PRIVATE PROFITS AND THE PUBLIC PURSE

Four case studies on the financial and tax arrangements of major corporations

PSI

Note: This report was generated as part of a three-day investigative workshop with seven participants, including Union members and activist allies. Working with these participants, Finance Uncovered then took the results of the research, built up these case studies and put our findings to the companies.

We believe this research shows that basic financial analysis fused with the context that union officials bring can create some useful stories that contribute to the evidence base for tax justice and transparency in the corporate world. Thank you for reading it. We would be grateful to hear your views.

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Foreword

By Rosa Pavanelli, PSI General Secretary

From LuxLeaks to the Panama Papers, a series of recent global tax scandals have highlighted appalling corporate behaviours and galvanized public opinion.

When corporations and the mega rich pump billions out of public budgets and into offshore tax havens, it is not a harmless action. They are diverting funds which should be used to build new schools, employ nurses and doctors and improve public infrastructure. And ordinary people are paying the price - especially in developing countries which, for every dollar they receive in aid, lose three dollars to tax havens.

The reason big corporations are getting away with this is because for a long time they have gone unchallenged. They have told the public that complicated accounting matters are best left to the experts - namely those on their own payrolls. They claimed that bad practices are limited to a few bad apples - not a symptom of a structural problem. This spin quickly falls apart when the public sees that the Panama Papers - just one leak from one firm in one country - names over 210,000 offshore companies, and implicates 140 politicians and 12 current or former world leaders.

Sunlight is the best disinfectant, or so the old saying goes. For this reason, PSI brought together activists from civil society, trade unions for an investigative workshop led by journalists from Finance Uncovered at our headquarters earlier this year.

The goal: to examine the tax and financial arrangements of corporations which directly profit from the public sector, be they subcontractors, privatized service providers or suppliers. The following report is an outcome of this workshop, examining four corporations from across the world:

Case One: Umeme, Privatized Electricity, Uganda

Case Two: Roche, Health/Pharmaceuticals, Switzerland

Case Three: Emera, Privatized Utilities, Caribbean/Canada

Case Four: Relx, Education/IP Services, UK/Holland

These cases show that there are clear themes – corporations are increasingly unaccountable, paying fat-cat salaries to top executives while profiting from public budgets, hiding behind secrecy which tax havens often provide, using legal corporate structures to avoid their share of tax. Unfortunately governments are often unwilling or unable to do anything.

One case particularly stands out – Umeme – the privatized Ugandan electricity distributor which Actis, a privatized UK aid fund, owned and then recently sold. While Ugandans were protesting against debilitating electricity shortages and rising charges, an Actis subsidiary was slowly selling down its stake in the company and appears to have shipped over $129 million in capital gains to Mauritius - a notorious tax haven. If these gains had been taxed in Uganda, where they were actually generated, the public budget could have been bolstered by up to $38 million in taxes – enough to pay the annual salaries of over 12,000 Ugandan doctors in a country facing a severe health-worker shortage.

Disturbing cases such as those detailed in this report are the reason why PSI is calling for stronger public country-by-country reporting, protections for whistleblowers who expose abuses, the establishment of a UN Global tax body and an end to damaging double-tax-treaties which are often exploited as means to extract wealth from developing countries. Footloose capital needs to be brought down to earth.

We would like to acknowledge journalist training organisation Finance Uncovered for their hard work finding and developing the leads with the help of PSI affiliates and allies – and for compiling this report. Finally we would like to thank the Friedrich Ebert Foundation for supporting the workshop and this publication.

Case One

Umeme: did Uganda miss out on a $38m tax windfall?

Introduction

Our research has for the first time itemised the substantial profits made by subsidiaries of Actis, a UK-based private equity company, from its investment in Uganda's privatised monopoly electricity distribution company.Furthermore, our analysis suggests a significant amount of those profits were not taxed by the Ugandan government.The amount of tax Uganda may have missed out on could be as much as $38m – equivalent to 6% of its annual health budget.

After sending our findings to the Uganda Revenue Authority, a senior official told us it was now following the case with a view to assessing the situation.

History

Actis is a name that appears regularly in the UK investigative publication Private Eye.

It was once part of the UK's Commonwealth Development Corporation (CDC) – a controversial investment arm of the Britain's Department for International Development.

In 2004, bosses at CDC persuaded the then Labour government to sell them a 60% stake for what was considered an ultra-low price of £373,000.

