domains in which policy focuses on root causes, but with little attention to amelioration of harms. For example, the cur- rent debate about ﬁnancial regulation, in the wake of the global ﬁ scal crisis, emphasizes rules to correct fundamentals rather than postfailure remedies. There is thus no general approach. For some problems, ameliorative programs have a minimal role; focusing on the root causes is, indeed, the only path to reduction of the problem. For others, treating the symptom is also useful. What may be said about illicit ﬂ ows in this respect? A distinctive feature of the IFF issue is that the illicit ﬂows may them- selves exacerbate the underlying harms, that is, even if the tax evasion, corruption, and criminal markets continued unabated and all that one accomplished was to prevent the resulting funds leaving the home coun- try, the result would appear to be welfare enhancing. Assuming that the owners of the illicit funds want to do more than hide their assets under mattresses, there would be more money for domestic investment and, perhaps, also a stronger tax base. Mick Moore takes this up in chapter 14. It is also possible that trapping funds in the source countries reduces the attractiveness of corruption, tax evasion, and so on. A focus on the consequences might then reduce the underlying activities. This reduc- tion could occur through at least two mechanisms. First, the returns associated with having to spend the money at home, with only the goods and services available, for example, in Congolese markets, may make the marginal dollar less valuable and, thus, lower the incentive to steal from the state. With increasing globalization, however, the consumption pos- sibilities in developing countries are approaching those available else- where, at least in terms of perishables. Substitutes for homes in the south of France may remain difﬁcult to ﬁ nd in poorer countries (indeed, in almost any country). Second, the funds are less secure at home than abroad. This will also lower the marginal return of another dollar stolen in an ex ante calculation because a change in regime may lead to the seizure of some of these assets. The calculation of the probabilities of seizure is no doubt complicated, but the fear of such a loss surely weighs heavily in small countries with kleptocratic traditions. The fear may increase the current kleptocrats’ incentives for retaining power given that ﬂ ight will separate them from their wealth.2 However, this seems a modest effect; few kleptocrats quit power easily, even with vast amounts of wealth overseas, as evidenced by Muammar Ghaddaﬁ ’s refusal to leave Libya under extreme pressure, despite the availability of billions of dol- lars in overseas accounts.

#### The second impact is growth – it solves war – numerous studies prove

Royal, 10 – Director of Cooperative Threat Reduction at the U.S. Department of Defense, (Jedediah, “Economic Integration, Economic Signaling and the Problem of Economic Crises,” in Economics of War and Peace: Economic, Legal and Political Perspectives,” ed. Goldsmith and Brauer, p. 213-14)

Growth solves war-- econ crises call for a redistribution of power and increase the risk of miscalc

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level, Pollins (2008) advances Modelski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such, exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin. 1981) that leads to uncertainty about power balances, increasing the risk of miscalculation (Feaver, 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner. 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown. Second, on a dyadic level, Copeland's (1996, 2000) theory of trade expectations suggests that 'future expectation of trade' is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline, particularly for difficult to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.4 Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write: The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in turn returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other. (Blomberg & Hess, 2002. p. 89) Economic decline has also been linked with an increase in the likelihood of terrorism (Blomberg, Hess, & Weerapana, 2004), which has the capacity to spill across borders and lead to external tensions. Furthermore, crises generally reduce the popularity of a sitting government. "Diversionary theory" suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996), DeRouen (1995). and Blomberg, Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999), and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked to an increase in the use of force. In summary, recent economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict at systemic, dyadic and national levels.5 This implied connection between integration, crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.

#### **Economic decline triggers nuclear war**

Harris and Burrows 9 (Mathew, PhD European History at Cambridge, counselor in the National Intelligence Council (NIC) and Jennifer, member of the NIC’s Long Range Analysis Unit “Revisiting the Future: Geopolitical Effects of the Financial Crisis” <http://www.ciaonet.org/journals/twq/v32i2/f_0016178_13952.pdf>, AM)

