



EXECUTIVE SUMMARY

# Prescription for Poverty

Drug companies as tax dodgers, price gougers, and influence peddlers

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OXFAM

## Background

New Oxfam research shows that four pharmaceutical corporations—Abbott, Johnson & Johnson, Merck, and Pfizer—systematically stash their profits in overseas tax havens. They appear to deprive developing countries of more than \$100 million every year—money that is urgently needed to meet the health needs of people in these countries—while vastly overcharging for their products. And these corporations deploy massive influencing operations to rig the rules in their favor and give their damaging behavior a veneer of legitimacy. Tax dodging, high prices, and influence peddling by drug companies exacerbate the yawning gap between rich and poor, between men and women, and between advanced economies and developing ones.

**Cover image:** Sushmita (left, now 13 and shown here with her mother) was 3 when she got Japanese encephalitis, a mosquito-borne disease, in India's northern Gorakhpur province. Sushmita was lucky, she survived. But she can't walk properly and has partly lost use of her hands, making it very difficult for her to write. She wants to do well in school, but struggles to keep up. Japanese encephalitis is endemic in this area of India. Poor public health conditions, lack of safe drinking water and proper sanitation, and few health facilities put young children in danger of Japanese encephalitis and other preventable diseases. More than 1,300 children died at the one hospital in the area in 2017, 69 of them in the course of four days when the hospital failed to pay its bill for oxygen the children needed to survive. Lack of investment in public health in India, due in part to corporations avoiding paying their taxes, imperils the lives of people living in poverty and worsens inequality in this area of the country. *Photo: Zacharie Rabehi/Oxfam*

## Engagement with drug companies

Oxfam reached out to all of the companies named in this report to share the data we gathered, the methodology we employed, and the findings of our research. We sent them our recommendations, and sought to engage them directly regarding responsible corporate tax practice. We reached out to the major pharmaceutical trade associations named in this report, as well. This report integrates the responses that we received. The corporations neither confirmed nor denied the specific research findings in this report.

## Executive summary

The world's biggest drug companies are putting poor people's health at risk by depriving governments of billions of dollars in taxes that could be used to invest in health care, and by using their power and influence to torpedo attempts to bring down drug costs and police their behavior.

New Oxfam research shows that four major pharmaceutical firms—Abbott, Johnson & Johnson, Merck, and Pfizer—systematically stash their profits in overseas tax havens.<sup>1</sup> As a result, these four corporate giants appear to deprive the United States of \$2.3 billion annually and deny other advanced economies of \$1.4 billion. And they appear to deprive the cash-strapped governments of developing countries of an estimated \$112 million every year—money that could be spent on vaccines, midwives, or rural clinics.

Such tax dodging corrodes the ability of governments everywhere to provide the public services that are essential to reducing poverty and that are particularly important for women. And it weakens governments' ability to invest in health research, which has proven to be fundamental to medical breakthroughs.

As if this weren't enough, the corporations mount massive lobbying operations to give price gouging and tax dodging a veneer of legitimacy. Their influence peddling is most blatant in the United States, where the pharmaceutical industry outspends all others on lobbying. But it is equally pernicious in developing countries, where the companies have won sweetheart deals that lower their taxes and divert scarce public health dollars to pay for their high-priced products—and where they deploy the clout of the US government to protect their profits.

Tax dodging by pharmaceutical companies is enriching wealthy shareholders and company executives at the expense of us all—with the highest price paid by poor women and girls.

Oxfam is not accusing the drug companies of doing anything illegal. Rather, this report exposes how corporations can use sophisticated tax planning to take advantage of a broken system that allows multinational corporations from many different industries to get away with avoiding taxes.

When funding is cut, families lose medical care or are driven further into poverty by health care debts. When health systems crumble, women and girls step into the breach to provide unpaid care for their loved ones—compromising their own health and their prospects for education and employment. When governments are deprived of corporate tax revenues, they often seek to balance the budget by raising consumption taxes, which tend to take a larger bite out of poor women's incomes.

Corporations should be more transparent about where they earn their money, they should pay tax in alignment with actual economic activity, rather than abusing tax havens, and they should use their political influence responsibly, rather than undermining governments' efforts to provide medicines, schools, and roads for us all.