Actis states its mission is to facilitate the growth of companies in the developing world. But its managers have been criticised for excessive pay awards. The UK's Public Accounts Committee in 2007 accused Actis of "extraordinary levels of pay in a small publicly owned organisation charged with fighting poverty, with the Chief Executive receiving £970,000 in 2007."

In 2012, Actis bought out the remaining 40% stake from the UK government for $13m. This final sale also granted the UK government a share of future profits from Actis's investments.

One of Actis's first deals was in 2004 when it won the license to operate Umeme, Uganda's privatised electricity distributor.

Initially, Actis shares in Umeme were held in the tax haven of Bermuda. The shares were later held via Umeme Holdings Ltd, an Actis subsidiary based in Mauritius. Mauritius is another tax haven where the effective corporation tax rate is 15% but for most "global businesses" is just 3%.

Our research has for the first time estimated the profit that a subsidiary of Actis has made from its sales in Umeme – some $129m, a figure Actis has not disputed.

But due to the way Actis structured its shareholding in Umeme in Mauritius Ugandan taxpayers appear not have received anything from the share sales.

Actis says during its entire involvement with Umeme it has paid every penny of tax due and there is no suggestion it has acted illegally.

But this issue, known as Offshore Indirect Transfers (OITs), goes to the heart of the interplay between domestic tax laws and international tax treaties. It has long exercised policymakers in Uganda and in many African countries. Now even the OECD and the IMF are focusing on OITs.

Put simply, are revenue authorities able to tax the substantial capital gains made by companies in their countries if the shares are held outside their jurisdiction in a tax haven?

At the moment, it appears the answer to that question is "No." It means developing countries could be missing out on many billions of dollars.

While most attention in the tax justice community has focused on corporate tax avoidance, avoiding capital gains tax, we believe, represents a new front in the tax justice debate.

Investigating profits

To gain an idea of the revenues and profits that flowed to Actis entities in the later stages of its investment, we trawled seven years of Umeme accounts from 2010. We also scrutinised official disclosures from Actis and Uganda's National Social Security Fund – currently Umeme's biggest shareholder.

We then ran our figures past accountants and Actis. Thanks to Actis guidance, we revised our figures and are confident they are robust.

The result of our analysis suggests that Actis entities received $220m from Umeme since 2010.

We identified income from Umeme to Actis subsidiaries in four areas:

1)Share sales

2)Dividends

3)Interest on the shareholder loan

4)Management Fees

Share sales

In 2012, an Actis company, Umeme Holdings, sold 39% of Umeme Ltd in what was one of the biggest Initial Public Offerings on the Uganda stock exchange ever seen. Some $65m was generated. Actis stated this cash went to pay off a $25m loan from the International Finance Corporation, an arm of the World Bank, and a $27m shareholder loan (see below). The remaining proceeds from the share sale were reinvested in the business, the company stated.

ITEM	Amount $m
Management fees	$5.44
Share of dividends	$9.87
Interest on shareholder loan	$11.20
39% share sale	$65.00
45.7% share sale	$98.00
7.5% share sale	$16.90
Estimate on Remaining 6.8%	$14.50
TOTAL	$220.91

At this point, Actis, via Umeme Holdings,still retained 60% of the business and Umeme Ltd continued to make profits, on which it paid corporation tax to the Ugandan Treasury.

The second sale saw 45.7% of its stake sold for $98m in 2014. This left Actis, via Umeme Holdings,with a 14.3% stake.

In the last two months of 2016, Actis, via Umeme Holdings,disposed of its last remaining shares in two separate transactions. Uganda's National Social Security Fund bought 7.5% of Umeme at a 7% discount to the Umeme share price at the time. NSSF paid $16.9m for the shares according to its statement at the time.

Applying the same discount to the final 6.8% holding, we estimate that Umeme Holdings received $14.5m. This figure is possibly a slight under-estimate.

In total, we found Umeme Holdings received $194.4m from the sale of shares in Umeme. But excluding the proceeds of the 2012 Umeme float, we estimate Umeme Holdings might have profited on its exit to the tune of $129.4m.

Interest on loan

Actis subsidiaries also derived revenue from Umeme from interest it charged on a $27m shareholder loan. According to Umeme's 2011 accounts, interest was charged at 12% per year.

In the three years to 2011, according to Umeme accounts, interest totalled $11.2m which went to Actis entities.

The level of interest was double what the International Finance Corporation charged Umeme on a separate $25m loan.

Was this a way of scooping extra profits for Actis? We asked Actis why companies linked to it charged Umeme such a high interest rate. It stated that it is "completely normal for a subordinated loan to have a higher interest rate than senior loans".