Of course, the report encompasses more than economics and indeed believes the future is likely to be the result of a number of intersecting and interlocking forces. With so many possible permutations of outcomes, each with ample Revisiting the Future opportunity for unintended consequences, there is a growing sense of insecurity. Even so, history may be more instructive than ever. While we continue to believe that the Great Depression is not likely to be repeated, the lessons to be drawn from that period include the harmful effects on fledgling democracies and multiethnic societies (think Central Europe in 1920s and 1930s) and on the sustainability of multilateral institutions (think League of Nations in the same period). There is no reason to think that this would not be true in the twenty-first as much as in the twentieth century. For that reason, the ways in which the potential for greater conflict could grow would seem to be even more apt in a constantly volatile economic environment as they would be if change would be steadier. In surveying those risks, the report stressed the likelihood that terrorism and nonproliferation will remain priorities even as resource issues move up on the international agenda. Terrorism’s appeal will decline if economic growth continues in the Middle East and youth unemployment is reduced. For those terrorist groups that remain active in 2025, however, the diffusion of technologies and scientific knowledge will place some of the world’s most dangerous capabilities within their reach. Terrorist groups in 2025 will likely be a combination of descendants of long established groups\_inheriting organizational structures, command and control processes, and training procedures necessary to conduct sophisticated attacks and newly emergent collections of the angry and disenfranchised that become self-radicalized, particularly in the absence of economic outlets that would become narrower in an economic downturn. The most dangerous casualty of any economically-induced drawdown of U.S. military presence would almost certainly be the Middle East. Although Iran’s acquisition of nuclear weapons is not inevitable, worries about a nuclear-armed Iran could lead states in the region to develop new security arrangements with external powers, acquire additional weapons, and consider pursuing their own nuclear ambitions. It is not clear that the type of stable deterrent relationship that existed between the great powers for most of the Cold War would emerge naturally in the Middle East with a nuclear Iran. Episodes of low intensity conflict and terrorism taking place under a nuclear umbrella could lead to an unintended escalation and broader conflict if clear red lines between those states involved are not well established. The close proximity of potential nuclear rivals combined with underdeveloped surveillance capabilities and mobile dual-capable Iranian missile systems also will produce inherent difficulties in achieving reliable indications and warning of an impending nuclear attack. The lack of strategic depth in neighboring states like Israel, short warning and missile flight times, and uncertainty of Iranian intentions may place more focus on preemption rather than defense, potentially leading to escalating crises. 36 Types of conflict that the world continues to experience, such as over resources, could reemerge, particularly if protectionism grows and there is a resort to neo-mercantilist practices. Perceptions of renewed energy scarcity will drive countries to take actions to assure their future access to energy supplies. In the worst case, this could result in interstate conflicts if government leaders deem assured access to energy resources, for example, to be essential for maintaining domestic stability and the survival of their regime. Even actions short of war, however, will have important geopolitical implications. Maritime security concerns are providing a rationale for naval buildups and modernization efforts, such as China’s and India’s development of blue water naval capabilities. If the fiscal stimulus focus for these countries indeed turns inward, one of the most obvious funding targets may be military. Buildup of regional naval capabilities could lead to increased tensions, rivalries, and counterbalancing moves, but it also will create opportunities for multinational cooperation in protecting critical sea lanes. With water also becoming scarcer in Asia and the Middle East, cooperation to manage changing water resources is likely to be increasingly difficult both within and between states in a more dog-eat-dog world.

## Contention 2

#### Contention 2 is Mexican Stability

#### Drug cartels rely on IFFs to launder profits across the U.S.-Mexico border

Targeted News Service, 12 (“Mexico Hemorrhages US$872 Billion to Crime, Corruption, Tax Evasion from 1970-2010,” Targeted News Service, January 29, 2012, pageLexis)//JW

The large spike in illicit outflows following the implementation of NAFTA would imply that much of those outflows were indeed headed for the United States. This suggests that U.S. policymakers have a significant role to play in curtailing the flow of illicit money out of their southern neighbor.¶ In addition to the U.S., tax havens in the Caribbean and Europe were the second and third largest recipients of Mexican capital outflows.¶ Drug Cartels and National Security Risk¶ A large portion of drug cartel activity is conducted in cash, and none of those cash transactions are detected in GFI's data, which is one of the reasons why the organization believes its figures to be extremely conservative. That said, drug cartels like many criminal enterprises also utilize legitimate commercial transactions to launder their profits. In fact, the Los Angeles Times reported last month that Mexican drug cartels were utilizing trade-based money laundering techniques to move their money across the U.S.-Mexico border. Those kinds of business transactions would show up in the organizations data, however it cannot be determined exactly how much of the trade mispricing in GFI's report is attributable to the activities of drug cartels.¶ As such, the organization believes that this has serious implications for national security.¶ "The ease with which money can be laundered across the U.S.-Mexico border via trade mispricing poses a major national security risk to both the United States and Mexico," said Mr. Baker. "Drug traffickers, like kleptocrats, terrorists and tax dodgers, all gain from anonymous shell companies, tax haven secrecy, and nefarious trade mispricing tactics. Taking steps to address these issues would curtail a number of societal ills."

#### Status quo banking regulations fail to stop IFFs from drugs – only the plan solves

**Stier, 09**— Columbia University, School of International and Public Affairs (Ken, “Foreign tax cheats find US banks a safe haven”, Time—Business and Money, October 29, 2009, <http://www.time.com/time/business/article/0,8599,1933288,00.html)//IK>

Washington has spent much of this year showing how tough it is on tax cheats. The Justice Department triumphantly declared in August that it had reached a settlement with Swiss banking giant UBS for it to turn over the names of approximately 4,450 American account holders suspected by the IRS of evading taxes. This week, the IRS revealed the formation of a special task force to go after wealthy tax dodgers, and members of Congress introduced a bill to force foreign firms doing business in the U.S. to disclose all its U.S. clients with accounts overseas.[(See 25 people to blame for the financial crisis.)](http://www.time.com/time/specials/packages/article/0,28804,1877351_1877350,00.html)But for all the bluster about cracking down on Americans who hide money overseas, the U.S. turns a virtual blind eye to foreign tax cheats who are parking money in the U.S. banking system. In particular, the U.S. effectively serves the role of Switzerland for Mexico, which suffers from rampant tax evasion — rates go as high as 70% among professionals and small businesses, and 40% among larger businesses. Much of the estimated $42 billion a year of illicit funds flowing out of Mexico each year (not including drug cartel money) ends up in U.S. banks, according to Global Financial Integrity**,** an advocacy group in Washington. Soon after the Obama Administration took office, Mexico sent Treasury Secretary Tim Geithner a letter complaining about the de facto secrecy U.S. banks offer Mexicans holding accounts by not reporting to anyone the names or interest income paid on those deposits. "The exchange of information on interest paid by banks will certainly provide us with a powerful tool to detect, prevent and control tax evasion, money laundering, terrorist financing, drug trafficking and organized crime," said the Feb. 9 letter from Mexican Finance Secretary Agustin Carstens, who also noted that the two countries do not have a "solid and reliable mechanism to verify actual residence of the foreign depositors." "Replace the nationalities mentioned in the letter, and you've replicated the UBS affair point for point," says Robert Goulder, international editor in chief at Tax Analysts, a nonprofit publisher about taxes worldwide, which first reported on the Carstens letter. "If you are a Mexican drug lord, you can put as much money as you want into U.S. banks. We ain't going to tax it, and the Mexicans can't tax it because they are never going to know about it. It's the financial equivalent of 'Don't ask, don't tell.' " It's not that the U.S. has no policies in place to stem the flow of illicit monies into the U.S. banking system**.** American banks are in fact required to file suspicious activity reports (SARs) for cash deposits over $10,000 or when they detect deposit patterns in lower amounts, known as "structuring." The problem is that the U.S. government is overwhelmed by more than a million of these reports a year. Computers can detect some irregularities, but these need to be combed through carefully by 85 SAR review teams — combining FBI, IRS, DEA and U.S. Attorneys — across the country. That's why, says international white collar crime lawyer Bruce Zagaris, "U.S. officials have practically begged banks to call them when they have something really good." [(Read "The Stimulus Spending Bill: Is It Working at All?")](http://www.time.com/time/magazine/article/0,9171,1931743,00.html) This could change significantly with a seemingly simple regulatory adjustment, which Mexico has requested: they want the same information-exchange arrangement that Washington exclusively has with Canada, which automatically reports interest income paid by U.S. banks to Canadian account holders. "Being the world's largest trading block under the NAFTA, and fighting considerably the higher security threat than a decade ago, I truly believe that we should enhance our cooperation and strengthen our capacities to protect our peoples and wealth,**"** Carstens wrote in his letter.