### Tax dodging

Oxfam examined publicly available data on subsidiaries of four of the largest US drug companies and found a striking pattern.<sup>2</sup> In the countries analyzed that have standard corporate tax rates, rich or poor, the corporations' pretax profits were low. In eight advanced economies, drug company profits averaged 7 percent, while in seven developing countries they averaged 5 percent. Yet globally, these corporations reported annual global profits of up to 30 percent.<sup>3</sup> So where were the high profits? Tax havens. In four countries that charge low or no corporate tax rates, these companies posted skyrocketing 31 percent profit margins.<sup>4</sup>

While the information is far from complete, the pattern is consistent: this is either an astounding coincidence or the result of using accounting tricks to deliberately shift profits from where they are actually earned to tax havens. Pfizer, Merck, and Abbott are among the 20 US corporations with the greatest number of subsidiaries in tax havens; Johnson & Johnson is not far behind.<sup>5</sup> All four were among the US corporations with the most money stashed overseas: at the end of 2016, these four companies alone held an astounding \$352 billion offshore.<sup>6</sup>

Profits can vary from country to country for any number of reasons, aside from the deliberate shifting of profits to avoid tax. Corporations may have higher transportation costs in some markets, for example, or employ more people. But it is highly unlikely that these explanations can fully account for the consistent pattern of much higher profits being posted in countries with very low tax rates where these corporations do not sell the majority of their medicines.

Pharma corporations' "profit-shifting" may take the form of "domiciling" a patent or rights to its brand not where the drug was actually developed or where the firm is headquartered, but in a tax haven, where a company's presence may be as little as a mailbox. That tax haven subsidiary then charges hefty licensing fees to subsidiaries in other countries. The fees are a tax-deductible expense in the jurisdictions where taxes are standard, while the fee income accrues to the subsidiary in the tax haven, where it is taxed lightly or not at all. Loans from tax-haven subsidiaries and fees for their "services" are other common strategies to avoid taxes.

Recent research by tax economist Gabriel Zucman estimates that nearly 40 percent of all multinational corporate profits were artificially shifted to tax havens in 2015—one of the major drivers of declining corporate tax payments worldwide.<sup>7</sup>

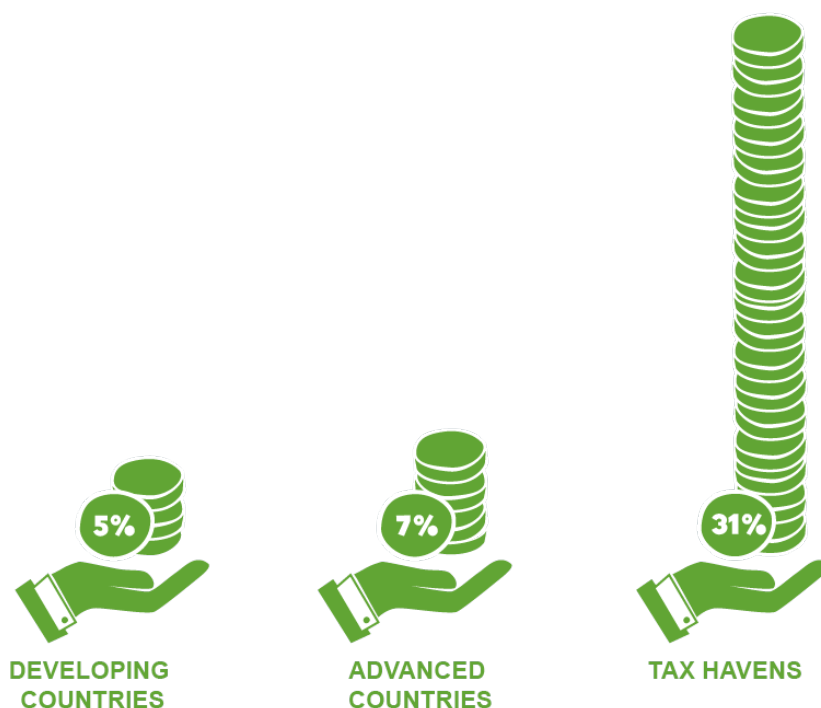
Drug companies are masters at taking advantage of the global "race to the bottom" on tax. Both corporations and governments are to blame. A dysfunctional international tax system allows multinational companies to artificially shift their profits away from where they sell and produce their products to low-tax jurisdictions. Companies are only too glad to take advantage of the broken system—and to invest millions in lobbying to further tilt the playing field in their favor.