But there are strong indications that Actis entities saw the shareholder loan as a way of extracting revenues from Umeme. In Umeme's prospectus prior to its 2012 float on the Uganda Stock Exchange, the company stated that Umeme has "paid an increasing level of shareholder loan interest for the past three years as a means of distributing cash to shareholders". Those shareholders were companies linked to Actis.

Dividends

According to the 2012 IPO prospectus for Actis, one reason for charging Umeme "an increasing level of shareholder loan interest" was because Actis did not take dividends from Umeme until it floated on the stock market.

After the firm floated, however, its subsidiaries received close to $10m in dividends through its ownership of shares between 2012 and 2015.

We came to this $10m figure by identifying the total dividends paid to shareholders as disclosed in Umeme's cashflow statement. We then calculated how much of this total dividend figure would flow to Actis entities according to its shareholding at the time.

Actis did not comment on this $10m figure.

Management fees

Umeme accounts show that an Actis-owned entity, Globeleq Expatriate Services, received $5.44m in management fees from Umeme. The bulk of these fees were between 2010 and 2015.

Actis said virtually all the income from these fees went to pay Actis expatriate staff. We asked Actis how many managers shared this $5.44m fee. The company declined to give a specific answer but suggested "it was a significant number across a large range of roles and responsibilities".

Did Actis pay tax in Uganda on the profits from its share sales?

One of the key questions for the people of Uganda is to what extent their country benefited from any share profits made by the private equity businessmen at Actis.

Actis, which did not dispute the $129.4m gain we estimated its subsidiaries made from the share sales, says that "Umeme and Actis entities paid 100% of taxes due".

It added that "a significant portion of loan proceeds and dividends were not distributed for Actis, as they were required for our various other loan payments, transaction costs, fees, management."

Actis points out that during its 11 years involvement with Umeme the number of Ugandans connected to the grid had risen from5% to 16%of its 37 million population. Energy losses through theft and power outages both fell, while bill collection rate had risen to 98.4%.

It sounds like an impressive tale. But even Umeme's headline achievements are not the whole story.

Yes, the number of Ugandans connected to the grid rose in 11 years. But the overwhelming majority still do not have access to power.

Countries such as Togo, Cote d'Ivoire and Mali are just a few of the sub-Saharan nations that have a more reliable electricity network than Uganda, according to World Bank data.

Electricity prices for consumers has been a bone of contention in Uganda. Bills have for long periods been above the average paid in sub-Saharan African countries. As soon as the country's electricity utility was privatised in 2004, Umeme, the company that took over, hiked prices, as PSI research in 2007 showed. Tariffs immediately rose by 24% and then by a further 34% two years later.

And after speaking to tax experts, we believe it is the Uganda Revenue Authority (URA) did not receive anything from the sales. In fact, we are now aware that the URA is following this case closely.

With a corporation and capital tax rate of 30% in Uganda, its state coffers could have increased by as much as $38m before deductions for any allowances such as entrepreneur's relief. A figure of $38m is equivalent to 6% of Uganda's entire health budget.

In Uganda, it is, still unclear whether capital gains tax was triggered. Two years after the 2012 IPO, a source at the URA told the Independent newspaper in Uganda that a capital gains tax liability may have been triggered but this remained unconfirmed.

In the same article, a source at the Uganda Stock Exchange said the floatation was exempt due to a law passed in 2010.

Either way the proceeds from subsequent share sales flowed to the tax haven of Mauritius.

It may be that an interplay between domestic legislation and the international taxation system that permits overseas investors to book profits in ultra-low tax jurisdictions.

Under reform to Uganda's tax lawin 2010, the sale of shares in public limited companies are exempt from newly introduced capital gains tax provisions. This could mean Umeme Holdings, the Actis subsidiary which owned shares in Uganda's electricity distribution firm,had no capital gains tax liability in Uganda when it sold out of Umeme.

However, we have been informed from URA sources that the amendment in the Income Tax Act in 2010 was aimed at taxing individuals who own and dispose of shares in companies. If so, this provision might not apply to Actis since the shares held in Umeme were a business asset.

But as appears to be the case, with no capital gains tax to pay in Uganda, there still should have been a taxable profit. That taxable gain, it seems, went to Mauritius – and not Uganda.

The Mauritius Factor

We asked Actis why it structured its shareholding in Umeme in Mauritius, where the effective corporation tax is 3% as opposed to 30% in Uganda. The company declined to comment.

But it meant that all profits due to the parent company from Uganda were levied at a lower rate.