#### Independently, IFFs are destroying Mexico’s economy despite improved governance – most end up in US banks

Corchado, 12 - Mexico bureau chief @ Dallas Morning News (Alfredo, “Exclusive: Mexico pays heavy price for tax evasion, report finds”, 29 January 2012, Dallas Morning News, http://www.dallasnews.com/news/nationworld/mexico/20120128-exclusive-mexico-pays-heavy-price-for-tax-evasion-report-finds.ece)//AE

In a nation with nearly half the population living in poverty, more than $872 billion has been lost to the Mexican economy over four decades to tax evasion, corruption and criminals, according to a report prepared by the group Global Financial Integrity.¶ The report buttresses long-held concerns about the Mexican government’s inability to control **its booming underground economy and** the outflow of money to foreign havens.¶ The report, released exclusively to The Dallas Morning News and the Mexico City magazine Proceso, says the overall loss through 41 years, from 1970 through 2010, averages 5.2 percent of the country’s annual gross domestic product, or GDP.¶ “This is a devastatingly large amount of money for any developing country to lose,” said Raymond W. Baker, director of Washington-based GFI, a research organization that advocates curtailing illicit cash flows out of developing countries. “$872 billion is gone, which could have been used to develop the Mexican economy, to invest in education, to build roads or to fight the drug cartels. The negative ramifications are huge for everyday Mexicans.”¶ Surprisingly, perhaps, the biggest share of the money does not represent the illicit proceeds of the country’s drug cartels. Instead**,** the biggest share is money lost to tax evaders using myriad schemes to avoid contributing to the country’s coffers**.¶** Moreover, the growing volume of legitimate trade between Mexico and the U.S. — now nearly $400 billion a year — makes it extremely difficult for authorities on both sides of the border to detect the illicit outflows. In the last decade, after passage of the North American Free Trade Agreement, the cross-border illicit outflow of money increased to about $50 billion a year, up from an average of $3 billion in the 1970s, when Mexico had a much more closed economy.¶ “We find that trade liberalization without strong regulatory oversight, as in the case of India, is probably responsible for larger illicit outflows through trade mispricing,” the report says. Trade mispricing is the practice of either overstating or understating invoices for transactions.¶ Pedro Canabal, a spokesman for Mexico’s tax agency, described the rate of collection as “abysmal,” particularly at the local and state levels, but insisted that improvements had been made at the federal level.¶ Since 2000, he said, the list of registered tax contributors has increased to 37 million from 9 million of the working population. Still, at the local level more than 90 percent of taxpayers, mostly small entrepreneurs, evade paying their fair share**, and “that’s where our biggest challenge is,” he said. “More has to be done at the local level.”¶** Canabal also called on the United States and other governments to do “the right thing and take responsibility, help us identify” capital flight**.** “We have been demanding that for years, and we haven’t been successful.”¶ Officials at the U.S. Embassy in Mexico City and at the U.S. State Department could not be reached for comment.¶ More than half of the money illicitly flowing out of Mexico ends up in U.S. banks**,** followed by tax havens in the Caribbean and Europe, according to GFI’s 81-page report, “Mexico: Illicit Financial Flows, Macroeconomic Imbalances, and the Underground Economy.” The report is scheduled to be released Monday in Washington and Mexico City.¶ The capital flight parallels economic crises in Mexico, with the 1995 economic downturn leading to a massive loss of money, increasing to 12.7 percent of GDP, up from 3.8 the previous year.¶ In the past five years, Mexico’s drug cartels have transformed themselves into powerful, sophisticated transnational criminal organizations. But the conservative analysis “does not include drug smuggling, human trafficking, and some forms of trade mispricing, data for which are not available,” the report says. If such data were available, “the figures would be substantially higher.”¶ Instead, the report looks at practices like tax evasion, including from personal income, corporate income and customs duties, said a GFI spokesman, Clark Gascoigne. Avoiding such duties through trade mispricing is the most common practice used to funnel illicit money abroad.¶ In 2009, Mexican tax evaders cost the economy an estimated $25.6 billion, ranking it 25th highest in the world. Such evasion forces the government to impose higher taxes on basic grocery staples such as tortillas.¶ Mexico has Latin America’s second-largest economy, and over the past two decades it has gained a reputation for sound fiscal and economic management, even amid global turmoil. But despite its achievements, the country has yet to reach its potential, economists and analysts say.¶ “What this report points to is Mexico’s weak institutions, the fundamental weakness of Mexican bureaucracies and administration, whether it’s the tax administration and their ability to audit, ability to regulate business, the ability to make sure they know what they’re doing,” said Shannon O’Neil, Douglas Dillon fellow for Latin American studies at the Council on Foreign Relations.¶ Over the past 20 years, “Mexico has made some big strides,” she added. “It’s transformed its economy, democracy, but it still faces daunting challenges of reforming the basic administration of the state to provide real regulations. … This is happening and will continue to happen because Mexico cannot regulate the underground economy.”¶ Douglas Farah, president of Alexandria, Va.-based IBI Consultants and a senior fellow at the International Assessment and Strategy Center, agreed.¶ “No country can afford to lose that much money**,** obviously,” he said. “Mexico has a problem of poverty, education, income distribution. This is one more proof of how difficult it is for Mexico to get control of its economy and the challenges it faces. Problems like tax evasion cripple a government, despite good intentions to be effective.”¶