**Figure 1: Comparison of drug company profit margins**

	Number of subsidiaries examined	Annual revenue	Average profit margin
Belgium	27	\$10,704,778,846	10%
Ireland	21	\$15,273,508,057	43%
Netherlands	25	\$65,899,690,416	34%
Singapore	11	\$20,471,300,000	25%
<b>Tax havens</b>	<b>84</b>	<b>\$112,349,277,319</b>	<b>31%</b>
Chile	3	\$753,007,000	4%
Colombia	10	\$1,329,188,480	12%

	Number of subsidiaries examined	Annual revenue	Average profit margin
Ecuador	7	\$229,945,819	1%
India	17	\$2,324,566,184	-1%
Pakistan	2	\$99,627,944	16%
Peru	5	\$367,616,751	16%
Thailand	9	\$963,702,079	9%
<b>Developing countries</b>	<b>53</b>	<b>\$6,067,654,257</b>	<b>5%</b>
Australia	11	\$3,320,757,458	-7%
Denmark	11	\$506,090,582	-22%
France	35	\$8,807,562,855	10%
Germany	28	\$9,228,221,535	-1%
Italy	25	\$6,001,823,748	6%
New Zealand	8	\$356,232,558	6%
Spain	30	\$4,959,453,150	21%
UK	74	\$6,501,659,986	11%
<b>Advanced countries</b>	<b>222</b>	<b>\$39,731,801,873</b>	<b>7%</b>

## Comparison of drug company profit margins



SOURCE: Oxfam analysis of national-level financial filings from four drug companies from 2013 to 2015. For more information, please see this report's "Tax Research Methodology" annex.

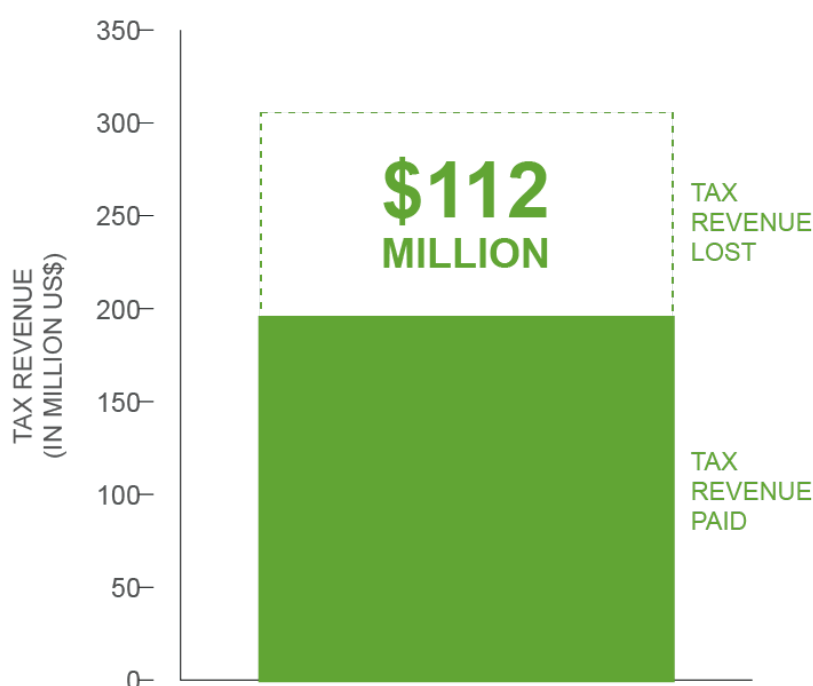
More transparency would shed light on how unjust the current system is. None of the four drug companies publish country-by-country reporting (CBCR)—basic financial information for every country in which they operate, including revenue, profits, taxes paid, number of employees, and assets.

Nonetheless, it is possible to use the data that is publicly available to estimate how much tax these companies may be avoiding due to an unequal distribution of profits. In seven developing countries alone—and just from the small sampling of subsidiaries Oxfam was able to access—the four companies may have underpaid \$112 million in taxes annually between 2013 and 2015, which is more than half of what they actually paid. Johnson & Johnson may have underpaid \$55 million in taxes every year; Pfizer, \$22 million; Abbott, \$30 million; and Merck, \$5 million.<sup>8</sup>

