

Financial Plumbing for Big Beer

Mads Godballe

This policy brief departs from the idea of studying multinational corporations' "global wealth chains" (Seabrooke and Wigan 2014a, 2014b). This can tell us how companies protect and create wealth by decentering their corporate forms in advantageous jurisdictions. The brief proposes a method for studying global wealth chains, despite the data limitations that constrain the field, and applies this method to Carlsberg A/S, which is a brewery operating across multiple jurisdictions. Tax planning strategies to use jurisdictions' legal and financial advantages can be easily identified. For example, MNCs can incorporate in one specific jurisdiction to attract institutional investors or raise debt in international financial markets through external agents located in specific jurisdictions. The focus within global value chain literature has been on how MNCs outsource to achieve scale effects and secure low input costs of production. This brief argues that this only tells half of the story about the modern MNC as wealth creation and production, financial plumbing, plays an equally important role.

Data Limitations

Studies of corporate global wealth chains (GWCs) are circumscribed by severe data limitations. MNCs are generally unwilling to share information about their financial activities and annual reports contain limited relevant information. Annual reports do not typically provide detailed ownership information on how parent companies in multinational business groups control subsidiaries and, consequently, we cannot study how MNCs take advantage of double tax treaties between jurisdictions for tax minimization. This is controversial as a number of double tax treaties deprive developing countries from gains and profits when MNCs repatriate wealth. Nor are we able to investigate where the MNC generates income on a country-by-country basis, as annual reports provide aggregate numbers for the business

group. Corporate tax strategies are confidential and valuable assets which live off an information asymmetry between the MNC and regulators, including third parties like academic researchers and journalists. Just like the research and development laboratories of MNCs cannot be visited, we cannot easily attend the meetings where GWCs are created.

GWC researchers are forced to develop novel research techniques that circumvent these data limitations. Excellent examples can be found in the use of experiments to uncover how shell companies are sold, and to whom (Sharman 2011; Findley et al. 2014). This brief suggests to study GWCs from a binary distinction between subsidiaries generating value from supply-chain activities and subsidiaries generating and protecting wealth by undertaking financial activities. This indicates how the MNC has decentered its production, legal and financial functions. Through public company registry searches we can retrieve information that reveals what kind of activities the subsidiary undertakes and how it should be categorized. Other pieces of information such as how the subsidiary was established, its location and how it is controlled also helps discovering patterns of a wealth chain.

Differences among jurisdictions in terms of transparency and how much data they collect about companies is a further challenge to this research method. Around 80 jurisdictions worldwide fail to provide a public company registry. In jurisdictions such as China and Russia a language barrier inhibits 'most' foreign researchers for using the database. The research method therefore primarily applies to jurisdictions where company information can be retrieved for free like for example Denmark or must be purchased like for example Singapore and Hong Kong.

Carlsberg Subsidiaries in ‘Tax Havens’

By searching for all subsidiaries disclosed in the annual report of Carlsberg in public company registries and following the ownership information, this study found 165 entities affiliated to Carlsberg which are spread across 48 jurisdictions. Subsidiaries are concentrated in Western Europe, Eastern Europe and South-East Asia which also are the main markets to Carlsberg. However, the study also finds a joint venture partner established in the Cayman Islands and a minority owner established in the British Virgin Islands. Further research is required to clarify how minority owners and joint venture partners in low tax jurisdictions like the British Virgin Islands and the Cayman Islands benefit a MNC.

My research focuses on the subsidiaries of Carlsberg, which means the subsidiaries where Carlsberg holds a majority of the shares. Further, this research has been demarcated to the subsidiaries established in Singapore, Hong Kong, Switzerland, Denmark and United Kingdom. The first three jurisdictions are well known for providing tax and secrecy advantages and are ranked in the top-five of Tax Justice Network’s Financial Secrecy Index (www.financialsecrecyindex.com), whereas the tax and secrecy advantages in Denmark and the United Kingdom are fewer.