#### Terrorist groups are preparing to attack the U.S. – currently expanding their ties to Mexican drug cartels

Boyle, 12 - Investigative reporter @ Daily Caller (Matthew Boyle, 16 November 2012, “Congressional report ties Middle East terrorists to Mexican drug cartels”, http://dailycaller.com/2012/11/16/congressional-report-ties-middle-east-terrorists-to-mexican-drug-cartels/)//Holmes

A new congressional report from the House Homeland Security Committee Subcommittee on Oversight, Investigations and Management ties Middle East terror organizations to Mexican drug cartels. The report, released Thursday, is titled “A Line in the Sand: Countering Crime, Violence and Terror at the Southwest Border.” It found that the “Southwest border has now become the greatest threat of terrorist infiltration into the United States.” It specifically cites a “growing influence” from Iranian and Hezbollah terror forces in Latin America. “The presence of Hezbollah in Latin America is partially explained by the large Lebanese diaspora in South America,” the report reads. “In general, Hezbollah enjoys support by many in the Lebanese world community in part because of the numerous social programs it provides in Lebanon that include schools, hospitals, utilities and welfare.” The congressional report, prepared by the subcommittee’s chairman, Texas Republican Rep. Michael McCaul, argues that the “explanation for Iranian presence in Latin America begins with its symbiotic relationship with Hezbollah.” “United in their dedication to the destruction of Israel, Iran has helped Hezbollah grow from a small group of untrained guerrillas into what is arguably the most highly trained, organized and equipped terrorist organization in the world,” the report reads. “In return, Hezbollah has served as an ideal proxy for Iranian military force – particularly against Israel – which affords Iran plausible deniability diplomatically. Hence wherever Hezbollah is entrenched, Iran will be as well and vice-versa.” McCaul’s report goes on to argue Iran’s increased presence in Latin America is because of the nation’s close relationship with Venezuela – which recently re-elected socialist leader Hugo Chavez. The report found that Hezbollah’s “relationship with Mexican drug cartels,” has been “documented as early as 2005.” Quoting former Drug Enforcement Administration executive Michael Braun, the report argues these ties are troubling. “Operativesfrom FTOs (foreign terrorist organizations) and DTOs (drug trafficking organizations) are frequenting the same shady bars, the same seedy hotels and the same sweaty brothels in a growing number of areas around the world,” Braun said in a statement quoted in the report. “And what else are they doing? Based upon over 37 years in the law enforcement and security sectors, you can mark my word that they are most assuredly talking business and sharing lessons learned.” In October 2011, Iran apparently tried to exploit its ties to the drug cartels to conduct its eventually foiledassassination attempt on the Saudi ambassador to the United States. “According to a federal arrest complaint filed in New York City, the [Iranian] Qods Force attempted to hire a drug cartel (identified by other sources as the Los Zetas) to assassinate Saudi Ambassador Adel al-Jubeir for a fee of $1.5 million,” the report reads. “The terror attack was to take place at a popular restaurant in Washington, D.C. without regard to collateral deaths or damage.” “The Qods Force made this solicitation because it knows drug traffickers are willing to undertake such criminal activity in exchange for money,” the report continues. “Moreover, if this terror attack had been successful, the Qods Force intended to use the Los Zetas for other attacks in the future. Had it not been for a [Drug Enforcement Agency] DEA informant posing as the Los Zetas operative, this attack could have very well taken place.” In a previous report, McCaul’s subcommittee documented “the emerging power and influence of the Mexican drug cartels along the Southwest border.” “The report elaborated on the increasing cooperation between the drug cartels and prison and street gangs in the United States to facilitate the trafficking and sale of illicit drugs along with the enforcement of remunerations,” the recently-released report says of the previous report. “Those cartels diversified into other areas of criminality such as human smuggling and arms trafficking.” In a statement, McCaul said that “Middle East terrorist networks that continue to plot against the United States are expanding their ties to Mexican drug trafficking organizations, better positioning themselves for a possible attack on our homeland.” “This report documents the increased presence of Iran and Hezbollah in Latin America and addresses the growing concern that terrorist organizations will exploit burgeoning relationships with Mexican drug cartels to infiltrate the Southwest border undetected,” McCaul said. The subcommittee is planning a Friday hearing to further discuss the report’s findings.