**Figure 2: Estimated annual tax underpayment in developing countries**

	Abbott	J&J	Merck	Pfizer	TOTAL
<b>Chile</b>	\$4,651,266	-	-	-	<b>\$4,651,266</b>
<b>Colombia</b>	\$(1,952,883)	\$1,088,770	\$1,228,112	\$11,506,827	<b>\$11,870,826</b>
<b>Ecuador</b>	\$2,168,863	-	\$472,655	\$2,058,569	<b>\$4,700,087</b>
<b>India</b>	\$30,171,485	\$41,450,191	\$2,296,686	\$(137,778)	<b>\$73,780,584</b>
<b>Pakistan</b>	-	-	-	\$1,654,868	<b>\$1,654,868</b>

	<b>Abbott</b>	<b>J&amp;J</b>	<b>Merck</b>	<b>Pfizer</b>	<b>TOTAL</b>
<b>Peru</b>	\$(5,191,248)	\$1,920,555	\$(1,580,927)	\$1,884,431	<b>\$(2,967,188)</b>
<b>Thailand</b>	\$632,044	\$10,174,664	\$3,049,057	\$4,799,166	<b>\$18,654,932</b>
<b>Developing countries</b>	<b>\$30,479,527</b>	<b>\$54,634,180</b>	<b>\$5,465,584</b>	<b>\$21,766,083</b>	<b>\$112,345,374</b>
Note: Numbers in parentheses are negative; they indicate where the national-level profit margin was higher than the global average profit margin. Entries without a number indicate that no country-level financial information was available.					



SOURCE: Oxfam analysis of national-level financial filings from four drug companies from 2013 to 2015. Estimated tax underpayment represents the difference between the taxes these companies would pay under a system that apportions global profits equally across countries and the taxes these companies report they actually paid. For more information, please see this report's "Tax Research Methodology" annex.

These amounts are pocket change to these corporate behemoths. But they represent significant losses to low-income and middle-income countries. Developing countries could use the money to address the yawning gaps in public health services that keep many of the poorest people in the world from lifting themselves out of poverty.

The HPV vaccine is one example. Human papilloma virus (HPV) is a sexually transmitted infection<sup>9</sup> that can cause cervical cancer, the fourth-most-common cancer among women worldwide and the second-most-common cancer in women living in less developed regions.<sup>10</sup> HPV kills 300,000 people every year;<sup>11</sup> every two minutes a life is lost to this disease, and nine out of 10 of these deaths are women in low- and middle-income

countries.<sup>12</sup> For example, in India, 67,477 women died of cervical cancer in 2012.<sup>13</sup> The HPV vaccine drastically reduces the incidences of HPV and cervical cancer.<sup>14</sup>

The amount of money we estimate these companies may have avoided in tax is enough to buy vaccines for more than 10 million girls, about two-thirds of the girls born in 2016 in the seven developing countries Oxfam examined.<sup>15</sup> India could buy HPV vaccines for 8.1 million girls, which is 65 percent of the girls born in 2016.<sup>16</sup> In Thailand, where 4,500 women die each year from cervical cancer, the \$18.65 million in taxes we estimate these companies underpaid per year would be enough to pay for HPV vaccines for more than 775,000 girls, more than double the number born in 2016.<sup>17</sup>