And due to a double taxation treaty between Uganda and Mauritius (see Box below), companies based in Mauritius cannot be liable for capital gains or corporation tax in Uganda.

This is a major issue currently exercising senior policymakers at the Paris-based OECD the world's most important tax policy organisation, and at the International Monetary Fund.

In a recent discussion paper in 2017, the OECD found "a strong case in principle… for the taxation of such transfers by the country in which the asset is located".

There is a strong argument to suggest that the economic value of Umeme was created in Uganda and Uganda should have benefited from the substantial gain made by Actis. It appears that Uganda missed out.

Mauritius – Uganda Tax Treaty

Tax treaties between countries are an established feature of the international taxation system. The original reason these bilateral agreements were signed was to avoid the double taxation of individuals and companies who may be resident in one country but source their income in another.

The treaties cover income tax, withholding tax, capital gains tax and many other areas.

However instead of preventing double taxation, today even policymakers responsible for the international taxation system say that we now are in an age of double NON-taxation. Today, double tax agreements permit the legal avoidance of tax on a truly massive scale.

This is because double tax agreements tend to override domestic tax law. Low tax jurisdictions – like Mauritius – offer generous provisions, waivers and exemptions for resident companies.

Mauritius and Uganda signed a bilateral treaty in 2003.Tax experts we spoke to said Actis would not be a resident in Uganda under Article 14(4) of their agreement.

So even though the gain in value of Actis's Umeme shares took place in Uganda, the profits have to be taxed in Mauritius and not Uganda.

However, Uganda has tried to deal with tax avoidance via so-called "treaty shopping" – the practice which sees companies locate subsidiaries in tax havens to reduce tax obligations.

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Uganda is in a long-running dispute with the Kuwaiti firm Zain over its alleged non-payment of $85m in a closely watched legal case among the continent's revenue authorities. The dispute dates back to when Indian giant Bharti Airtel bought the African assets of Zain, a Kuwaiti company, for $9bn in 2010. The sale avoided capital gains tax as it was transacted in the Netherlands, even though neither company had any operations in the country.

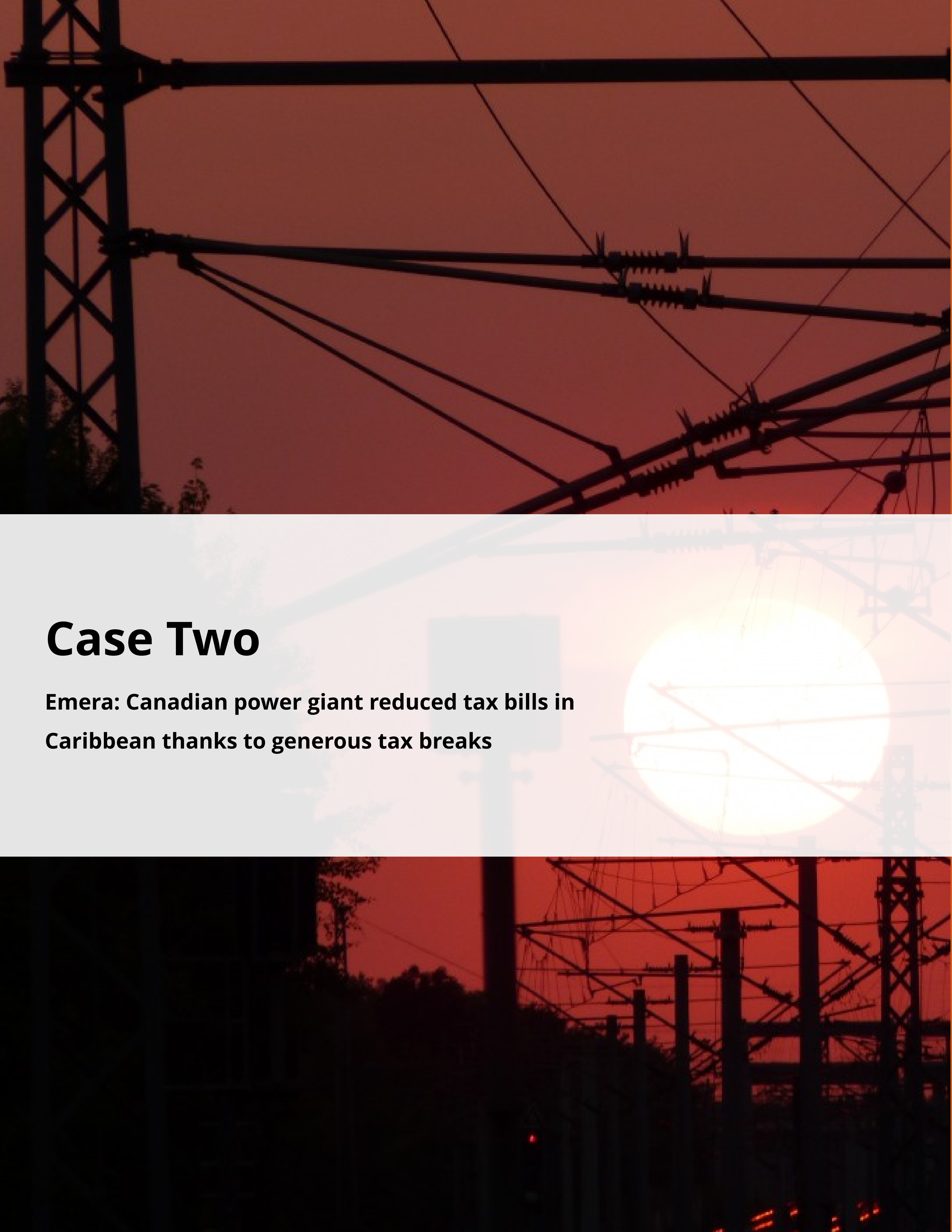
PSI Analysis:

"Umeme is a classic example of what happens when control and ownership of a natural monopoly such as electricity distribution is not only privatised, but also then handed over to a private equity fund that is free to structure its business using tax havens. The question is, who benefits

The privatisation of Uganda's electricity sector has provided a UK private equity company with an enormous profit in the region of $130m. And it seems there is a very strong likelihood that a substantial amount of those profits were not taxed in Uganda, the place where those profits were made. At stake could be as much as $38m.

This is a significant amount of money in a country where schools, education and infrastructure requires urgent investment. We believe the Uganda Revenue Authority needs to establish if it can claw back any tax from the profits made by Umeme. Policymakers need to ensure that the profits derived from an enterprise in Uganda are taxed in Uganda. This may require amendments to the Uganda-Mauritius DTA. But there is a wider systemic issue here. Multinational companies and financial investors routinely relocate the shares of profitable operating companies in an overseas tax havens to avoid capital gains and corporation tax as well as a whole host of other tax benefits.

A recent report by The European Services Strategy Unit showed that 100% of sampled PPP equity exchanges in Europe are structured through three tax havens: Luxembourg, Guernsey and Jersey. Unfortunately, there is no reason to believe that offshoring public assets is not similarly widespread across the globe. Rules need to be put in place to ensure the countries were profits are made benefit from the tax. Footloose capital needs to be brought down to earth."



Case Two

Emera: Canadian power giant reduced tax bills in Caribbean thanks to generous tax breaks

Emera is a highly profitable monopoly energy company powering 230,000 households in Dominica, St Lucia and Barbados.

And shareholders in Emera Caribbean have most certainly reaped impressive rewards. In the four years to 2015, Emera Caribbean has paid out BB$204m (US$102m) in dividends.

On top of those BB$204m (US$102m) dividends, Emera Caribbean more than doubled its "cashpile" to BB$256m (US$128m) in just four years to 2015 according to stock market filings.

In fact, Emera Caribbean made so much money in the Caribbean that its Canadian parent - which already was the majority shareholder and so pocketed the lion's share of dividends – last year had the financial firepower to buy itself off the Barbados stock market.

So today all profits and dividends flow to Emera Inc, a quoted Canadian utility giant based in Halifax, Nova Scotia.

Perhaps one factor in Emera Caribbean's stunning financial success story is that in the four years to 2015, it had an effective tax rate of just 8.6% against an official Barbados corporate tax rate of 25% according to analysis by PSI and Finance Uncovered.

And our research shows that Emera has benefited from a series of tax reliefs and allowances that have greatly reduced its tax bill.

In the four years to 2015, Emera Caribbean received BB$13.24m (US$6.62m) in manufacturing and investment tax allowances.

This may have shaved around BB$3.3m (US$1.65m) off its tax bill.

Low taxes for one of the Caribbean's most significant companies comes as government budgets are stretched to breaking point even before the recent devastating hurricanes.

In Barbados, government debt has ballooned while foreign exchange reserves have shrunk in recent years.

The economic plight has prompted a steep rise in the National Social Responsibility Levy on imported and domestically manufactured goods from 2% to 10%. A tax from which ordinary people have no escape but to pay.