#### **Mexican economic decline causes a flood of refugees, resulting in border terrorism**

Michael Brown 9, Undersecretary of Emergency Preparedness and Response in the Department of Homeland Security, “Border Control: Collapse of Mexico Is A Homeland Security & National Security Issue,” 1/14, <http://michaelbrowntoday.com/journal/2009/1/15/border-control-collapse-of-mexico-is-a-homeland-security-nat.html>

By failing to secure the borders and control immigration, we have opened ourselves up to a frightening scenario. The United States could face a flood of refugees from Mexico if it were to collapse, overwhelming state and local governments along the U.S.-Mexico border. During a time of economic duress, the costs would be overwhelming and would simply add to the already burgeoning costs at the federal level. Immigration and border control never was nor should it ever be about racism. Immigration and border control are national security and homeland security issues. Sleeper cells from numerous terrorist groups could, and probably already have, infiltrated the United States, just laying in wait to attack at an appropriately vulnerable time.

#### **Bioterrorism would ensue**

Ken Timmerman 10, Newsmax correspondent, “FBI Director Mueller: Al-Qaida Still Wants Nuclear Bomb,” 3/18, <http://newsmax.com/Newsfront/mueller-fbi-alqaida-nuclear/2010/03/18/id/353169>

FBI Director Robert Mueller warned Congress on Wednesday of ongoing al-Qaida efforts to acquire weapons of mass destruction to attack the United States. “Al-Qaida remains committed to its goal of conducting attacks inside the United States,” Mueller told a House appropriations subcommittee. “Further, al-Qaida’s continued efforts to access chemical, biological, radiological, or nuclear material pose a serious threat to the United States.” To accomplish its goals of new attacks on the American homeland, al-Qaida “seeks to infiltrate overseas operatives who have no known nexus to terrorism into the United States using both legal and illegal methods of entry,” Mueller said. In February, Sheikh Abdullah al-Nasifi, a known al-Qaida recruiter in Kuwait, boasted on al Jazeera television that Mexico’s border with the United States was the ideal infiltration point for terrorists seeking to attack America. “Four pounds of anthrax – in a suitcase this big – carried by a fighter through tunnels from Mexico into the U.S., are guaranteed to kill 330,000 Americans within a single hour if it is properly spread in population centers there,” al-Nasifi said.

#### **That leads to extinction**

Anders Sandberg 8, is a James Martin Research Fellow at the Future of Humanity Institute at Oxford University; Jason G. Matheny, PhD candidate in Health Policy and Management at Johns Hopkins Bloomberg School of Public Health and special consultant to the Center for Biosecurity at the University of Pittsburgh Medical Center; Milan M. Ćirković, senior research associate at the Astronomical Observatory of Belgrade and assistant professor of physics at the University of Novi Sad in Serbia and Montenegro, 9/8/8, “How can we reduce the risk of human extinction?,” Bulletin of the Atomic Scientists,<http://www.thebulletin.org/web-edition/features/how-can-we-reduce-the-risk-of-human-extinction>

The risks from anthropogenic hazards appear at present larger than those from natural ones. Although great progress has been made in reducing the number of nuclear weapons in the world, humanity is still threatened by the possibility of a global thermonuclear war and a resulting nuclear winter. We may face even greater risks from emerging technologies. Advances in synthetic biology might make it possible to engineer pathogens capable of extinction-level pandemics. The knowledge, equipment, and materials needed to engineer pathogens are more accessible than those needed to build nuclear weapons. And unlike other weapons, pathogens are self-replicating, allowing a small arsenal to become exponentially destructive. Pathogens have been implicated in the extinctions of many wild species. Although most pandemics "fade out" by reducing the density of susceptible populations, pathogens with wide host ranges in multiple species can reach even isolated individuals. The intentional or unintentional release of engineered pathogens with high transmissibility, latency, and lethality might be capable of causing human extinction. While such an event seems unlikely today, the likelihood may increase as biotechnologies continue to improve at a rate rivaling Moore's Law.

## Thus the Plan

#### The United States federal government should substantially increase its Automatic Exchange of Information and Trade Transparency Units with Mexico.

## Contention 3

#### Contention 3 is Solvency

#### Exchange must be automatic – on request method empirically fails to deter

Economist, 2/16/13 (“Tax transparency: Automatic response,” The Economist, 2/16/2013, <http://www.economist.com/news/special-report/21571561-way-make-exchange-tax-information-work-automatic-response>)//YS