**Figure 3: Potential impact on women and girls**

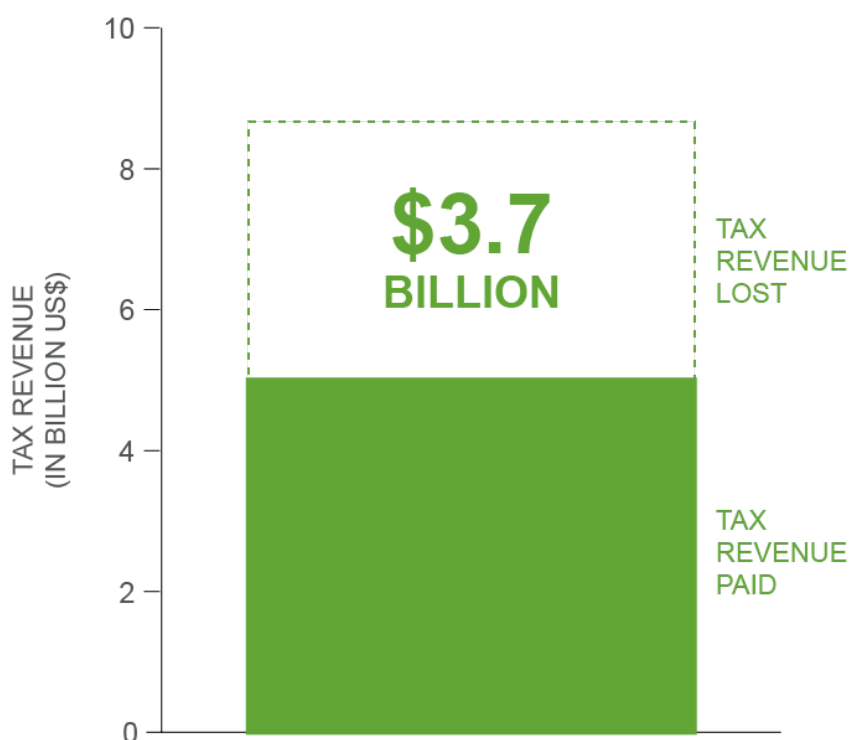


One might think that pharmaceutical profits really are lower in poorer countries, where purchasing power is small and drugs are sold at a discount. But the data indicates a different story. In advanced economies with larger markets and ample purchasing power, the drug companies' profit margins are just as slim as in developing countries. The corporations may have avoided even more in taxes in these larger markets, a total of nearly \$3.7 billion annually—equivalent to two-thirds of the \$5 billion they actually paid. Johnson & Johnson led the pack with an estimated \$1.7 billion underpaid annually. Pfizer may have underpaid by \$1.1 billion, Merck \$739 million, and Abbott \$169 million.<sup>18</sup>

**Figure 4: Estimated annual tax underpayment in advanced economies**

	Abbott	J&J	Merck	Pfizer	Total
<b>Australia</b>	\$5,548,716	\$70,987,178	\$16,616,610	\$72,054,671	<b>\$165,207,176</b>
<b>Denmark</b>	\$122,685	\$5,578,635	\$2,591,097	\$13,265,165	<b>\$21,557,581</b>

	Abbott	J&J	Merck	Pfizer	Total
<b>France</b>	\$13,018,931	\$197,518,429	\$51,084,419	\$157,117,977	<b>\$418,739,756</b>
<b>Germany</b>	\$5,123,061	\$159,095,358	\$52,651,783	\$99,845,535	<b>\$316,715,737</b>
<b>Italy</b>	\$14,083,238	\$94,977,531	\$25,229,356	\$133,662,556	<b>\$267,952,681</b>
<b>New Zealand</b>	\$1,008,107	\$7,210,106	\$2,090,100	\$3,546,806	<b>\$13,855,119</b>
<b>Spain</b>	\$(7,126,288)	\$58,868,644	\$32,629,391	\$(92,081,397)	<b>\$(7,709,649))</b>
<b>UK</b>	\$(5,541,997)	\$96,566,015	\$22,977,313	\$80,969,794	<b>\$194,971,125</b>
<b>USA*</b>	\$143,000,000	\$1,046,000,000	\$533,000,000	\$589,000,000	<b>\$2,311,000,000</b>
<b>TOTAL</b>	<b>\$168,758,452</b>	<b>\$1,737,088,396</b>	<b>\$738,988,819</b>	<b>\$1,057,384,274</b>	<b>\$3,702,219,942</b>
	<p>Note: Numbers in parentheses are negative; they indicate where the national-level profit margin was higher than the global average profit margin.</p> <p>* The numbers for the United States were calculated using a slightly different methodology because the companies do report consolidated financial information for the US, but not other countries. See this report's "Tax Research Methodology" annex for details.</p>				



SOURCE: Oxfam analysis of national-level financial filings from four drug companies from 2013 to 2015. Estimated tax underpayment represents the difference between the taxes these companies would pay under a system that apports global

profits equally across countries and the taxes these companies report they actually paid. For more information, please see this report's "Tax Research Methodology" annex.

### **Influence peddling**

Perhaps even more galling than these corporations' sophisticated tax avoidance is their subversion of democratic politics. Year after year pharmaceutical corporations spend the most of any industry on influencing the US government, more than \$200 million annually.<sup>19</sup> They employ the most lobbyists and donate millions of dollars to politicians' campaigns. They are also adept at placing their own people in powerful government posts.