Carlsberg controls eleven subsidiaries in Singapore, which is a very small market for Carlsberg. Out of eleven subsidiaries, nine subsidiaries undertake financial activities and can be categorized as wealth-chain subsidiaries. Taking into consideration that MNCs negotiate their tax rate with the Singaporean government, Carlsberg has great interest in collecting profits in this jurisdiction. Furthermore, Carlsberg potentially benefits from an advantageous tax treaty between Singapore and India that exempts tax on any capital gains arising from sale of Indian shares by a Singaporean parent company, as long as the Indian subsidiary has expenditures above SGD 200. This is relevant as Carlsberg control their Indian operations from Singapore. The tax treaty between India and Singapore also makes the round tripping of capital possible and profitable. This is the circular movement of capital and involves sending capital from India to Singapore before masquerading it as foreign capital when sending it back into India to earn advantages offered to foreign direct investment.

Another relatively unimportant jurisdiction to Carlsberg in terms of sales is Hong Kong, where they have established four subsidiaries. Three of these subsidiaries undertake financial activities, which is interesting given that Hong Kong applies a source principle of taxation which only taxes income earned in Hong Kong by residents. If Carlsberg shifts profits into Hong Kong they should therefore be exempted from tax. Hong Kong also functions as a hub for round-tripping capital into China and Carlsberg’s significant investments in China might explain the underlying logic for this structure.

The final typical ‘tax haven’ jurisdiction that has been investigated in relation to Carlsberg is Switzerland. Switzerland is, different from Hong Kong and Singapore, a larger market for Carlsberg, where they also control a Swiss brewery. Carlsberg has centralized control of their Western-European supply-chain in Switzerland due to the central geographical position. Out of Carlsberg’s five subsidiaries in Switzerland, two subsidiaries undertake financial activities. This includes a complex company structure where one subsidiary has been established in Hong Kong by a legal consultancy company, which later transferred ownership to a Swiss based Carlsberg Subsidiary.

By investigating these three jurisdictions, we can peep into how Carlsberg disintegrates its financial activities into Switzerland, Hong Kong and Singapore. By extending their corporate structure into these jurisdictions they get access to tax and secrecy advantages and enhance the conditions for wealth creation and protection.

Carlsberg in Denmark and the United Kingdom

Turning towards Carlsberg’s engagement in Denmark and United Kingdom these are both significant jurisdictions in the history of Carlsberg. Carlsberg started out in Denmark and is listed at the Danish stock exchange. The United Kingdom became the first export market for Carlsberg in 1868.

During my investigation of wealth chain subsidiaries, Carlsberg Breweries located in Denmark attracted special attention. This subsidiary undertakes financial activities such as raising debt for the entire company group and investing this capital in a network of subsidiaries. One might expect Carlsberg to establish this type of wealth chain subsidiary in a jurisdiction with greater tax and secrecy benefits. However, the investigation of Carlsberg Breweries finds that debt has been raised by issuing bonds at the Luxembourg stock exchange while being protected under British company law. This emphasizes how a MNC decenters its organization into advantageous jurisdictions not only by establishing subsidiaries but also through contractual linkages with external partners. The tax and secrecy benefits cannot be observed exclusively by the location of the subsidiaries, as MNCs apply complex tools for existing outside the regulatory space of the nation state. In a governance perspective this underscores the regulatory ambiguity facing authorities when monitoring business transactions unilaterally.

A study of Carlsberg also shows that gains are being repatriated directly from producing entities located abroad into Denmark and the United Kingdom. Further research is required to clarify whether these repatriations are subject to tax payments in the United Kingdom and Denmark, or where those taxes are paid. Carlsberg controls, for example, an Uzbek brewery from the United Kingdom. Carlsberg may prefer paying the corporate income tax of 8% in Uzbekistan compared to 20% in the United Kingdom. Generally there is evidence that Carlsberg also establishes wealth chain sub-

subsidiaries in United Kingdom and Denmark. This emphasizes that the wealth chain is constituted by subsidiaries both in typical ‘offshore’ jurisdictions like Singapore, Hong Kong and Switzerland but also ‘onshore’ jurisdictions like Denmark and the United Kingdom.