NOT ONE TO mince words, Daniel Mitchell of the right-wing Cato Institute denounces the OECD’s push to co-ordinate global tax enforcement as “the devil’s spawn” and possibly even a step towards the fiscal equivalent of—shudder!—the World Trade Organisation. Tax havens “should not have to enforce the burdensome tax laws of other countries”, he thunders. “Having grown rich with the tax policies of their choosing, the OECD countries are pulling up the ladder and saying, ‘you can’t do the same to attract investment’. It’s fiscal imperialism.” To tax-freedom advocates like Mr Mitchell, one of the most infuriating aspects of this perceived imperialism is the complete overhaul of cross-border information exchange. It is technical stuff, but the changes are extremely important. They promise to shine a light on some of the darkest corners of banking and investing, not only making tax evasion much harder but also casting a net over a host of other financial sins—and, along the way, testing financial firms’ compliance departments to the limit. The new era began in 2009 with something of a false start. The G20 decreed that in order to be considered clean, tax havens had to sign bilateral tax-information exchange agreements (TIEAs) with at least 12 other jurisdictions. This led to a surge in TIEAs and tax-treaty amendments (see chart 4 below) and the fairly prompt removal of tax havens from the OECD blacklist. The accords call for exchange “on request”. A country has to share information only if the other signatory asks for it and the request is based on well-founded suspicions. Ask, and it shall be given? The OECD touted this as a step towards transparency that would also respect individuals’ right to confidentiality as much as possible. But tax investigators complain that the process for getting information is cumbersome and the bar has been set too high. “You already have to have pretty much all the information you’re after to get the last piece. It’s a catch-22,” says one. That may explain why the number of requests made has been small. Offshore officials have complaints of their own. Françoise Hendy, Barbados’s chief tax negotiator, thinks that the real motive for promoting TIEAs was to draw the tax havens’ competitive sting, because TIEAs do not offer the same benefits as the full-blown double-taxation treaties that OFCs such as Barbados generally prefer. And small jurisdictions felt obliged to comply even though they knew that the main target was Switzerland. Moreover, the TIEAs did not appear to reduce financial flows to tax havens. An academic study of the crackdown by Niels Johannesen of the University of Copenhagen and Gabriel Zucman of the Paris School of Economics looked at data on cross-border bank deposits in 2009-11 and found that, despite modest outflows from less compliant jurisdictions, the overall level of funds in OFCs barely changed. Tax NGOs say the “on request” model is a dud and that tax transparency can be achieved only through the regular, automatic exchange of information. America gave the world a big push in this direction in 2010 when it passed the Foreign Account Tax Compliance Act (FATCA). This requires foreign financial firms to identify account-holders and investors who might be American. If the clients do not reply to inquiries, they will have a 30% tax withheld from their income arising in America. The rules will be phased in over four years, starting in 2014. FATCA’s intrusiveness has caused concern among banks and fund managers. It raises big questions about data privacy. Compliance costs, mostly borne overseas, are likely to be at least double the revenue that the law will generate for America. The necessary overhauls of systems and procedures and the extra digging around to identify American clients could add $100m or more to a large bank’s administrative costs. No wonder bankers have dubbed FATCA the Fear And Total Confusion Act. An OECD tax official describes the law as “awful, in a way, like a nuclear bomb” but also sees it as “a remarkable leap forward for transparency”. And though it began as a brazenly unilateral move, it has since become more inclusive. America has signed or is negotiating bilateral agreements with 50 countries**, each of which would accept some version of FATCA.** In return America would offer information on its holdings of their citizens’ money. The resulting patchwork of intergovernmental agreements, each one slightly different, will add further to the compliance burden for international banks and fund managers. The biggest benefit of automatic exchange is that it deters rather than detects.

#### Developing countries – including Mexico – are capable of implementing AEI –contrary arguments are specious and condescending

**Gurtner et. al, 09** – Chairman Tax Justice Center International Board, International, non-aligned group or researchers and activists concerned about tax evasion (Bruno, David Spencer, Senior Advisor Tax Justice Center, and Jon Christensen, Secretary for Tax Justice Center, “Automatic Exchange of Information and the United Nations Tax Committee,” December 19, <http://www.taxjustice.net/cms/upload/pdf/Info_Exchange_Letter_0912.pdf>)

(10) DEVELOPING COUNTRIES AND THE TECHNICAL CAPACITY ARGUMENT. It has been asserted that automatic information can not be implemented by developing countries because they do not have the technical capacity. That argument is not valid for at least three reasons: First, as indicated in paragraph (9), above, implementing automatic exchange of information does not, in the initial stage, require great technical capacity. Second, that argument is very condescending to developing countries because it assumes not only that developing countries do not at present have the technical capacity but also that developing countries are not capable of acquiring such technical capacity. If developing countries do not at present have the technical capacity, the UN Tax Committee should focus on helping developing countries acquire that capacity. Third, some developing countries clearly have at present the technical capacity to implement automatic exchange of information. Mexico has indicated in the February 9, 2009 letter from Agustin Carstens to Timothy Geithner that it receives automatically some tax information form the United States. Also, Chile has a highly developed electronic tax compliance system, and is providing technical advice about that to certain developing countries in Latin America and Africa. Therefore, it would be possible to focus initially on those developing countries which already have the necessary technical expertise. Clearly, the tax administrations of developing countries have various levels of technical expertise. And therefore, common sense leads us to conclude that automatic exchange should be implemented initially with those developing countries which at present can most easily implement such automatic exchange, and that programs should be developed in order to enhance the technical capacity of other developing countries, so that they also can implement automatic exchange of formation. In view of the above, the argument that all developing countries do not have the technical capacity to implement automatic exchange of information is specious. That argument merely masks a policy (most likely based on the position of OECD financial centers and other financial centers) against automatic exchange of information. As most cross-border illicit financial flows are from developing countries to OECD financial centers and other financial centers, with the resulting tax evasion in developing countries, those financial centers have a vested interest in not having automatic exchange of information implemented with developing countries.