So why has Emera Caribbean received these tax allowances? Was it to help compensate the company for the installation of new solar power technology that will make the Caribbean's energy mix less reliant on oil and more climate friendly? Emera, after all, makes great play at how it is at the forefront of making the Caribbean and its other key markets greener.

A Caribbean solar power industry expert we spoke to who preferred to remain nameless said he was not until now aware that Emera "enjoyed a lower tax rate than a regular company in Barbados".

"They are a utility company so manufacturing should not have been cited as a reason for a lower tax bracket since they do not manufacture anything," he said.

Emera has created a renewable energy incentive that means customers receive cash for solar power they produce.

But our expert told us: "The overall amount of solar generation in the country is still relatively small so I don't believe a tax break is justified from a solar perspective..

"If the government wants to offer a lower tax rate because Emera is the only utility company and because electricity is vital for a country to operate then that corporate rate should be clearly specified as a different category within regular corporate taxes. I don't see the correlation or reason to tie the reduced rate to any solar development within the country."

Emera repeatedly refused to explain to us why it received tax allowances from Caribbean treasuries.

It would seem politicians and journalists could usefully investigate what tax incentives are on offer to big companies in the Caribbean and whether they are justified.

Another serious issue that has arisen through our research is that since Emera Caribbean was taken off the Barbados stock market, its accounts are no longer available to the public.

This means we have no way of knowing how much tax Emera Caribbean is paying to Barbados. Or the level of tax allowances it receives.

We asked Emera in Canada whether it would disclose the Caribbean holding company accounts so citizens could check its profits, the tax allowances it was receiving and its overall tax bill.

Sadly, Emera in Canada refused to disclose its accounts.

“As you have noted, ECI became an indirect wholly-owned subsidiary of Emera in 2016,” the company told us. “The common and preferred shares of ECI which were previously listed on the BSE were subsequently delisted. As a result of the delisting, ECI does not issue an annual report in the historic format.”

This is one reason why full transparency of company accounts in every country companies operate in is important. This is known as Full Country by Country reporting and it is a key demand of the global tax justice movement.

PSI Analysis:

“Emera Caribbean’s Annual Reports show that the company was consistently generating huge profits, handsome dividends and steadily amassing a very healthy cashpile. So it is perplexing that the company was the beneficiary of tax allowances that contributed to Emera having an average corporate tax rate of 8.6% in the four years to 2015.Local unions, the media and politicians must ask just why these allowances are being offered. Do these allowances truly represent good value for money? Our suspicion is that a profitable company like Emera does not require government handouts. It appears that Emera has the scope to pay more tax than it is currently paying. The extra money could be usefully deployed to improve the Caribbean infrastructure which is badly in need of investment after the recent hurricanes.

There is, however, another vital issue that this story has brought to light. Now that Emera Caribbean has been taken off the Barbados stock market, its accounts are not available to the public. We now have no way of knowing Emera Caribbean’s overall revenue, its costs and other key financial data including the tax handouts it receives from revenue authorities. This is neither nor transparent nor fair to the residents where Emera operates in the region. This case demonstrates how important full Country-by-Country reporting data is. Today we cannot see whether Emera Caribbean is still receiving tax allowances from the governments of the Caribbean. We do not know much profits the company is making. This is unacceptable. Emera is a company that provides a utility to citizens in the Caribbean. Governments across the world should report annually on the tax deals they have done on behalf of the people they serve and outline what the supposed benefits are so that the public has all the information.

Case Three

RELX: Fat-cat salaries as the cost of knowledge balloons

The chief executive of an Anglo-Dutch publishing giant that has been at the centre of a long running boycott by academics -- who accuse it of profiteering from their work -- has earned £54m in salaries and bonuses since the campaign began five years ago.

Our research shows that Erik Engstrom, the chief executive of RELX Group Plc – formerly known as Reed Elsevier – has been paid an average of £10.9m a year since 2012, the year his company was targeted by academics around the world as part of their Cost of Knowledge campaign.

His pay places him among the world's highest paid plc chief executives.

Engstrom's rewards mirror the performance of the company, which made £1.9bn in pre-tax profits in 2016 on a healthy net profit margin of 28%.

A significant portion of the company's revenues are generated from the sales of academic publications and last year, such revenues were £1bn, or 15% of group turnover.

But academics themselves, many of whom have suffered a real-terms fall in salaries in the period, claim the company profiteers from their work by charging huge fees to university departments and libraries for their publications.

They say not only is that unjustified, but also strongly against the ultimate principle of open access for scholarly work.

