

Derivatives: the new way to shift profits without going...

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The importance of the story on [Glencore's tax this morning](#) is easily missed. It's not that Glencore is avoiding tax: I'm not sure that is new to anyone. It is instead how they are avoiding tax.

For long time we have focussed on transfer pricing as the mechanism used by multinational corporations to achieve the goal of shifting profits between locations, and no doubt in many cases that's still true.

But a while ago it became clear to me that this is not the way the extractive industries are now doing so much of this: they're using hedging instead. It's so easy to write a contract to claim the location of risk in a contract has changed, and pay a premium for doing just that. It just so happens the recipient of the risk is in a tax haven, saving tax on the way.

The sums involved are enormous. The tax losses to countries like the UK can be big too. And so long as we don't have a financial transactions tax this game can continue unhindered.

Which is another very good reason for an FTT.