#### Trade Transparency Units – TTUs – solve trade mispricing – the largest source of IFFs between the U.S. and Mexico

**U.S. Senate Caucus on International Narcotics Control, 13** (“The Buck Stops Here: Improving U.S. Anti-Money Laundering Practices,”

(April, p. 20, http://www.feinstein.senate.gov/public/index.cfm/files/serve/?File\_id=311e974a-feb6-48e6-b302-0769f16185ee)

Experts at Global Financial Integrity have estimated that $642.9 billion in cumulative illicit financial flows from Mexico between 1970 and 2010 can be attributed to trade mispricing, and have concluded that “trade mispricing is the preferred method of transferring capital out of the country.” Global Financial Integrity also found that illicit financial flows from Mexico have been rising since 1970, with an increase from 4.5 percent of Mexican Gross Domestic Product before the adoption of the North American Free Trade Agreement (NAFTA) to an average of 6.3 percent of Gross Domestic Product during the 17 years after NAFTA was implemented. While the data sources used by Global Financial Integrity do not allow the organization to determine what specific illicit activity the trade mispricing activities are enabling or obscuring, at least a portion of this massive amount of trade mispricing activity is likely to be related to the drug trade.33 Trade based money laundering poses a number of significant and complex challenges for law enforcement and regulators, not the least of which is the sheer enormity of global trade. With global trade volumes and values at or near record levels, launderers have an endless number of opportunities to conceal their illicit monetary flows. While this can make the problem seem insurmountable, a number of concrete steps can be taken to identify and seize the proceeds of crime. One such action is the creation and expansion of Trade Transparency Units (TTUs). Operated by Immigrations and Customs Enforcement (ICE), these units use sophisticated computer programming to analyze trade flows between the participating countries and the United States to identify suspicious patterns provided by the Data Analysis and Research for Trade Transparency System. This analysis allows customs officials to detect anomalies such as over or undervaluing of traded goods and provides actionable leads to investigate suspected money laundering.

#### U.S.-Mexico agreement shows US commitment to information exchange – creates a precedent for other nations and spills over

McIntyre, 09 – Professor of Law, Wayne State University, Former member and interim chair of the U.N. Subcommitte on Information Exchange (Michael, Tax Notes International, “How to End the Charade of Information Exchange,” Volume 56, Number 4, http://faculty.law.wayne.edu/mcintyre/text/mcintyre\_articles/Treaties/charade\_56TNI.pdf)

Mexico surely understands that an agreement for automatic exchange with the United States will induce Mexican tax cheats, who reputedly have large sums deposited in Texas and Florida banks, to move their money to less cooperative jurisdictions. That Mexico still wants automatic exchange suggests that it now believes the campaign against international tax evasion is for real. The Mexico initiative is important in its own right, and it is also a useful test of the Obama administration’s commitment to effective information exchange. Even more importantly, it may serve as a precedent for other U.S. treaty partners seeking to tax their own tax cheats investing in the United States. I believe that many existing U.S. tax treaties require the United States to provide automatic exchange of information regarding tax-free income earned on deposits in U.S. banks. I also believe that most existing U.S. tax treaties obligate the United States to provide, on request, an automatic exchange of information regarding income earned on investments in U.S. companies through quali- fied intermediaries. A QI is a foreign bank or other financial intermediary that has been set up to handle anonymously the investments in the United States by foreign tax cheats. Hundreds of billions of dollars flow into the United States under this system. It is rife with corruption, as the UBS case revealed in great detail. The Obama administration has proposed some commendable changes in the QI program to make it less easy for U.S. citizens and residents to use, illegally, the QI system However, the United States loses moral leadership on the tax evasion issue as long as it has an active program encouraging foreign tax cheats to invest in the United States. The Obama administration has shown no interest as yet in eliminating the QI system as it applies to foreign tax cheats investing in the United States. The program can be undermined, however, if U.S. treaty partners successfully force the United States to comply with its obligation to provide information about their residents who are the beneficial owners of QI investments. If U.S. treaty partners successfully press the United States to comply with its treaty obligations regarding requests for information on the QI investments of their residents, the Mexican rock down the hill may trigger an avalanche.

#### Current U.S.-Mexico automatic exchange agreement is not reciprocal – U.S. reserves the right to withhold information if it might be misused

Sheppard, 1/31/13 – Lawyer and widely-read commentator on tax issues

(Lee, Tax Analysts, “Will U.S. Hypocrisy on Information Sharing Continue,” <http://www.taxanalysts.com/www/features.nsf/Articles/0C26B2CFD92F1FBE85257AFC004E8B38?OpenDocument>)