RELX's subsidiary Elsevier can charge a university departments more than £1,500 a year for a subscription to an academic journal – which may contain material produced by its own academics and provided to RELX free of charge.

The seeming imbalance between author and commercial publisher came to a head five years ago when a number of prominent mathematics academics decided they had had enough.

They called on colleagues to join their Cost of Knowledge boycott and to stop providing any works to Elsevier.

Within months 13,000 academics had signed up and the figure now stands at 16,794.

Their fundamental argument was that Elsevier charges "exorbitantly high prices" for subscriptions to individual journals, which means the "only realistic option" for many libraries is to buy large bundles of journals -– many of which would not actually be needed.

At a time of cost cutting in higher education, this added to another drain on resources.

"Elsevier thus makes huge profits by exploiting the fact that some of their journals are essential," the boycott leaders said.

They also point out that the digital publishing era has significantly changed the dynamics in favour of the big publishing corporations.

When print journals were the preeminent distribution channel, there was more justification for the publishers' prices, they argued.

But now, authors – who are not paid by the publishers even though they are expected to sign over the copyright for their work – are doing the bulk of the work.

The protesters say they not only now typeset their own pieces but also that electronic publications means much lower costs in general.

In their public statement against Elsevier, the academics said: "In conclusion, the cost of journal publishing has gone down because the cost of typesetting has been shifted from publishers to authors and the cost of publishing and distribution is significantly lower than it used to be.

"By contrast, the amount of money being spent by university libraries on journals seems to be growing with no end in sight.

"Why do mathematicians contribute all this volunteer labor, and their employers pay all this money, for a service whose value no longer justifies its cost?"

Elsevier was specifically targeted above its rivals because academics felt it was the “worst offender”.

However, spokesman for RELX said that while the company “regretted” the boycott, the campaign was failing to have any real impact.

He said that of the almost 17,000 academics who had signed up to the boycott, only around 4,000 were individuals who had actually published with Elsevier before.

“This is not a large number, given there are 7-10m researchers in the world.”

The spokesman added that Mr Engstrom’s salary package was entirely justified and pointed out that 95% of RELX shareholders voted in favour of his remuneration at its annual general meeting earlier this year.

“This is not a large number, given there are 7-10m researchers in the world.”

The spokesman added that Mr Engstrom’s salary package was entirely justified and pointed out that 95% of RELX shareholders voted in favour of his remuneration at its annual general meeting earlier this year.

He said shareholders had not complained about the package because his tenure in charge had seen a trebling in the company’s share price.

“A large proportion of Erik Engstrom’s remuneration has been in shares, and the largest part of the remuneration has been because of the share price increase, rather than salary and bonus,” he added.

RELX Group, which has customers in more than 180 countries and offices in around 40 countries, employs approximately 30,000 people.

A spokeswoman for Education International, a federation of more than 400 trade unions representing teachers and academics around the world, said:

“The commodification and commercialisation of education is most prevalent across the further and higher education and research domain.

“One of the key drivers of that commercialisation is Elsevier/RELX."

Education International’s further and higher education and research sector has identified Elsevier/RELX as one of the dominant publishers that is shaping the higher education and research market whilst hugely profiting from commercialising (mainly) publicly funded research.

“As part of the Education International’s global response to the commercialisation and privatisation of education, Education International and its member organisations are further examining Elsevier/RELX’s business model with a view to exposing, halting and reversing the growing commercialisation of education."

PSI Analysis

“It is incredible that the salary of Relx’s chief executive last year was a staggering 413 times higher than the UK average salary. It is hard to justify the boss of a publishing firm receiving such a high package.

To us, Relx and its chief executive are exploiting the academics who are giving their work away for free. Mr Engstrom is getting very rich off the back of people whose main motive is to spread knowledge and improve the level of learning in the world.

To our mind Relx has a business model that is worthy of disruption and Mr Engstrom a salary that reflects a corporate greed. Continued and concerted action by academics and other activists can tackle both these twin issues head on.

Case Four

Roche Group: Swiss pharmaceutical giant declines to settle $2.8bn tax bill

Swiss pharmaceutical giant Roche, which has lucrative contracts with public sector health services around the world, has been declining to settle a $2.8bn tax bill amassed with a number of countries for at least eight years.

The tax liability has been highlighted for the first time by the company's own auditors KPMG which said it had "challenged" the judgement of senior managers on how the disputes might be resolved.

The auditors' concerns were discovered during an analysis of the company's latest annual report.

The bill comprises liabilities in several tax jurisdictions and relates to how Roche sets transfer prices for goods and services between its many subsidiary companies.