Interpretation of the investigation

One shared characteristic of these findings is that a researcher may look in vain for a ‘smoking gun’. Carlsberg does not engage in any criminal or illegal practices and everything takes place in compliance with current tax legislation. Instead we find evidence that Carlsberg by establishing subsidiaries in jurisdictions like Singapore, Hong Kong and Switzerland put themselves in a position where they are able to enjoy certain tax and secrecy benefits.

The case study also points towards the difficulty of distinguishing between offshore ‘tax havens’ and onshore jurisdictions like Denmark and the United Kingdom. The offshore economy is not separated from the global economy, and Carlsberg controls subsidiaries in Hong Kong, Singapore and Switzerland only for the purpose of bringing protected wealth in these subsidiaries back into the balance sheet of the annual report. This is underlined by the fact that we find wealth chain subsidiaries in all types of jurisdictions and not only in Singapore, Hong Kong and Switzerland.

Carlsberg creates and protects wealth through a wealth chain which creates and protects pecuniary wealth by exploiting tax and secrecy benefits in ‘tax havens’, but parallel to this process, the wealth must also be accounted for in headquarters of Carlsberg. As suggested by the Global Wealth Chains framework (Seabrooke and Wigan 2014b), the onshore-offshore distinction that underpins the discourse about ‘tax havens’ is no longer useful when investigating firm behavior.

Consequently, to my liking, the ‘chain’ metaphor misleadingly captures how global wealth is being managed and controlled by MNCs. Wealth chains indicate a linear flow of wealth, however, the reality shows that wealth is controlled in more complex and fluid networks. This critique corresponds with how the global value chain framework developed into a global production network as contemporary production neither follows a linear process. Following this global wealth networks should be a more adequate metaphor for describing how the contemporary MNC controls its financial activities.

This brief argues that the financial and legal decentering, which is observed by the method of distinguishing between subsidiaries, works as a catalyst for wealth creation and protection. This financial and legal decentering takes place in two layers. One layer of this decentering is observed by the location of the subsidiary illustrated by the subsidiaries in Singapore, Hong Kong and Switzerland. Also, when a subsidiary located in Denmark issues bonds at the Luxembourg stock exchange, this indicates that MNCs decenter and takes benefit of tax and secrecy advantages on a second

and more opaque layer which breaks with the linear logic. MNCs may construct ‘pipelines’ for financial plumbing both above and underneath the regulatory surface. Regulatory authorities and this research can easily find that Carlsberg has established subsidiaries in Singapore, Hong Kong and Switzerland. We struggle to specify the purpose of transactions. Neither are we able to study how internal trade may lead to transfer ‘mis’ pricing.

Conclusions

Carlsberg creates and protects pecuniary wealth by decentering into jurisdictions which offer certain tax and secrecy benefits. By studying the corporate structure of Carlsberg this brief finds that the financial and legal decentering of the firm unfolds on two layers. First, Carlsberg has established firm entities in typical ‘tax-havens’ with subsidiaries that only undertake financial activities and no production activities. This study also finds that similar subsidiaries are established in Denmark and the United Kingdom as Carlsberg is able to take advantage of secrecy and tax benefits through external partnerships which go beyond the location of the subsidiary. This is the second layer of their wealth chain. In a wider perspective, this brief indicates how the relationship between nation states and MNCs is evolving. Tax has historically been a contract between nation states and citizens including companies but some MNCs are now able to dissolve this contract by decentering their organization worldwide.

Note

The data that has been collected about Carlsberg is made publicly available at <http://tinyurl.com/CarlsbergGWC>. Should be viewed by using Google docs.

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Norwegian Institute of International Affairs
C.J. Hambros plass 2D
PO Box 8159 Dep. NO-0033 Oslo, Norway
www.nupi.no | info@nupi.no