

The Dark Side of Cadbury



Methodist Tax Justice Network

Case Study #1

Cadbury – an ethical business?

Founded in Bournville, Birmingham, by a Quaker family in 1824, Cadbury is a British institution and manufacturer of iconic confections. The Cadbury brand has always been associated with philanthropy, a strong community spirit and an ethical policy that reflects their Quaker origins.



However, this all changed when the company was taken over by Kraft in 2010. Their closure of Cadbury's UK production centre in Bristol and subsequent relocation of the European headquarters to low-tax Switzerland were seen as a rejection of Cadbury's ethical values.

Unfortunately, where tax is concerned, the waters are slightly muddier, and the divide between the ethics of Cadbury and Kraft (who have since become Mondelez International) is not clear cut.

An article in the Financial Times, also reported by the Guardian, revealed that in the decade prior to the takeover, between 2000 – 2010, Cadbury were engaged in 'aggressive tax avoidance', and paid an average of just £6.4m corporation tax on annual profits of over £100m. Tax dodging schemes included sheltering £400m in the Cayman Islands to wipe £9m off their tax bill in a single year, and a complex transfer pricing arrangement codenamed 'Chaffinch' which allowed Cadbury to 'save' £17m between 2006-8.

That was then – what about now?

Mondelez have repeatedly sought to divorce themselves from the aforementioned scandal.

"The FT article relates to a period from 1997-2010 when Cadbury Schweppes PLC and Cadbury PLC were entirely independent businesses. It would therefore be inappropriate for us to comment." **The Guardian, June 21st 2013**

"We follow the rules. We pay US corporation tax as we are an American company but we have made large investments in the UK and of course all our employees pay tax here. We follow all the rules of what taxes we should pay."

The Independent, May 10th 2013

"In common with all global businesses, Mondelez pays corporation tax based on the laws of the countries in which we operate. We comply with all applicable tax legislation in the UK." **BBC Radio West Midlands, July 2nd 2013**

Just how true are these statements? Besides their Swiss-based European headquarters, a quick look through the extensive list of Mondelez subsidiaries bearing the Cadbury name makes for even more interesting reading. For example, what might the five subsidiaries in the box below have in common?

Cadbury CIS B. V.; B.V.; Cadbury Enterprises Holdings B.V.; Cadbury Holdings B. V.; Cadbury Netherlands International Holdings B. V.; CS Americas Holdings B.V.

The answer – they are all registered in the Netherlands. Despite their 25% corporate tax rate, the Netherlands' 'double taxation treaties' with 80

countries, and 'participation exemption' law (meaning subsidiaries of Dutch companies are exempt from paying tax on dividends) make the Netherlands the perfect place to set up 'holding companies' – in other words, profits made overseas are being funnelled through the Netherlands to reduce the tax bill.

What of their claim that 'we pay US corporation tax?' Well if you're a US company wanting to lower your tax bill, there's one place to go.

Delaware-based Subsidiaries:
Cadbury Schweppes US Finance LLC; Mondelez International Holdings LLC; Mondelez International Service LLC; Mondelez International Service Holdings LLC

Delaware is the US's own on-shore tax haven. It has more corporate entities (mostly shell companies) than people, and has enabled US companies to avoid a combined total of \$9.5bn in the last decade. There are also three subsidiaries registered under the old Cadbury Schweppes name in Ireland (10% corporation tax), and another on the Isle of Man (0%).

Using subsidiaries to reduce tax bills is a widespread practice, and is not illegal. However, allegations from India suggest something much less

law-abiding. The Wall Street Journal revealed that Cadbury India managed to avoid paying \$46m in taxes by building a 'phantom factory' in the state of Himachal Pradesh, to gain a tax exemption for companies with operational plants in the state before 31st March 2010. They couldn't possibly have begun commercial production before January 2011.

What Can We Do?

Here are just a few suggestions as to how you can campaign to make Cadbury come clean, as well as campaigning for tax justice in general:

- Boycott Cadbury - until we see evidence that Cadbury are paying tax commensurate with their sales in all countries in which they operate, we will refuse to buy from a company who avoid making their appropriate contributions to wider society.
- Write to the management – Mondelez and Cadbury need to know that they can no longer get away with the sin of large-scale tax avoidance. The former Chair of the Birmingham Methodist District has already done so – why not do the same? Alternatively, email the Mondelez board at: Mdlz-board@mdlz.com.

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- Write to your MP and MEP about why they should implement country-by-country reporting and automatic information exchange. We heard David Cameron make some big promises at the G8, but now we need to see big actions.
- Email mtjncoordinator@gmail.com for more information, or to join the Methodist Tax Justice Network mailing list.