Transfer pricing is one of the most important issues in international tax. It happens whenever two companies that are part of the same multinational group trade with each other. When a US-based subsidiary of a multinational, for example, buys something from a German-based subsidiary and the parties establish a price for the transaction, this is transfer pricing.

Transfer prices are often used by multinational companies to try and minimise and sometimes avoid tax liabilities.

When there is an unequal relationship between the size of a powerful multinational company and the revenue authority of the country where economic wealth is generated, the ordinary taxpayer faces a higher risk of losing out.

This has implications for the money available to spend by governments on public sector services such as health and education.

According to its annual report, Roche made $13.4bn pre-tax profits last year and paid $3.3bn in tax. Its chief executive Severin Schwan earned $12bn.

Roche is best known for its cancer treatment drugs Rituxan/MabThera (lymphoma), Avastin (general tumour treatment) and Herceptin (breast cancer) -- and it receives significant public funding from some countries to help develop some of its products.

The company also says it has a strong commitment to transparency.

Indeed, it says the concept is one of its core principles and in its latest annual report for 2016, the word is mentioned 14 times.

In a section on corporate principles, the report states: "Roche is committed to serving all its stakeholders. As a basis for the successful implementation of this commitment our corporate governance principles accordingly put the focus of our business activities on sustainable value creation and innovation and prescribe a management culture conforming to recognised standards of good corporate governance and a policy of transparent communication."

Yet when we asked the company for details of $2.8bn tax bill, including a breakdown of the liability by country, a Roche spokesperson declined, saying: "We do not release more detailed information to single persons as we want to treat all readers of our financial statements equally."

This means it is not currently possible to approach individual governments for details of the disputes.

KPMG's intervention came after a change of auditing rules in Switzerland that requires auditors to provide more details about "key matters" they find during their annual investigations.

KPMG said in the annual report that sought third-party expert opinions before publishing its statement.

In highlighting what KPMG described as Roche's "uncertain tax issues", the auditors said analysis of the liability required "a significant level of expertise and judgement".

In its report, they said: “We challenged management’s judgement regarding the eventual resolution with national tax authorities of double taxation conflicts, pending tax audits and estimates of tax exposures with the assistance of our local country tax specialists.

“For the most significant uncertain tax positions, our work included the assessment of third-party opinions and the use, where available, of past experience with the tax authorities in the respective jurisdiction. Additionally we used our own tax specialists’ expertise to assess the appropriateness of the key assumptions made by management and to conclude on a best estimate of the outcome.

“Our audit approach included additional audit procedures performed at Group level to consider the more significant uncertain tax positions in particular for transfer prices applied for goods and services and intellectual property rights.”

Roche said in a statement to Finance Uncovered: “The assessment of income tax assets and liabilities is indeed a key area of management judgement, as we ourselves note in the 2016 Annual Financial Statements and also similar statements in previous years.

“There is no disagreement with auditors.”

PSI Analysis:

"Thanks to a one line disclosure buried in Roche's accounts, we can see the company has tax disputes with revenue authorities in a number of countries which total $2.8bn.

The sums at stake are huge.

And this is by no means an isolated incident. At the same workshop we identified tax disputes amounting to nearly $10bn at a major international water company. Let's assume the state is entitled to just 25% of a combined $12.8bn claim, that is a $3.2bn. A substantial sum that can make a real difference.

When it comes to Roche it is worth bearing in mind that many of the drugs it makes substantial profits from were initially developed thanks to publicly funded research in university laboratories. A recent survey found that 75% of the most innovative drugs brought to market in the USA by companies like Roche, originated from research by publicly funded institutions.

It means it is doubly important the world's drug companies, whose biggest clients are state funded medical systems, pay their fair share of tax.

If they don't there is a real risk that cutting edge research for the next generation of life saving drugs is compromised. We need to know which countries Roche – one of the biggest pharmaceutical companies in the world - is in dispute with.

Unfortunately the company won't tell us. What we do know is that the Roche tax disputes centres around transfer pricing. Transfer pricing are internal trades between various subsidiaries of multinationals.

When companies have complex supply chains they ought to internally price components at levels that compare favourably to the real world price. Unfortunately many multinationals abuse what is a notoriously opaque area.

Transfer price abuses can inflate costs or minimise internal profits.This area requires the vigilance and expertise of revenue authorities to ensure companies are not gaming the system.

At present, there is a real concern that revenue authorities around the world do not have the capacity to successfully interrogate a multinational's transfer prices. This is why cuts in revenue authority staffing is counter-productive.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