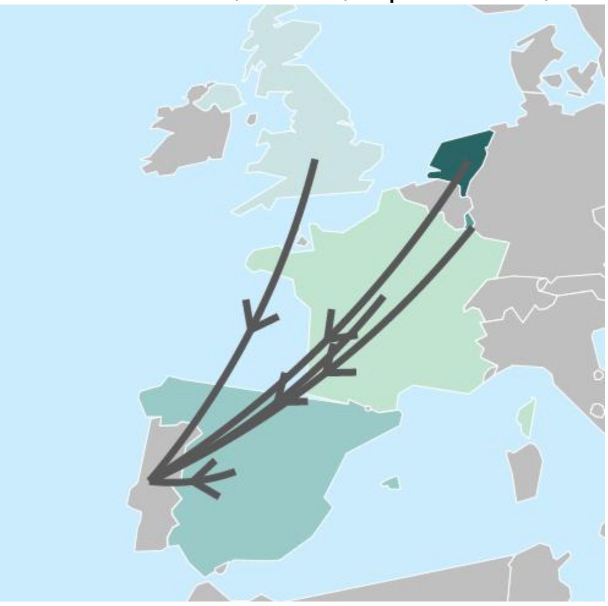
[The curious case of Dutch Foreign Direct Investment (FDI) in Portugal](#)

Alexandre Afonso, Twitter, September 12, 2020



According to IMF data, the Netherlands was the biggest source of Foreign Direct Investment in Portugal in 2018, bigger than neighbouring Spain, 3 times more than France.

Portugal, 2018
Inward Direct Investment

Total Investment	**155,913**
The Netherlands	32,792
Luxembourg	29,223
Spain	29,010
United Kingdom	10,966
France	8,965

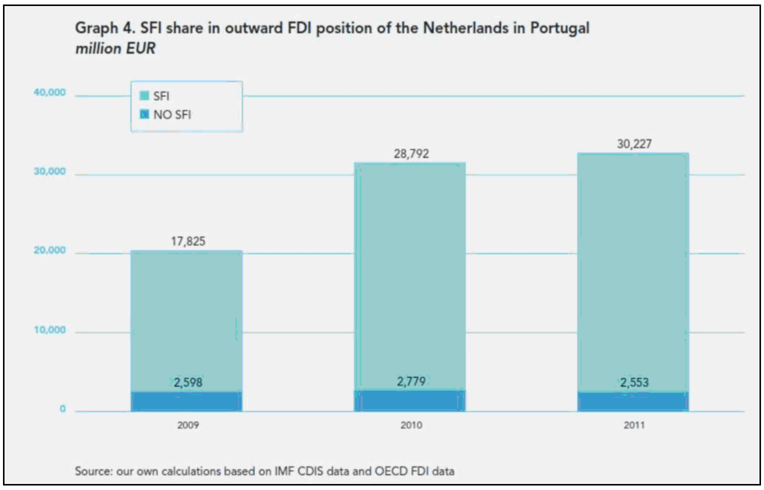
Incidentally, the Netherlands was also the biggest recipient of Portuguese Foreign Direct Investment.

Portugal, 2018
Outward Direct Investment

Total Investment	**62,016**
The Netherlands	13,710
Spain	13,402
Luxembourg	3,766
Brazil	3,634
Angola	3,444

This is a bit strange because you'd struggle to see what all this investment actually is in terms of tangible assets (factories, etc.). So what are they?

This very interesting report ([Avoiding Tax in Times of Austerity](#), SOMO, September 1, 2013) sheds light on this. By recouping IMF and OECD data, it shows that most of this investment is through Special Financial Institutions (SFI), or mailbox companies.



In fact, this FDI from Portugal to the Netherlands and from the Netherlands to Portugal is... Portuguese companies investing in Portugal though financial conduits in the Netherlands, mostly for tax purposes.

Most investments from the Netherlands to Portugal are thus routed through SFIs. We can assume that investments from Portugal to the Netherlands are routed through SFIs as well. The Netherlands therefore serves as a financial conduit. Portuguese companies invest in Portugal and other countries via the Netherlands. To assess the importance of Portugal's role in Dutch SFI investment flows, we can see that 0.9 percent of all investments of SFIs in the Netherlands went to Portugal in 2011 (graph 4). Considering Portugal is a relatively small economy and the Netherlands is one of the world's biggest investors due to its conduit SFI structures, this is a substantial percentage.

Based on CBS data we know how much profit was made by the SFIs established in the Netherlands. In 2011, this was € 26 billion interest income and € 70 billion dividends from investments. In total: a € 96 billion profit.[19] If we assume for convenience that every euro invested yields the same profit, this means that Dutch SFIs with a Portuguese origin made profits worth € 865 million in the Netherlands. If we apply this method to calculate the last three years, we get an amount of € 2.5 billion. This amount is the portion of profit made by SFIs in the Netherlands, which is proportional to the stock of outbound investments by SFIs from the Netherlands to Portugal. This amount is not the avoided tax in Portugal, but rather is an indication of profit shifting, which is a precondition for avoiding taxes. It is important to see that many tax avoidance techniques are not necessarily captured by these figures. The main technique which is not included is 'transfers (mis)pricing´ that is the manipulation of prices on intra-group transactions so that profit falls within a tax-favourable jurisdiction. It is also important to note that in certain tax planning constructions, profit in the Netherlands is kept low. This especially applies to group financing operations, such as the ones described in the following study on EDP, whereby a Dutch entity is used to route funding from the capital market or other group firms to finance group subsidiaries in operating countries.

One prominent example analysed in the report is EDP, the former public electricity supplier now owned by the Chinese Three Gorges concern

other jurisdictions and an overall reduction of companies tax payments. To illustrate how these tax benefits work, the briefing analyses the case of Portugals largest energy company, Energias de Portugal. The case of EDP in particular shows how the Netherlands makes special secret deals (Advance Pricing Agreements or Advance Tax Rulings) with foreign companies that lead to double non-taxation. The paper urges for more transparency and a review of this practice and proposes a number of policy alternatives to end the Dutch harmful tax regime. Political opportunities for tax reform at the OECD and EU level are also identified.

[What Is Real and What Is Not in the Global FDI Network](#)?
Jannick Damgaard ; Thomas Elkjaer ; Niels Johannesen, IMF, December 11, 2019

This IMF paper finds that "phantom investment into corporate shells with no substance and no real links to the local economy may account for almost 40 percent of global FDI"
From the same paper: "the Netherlands, Luxembourg, Hong Kong, Switzerland, Singapore, Ireland, Bermuda, the British Virgin Islands and the Cayman Islands jointly host more than 40 percent of global FDI although their combined share of global GDP is only around 3 percent"
It finds that the proportion of "real" Dutch FDI is just above 20%. More than 70% of it is "phantom" FDI, flows routed through the NL only for accountancy purposes. The Netherlands is in good company here.