In Rev. Proc. 2012-24, IRB 2012-20, the IRS spelled out that the only country eligible for automatic sharing of bank deposit interest information is Canada, which is already receiving this information. Nothing in U.S. law requires the announcement of which countries will get bank deposit interest information, but Treasury promises to keep updating the revenue procedure. The revenue procedure and the preamble to the regulation both explain that the IRS will not exchange information "if there is concern regarding the use of the information or other factors exist that would make exchange inappropriate." The preamble goes on to note that treaties and TIEAs require that tax information received in exchanges be kept confidential and used only for tax enforcement. It tellingly urges that the regulations should not affect the investment and savings decisions of aware nonresidents. It all adds up to a purposefully bland statement of the government's lack of trust in some Latin American governments. It makes Latin American customers of small, specialized Miami banks nervous that their information is collected and furnished to the IRS at all, even though the mere act of collection does not ensure that the information would be handed over to their home governments. The point of the revenue procedure appears to have been to appease these customers, their bankers, and their advisers. Mexico and the United States signed a reciprocal IGA last November. Mexico got a cheerleader promise**.** Mexico is believed to have lost $872 billion in dubious outbound transfers over four decades, some of which is transfer pricing. Most of the money is believed to have ended up in the United States. The Mexican government has long wanted bank interest information. Remember, the new bank interest reporting regulation is identical to a deal that has been in place with Canada for years. Mexico has been energetic about signing TIEAs with havens, including obscure ones like the Cook Islands. Information gathered under the IGA will be automatically exchanged under the U.S.-Mexico TIEA, which already provides for automatic exchange. The only information the United States will collect is the individual bank deposit interest data, so that would be automatically given to Mexico. If the TIEA already called for automatic information exchange, what have the parties been doing? Article 4(2) of the TIEA allows the competent authorities to determine what information should be exchanged. Paragraph 3(a) of article 1 of the TIEA states that the requested country need not supply the requested information if execution of the request would exceed its legal authority or would be prohibited by law, or if the information is not obtainable in the normal course of tax administration. Because the United States was not in the habit of collecting any Mexican bank account information, it could not have given any to Mexico. Mexico and the United States exchange information on a case-by-case basis. They exchange bulk information on interest payments between corporations and on dividends and royalties. Can the U.S. government now weasel out of automatic exchange once it has been agreed to and some information is being collected? Apparently yes, especially because automatic sharing has been promised before. The IRS can still invoke the treaty discretion not to give information if it is likely to be misused. Article 4(7) of the Mexican TIEA requires the requesting country to keep the information confidential and use it only for tax enforcement. Mexico is not on the list for receipt of information in Rev. Proc 2012-24. When the bank interest reporting regulation (REG-133254-02) was first proposed by the George W. Bush administration -- and theMexican TIEA was in effect -- Mexico was not on the list of countries that would have gotten information. Nonetheless, the IGA spells out concrete steps for gathering and sharing information. The IGA requires reporting of average monthly account balances -- a unique provision. The agreement also allows the Servicio de Administración Tributaria (SAT) to contact U.S. banks directly, but the IRS must go through the SAT if it wants to contact Mexican banks. Mexico also got a most favored nation clause. The IGA requires consultation if implementation is a problem. This same provision is in the British and Danish IGAs. FATCA has a look-through rule, which is a first for the United States, which conveniently ignored ownership of entities while its banks gathered money from Latin America. FATCA requires foreign corporations and partnerships to give withholding agents beneficial ownership information when U.S. resident ownership exceeds 10 percent by vote, value, profits interest, or capital interest. The same reporting rule applies to foreign trusts with any beneficial ownership by U.S. residents (sections 1471(d)(3) and 1473(2)(A)). The definition of account holder under the Mexico IGA has a look-through rule, the same as in the Model II unilateral agreement, but it appears to cover only agents, not entities: A person, other than a Financial Institution, holding a Financial Account for the benefit or account of another person as agent, custodian, nominee, signatory, investment advisor, or intermediary, is not treated as holding the account for purposes of this Agreement, and such other person is treated as holding the account.However, the reportable account definition contemplates some disclosure of Mexican resident entity accounts: The term "Mexican Reportable Account" means a Financial Account maintained by a Reporting U.S. Financial Institution if: (i) in the case of a Depository Account, the account is held by an individual resident in Mexico and more than ten ($10) dollars of interest is paid to such account in any given calendar year; or (ii) in the case of a Financial Account other than a Depository Account, the Account Holder is a resident of Mexico, including entities that certify that they are resident in Mexico for tax purposes, with respect to which U.S. source income that is subject to reporting under chapter 3 or chapter 61 of subtitle A of the U.S. Internal Revenue Code is paid or credited.This is a ticket to putting the accounts in third-country corporate shells -- again displaying the inefficacy of bilateral agreements. The Mexican IGA might effectively be a nonreciprocal agreement disguised as reciprocal.

#### Plan solves your alt causes - Curbing tax havens is the fastest route to better governance, democratic institutions and tax morale

**Tax Justice Network, 09** – International, non-aligned group or researchers and activists concerned about tax evasion (“The Non-Perils of Information Exchange,” <http://taxjustice.blogspot.com/2009/07/non-perils-of-information-exchange.html>)

Taxing élites properly could be the fastest route to better governance Were the élites to be subjected to the same constraints and laws that ordinary people are under, you could be sure that the élites would soon be pressing for better governance – and because they are the influential players in any developing country, this could be the most powerful pressure of all. And if élites were subjected to information exchange, they would press influentially for mechanisms to stop information leakage, as part of pressure for better governance overall. What happens instead, however, is that the services provided by secrecy jurisdictions offer the élites an escape route, curbing any pressure for better governance. Meanwhile ordinary people know all too well what games are being played and they lose confidence in the fairness of the tax system and the rule of law, triggering a vicious circle of decline in the institutions of democracy.

#### AEI solves corruption – empowers legitimate tax officials to tackle elites

**Grinberg, 13 -** Associate Professor at Georgetown University Law Center, former attorney at the Office of International Tax Counsel at the U.S. Dept. of Treasury, where he worked on FATCA from its inception (Itai, Georgetown Public Law and Legal Theory Research Paper No. 13-031, “Will FATCA Open the Door to Taxing Capital Income in Emerging Countries,” June 20, 2013, http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2256587)

In some emerging countries, it may be that some finance ministry and tax administration leaders are beholden to elites who take advantage of offshore tax evasion opportunities and will therefore resist using automatic information exchange as a vehicle to improve taxation of capital income. But even in a country where these problems exist, both potential and actual availability of information about offshore accounts may help shift the balance in favor of unbiased tax administration. The development of uniform automatic information exchange can empower relatively corruption-free tax administrations or honest individual tax administrators who are battling with other state actors to improve tax administration.119 Further, many countries have in recent years established semi- autonomous tax administrations. In a country struggling with corruption, an automatic information exchange system may reduce the pressures on a semi-autonomous tax administration because, unlike information exchange upon request, investigations begun as a result of automatic information exchange are less likely to be perceived as politically motivated. Similarly, a tax administration may find it less difficult to open an audit of politically connected persons when information that suggests such an audit should be conducted is provided spontaneously from abroad.