For example, the current US secretary of health and human services, a Cabinet-level post that oversees government health care policy, is Alex Azar, who led Eli Lilly between 2012 and 2017. The US Trade Representative, whose mandate includes pressuring countries that have policies the United States believes hinder drug company profits, is Robert Lighthizer, who most recently worked at the law firm representing Pfizer, Merck, and Abbott, among others.<sup>20</sup>

The pharmaceutical industry has the largest network of people working for a special interest in the United States: an army of 1,500 agents representing professional lobby firms in 2017, equivalent to 13 percent of all lobbyists.<sup>21</sup> Most of this workforce is made up of former members of Congress and former high-ranking federal employees, who use their government experience and connections to advocate.<sup>22</sup> Among drug companies, Pfizer is consistently a top lobby spender, ranking second in 2017 at \$10.4 million. Johnson & Johnson (\$6.9 million) and Merck (\$6.2 million) ranked sixth and seventh, respectively, while Abbott (\$4.2 million) ranked 13th.

Between 2010 and 2016, the main trade association of these corporations, Pharmaceutical Researchers and Manufacturers of America (PhRMA), donated \$1.8 million to candidates for Congress representing both major parties, double what the US Chamber of Commerce provided.<sup>23</sup> But the bulk of contributions came from pharma companies and their political action committees (PACs). The four companies Oxfam studied donated a total of \$43.9 million during those years: \$17.6 million by Pfizer, \$11.6 million by Abbott, \$9.5 million by Merck, and \$5.2 million by Johnson & Johnson.<sup>24</sup>

Pharmaceutical corporations have also used their influence to get the US government to pressure developing countries on their behalf. The threat of US sanctions will often suffice to convince finance and trade ministers to overrule attempts by health officials to make medicines affordable or by tax officials to rein in pharma's tax dodging.

For example, the United States recently threatened to block Colombia's accession to the Organization for Economic Cooperation and Development (OECD) if it did not conform to stronger levels of monopoly protections for medicines, after having previously threatened to withhold assistance for Colombia's peace process unless it dropped its tentative moves to issue a compulsory license to lower the price of a cancer medicine.<sup>25</sup> Free trade agreements are another means of influence where the US and EU push for measures that ensure stricter intellectual property (IP) rules that limit governments' ability to protect public health and lower the price of medicines.

Such pressure presents developing country governments with an untenable choice: either ensure access to medicines for their citizens or increase trade to promote economic growth. Governments need to do both if they are to reduce poverty and inequality.

The companies also engage in clever grassroots campaigns. When a medicine is excluded from eligibility for government purchase due to its exorbitant price, those complaining loudly in the press are often not the companies, but rather nonprofit "patients' rights"

organizations—which often turn out to be funded by the corporations. Twelve major pharmaceutical companies, including Abbott, Johnson & Johnson, Merck, and Pfizer, fund more than 65 such groups in Latin America, as well as their umbrella, the International Alliance of Patients' Organizations.<sup>26</sup>

### **Profits and innovation**

Tax dodging, high prices, and influence peddling help explain the extreme profitability of these companies—and the extreme benefits they offer their wealthy shareholders and senior executives. The 25 largest US drug companies had global annual average profit margins of between 15 and 20 percent in the period 2006–2015; the figure for comparable nondrug companies was 4 to 9 percent.<sup>27</sup> These high profits, in turn, increase the incentive that these corporations have to shift profits and avoid tax.

The current system for biomedical research and development (R&D), a cornerstone of these corporations' business model, is based on monopoly protection secured by intellectual property rules as pharmaceutical companies invest in development of products that can produce the highest profit. The IP-based system of R&D has failed to produce many medicines needed for public health. For example, there has been no new class of antibiotics developed since 1987 despite the rising problem of antimicrobial resistance.<sup>28</sup>

The companies claim they need superprofits so they can invest in discovering new medicines to treat the world's ailments, but this simply isn't true. Big drug companies spend more on whopping payouts to shareholders and executives than on research and development. In the decade from 2006 to 2015, they spent \$341.4 billion of their \$1.8 trillion in revenue on stock buybacks and dividends—equivalent to 19 percent. They spent \$259.4 billion on R&D, or only 14 percent.<sup>29</sup> What's more, R&D expenses are tax deductible.

The cost of medicines, many of which were originally set at exorbitant prices, has continued to rise dramatically, with seven of the nine best-selling drugs sold by Pfizer, Merck, and Johnson & Johnson seeing double-digit price increases in 2017.<sup>30</sup> For example, Pfizer raised the price of Lyrica—which treats diabetic nerve pain, has no generic competition, and generated \$4.5 billion for the company in sales last year—by more than 29 percent in 2017.<sup>31</sup>

New medicines are also set at sky-high prices from the start. Take, for example, Ibrance, a drug for metastatic breast cancer, which Pfizer put on the market for nearly \$10,000 per month.<sup>32</sup> These high prices are unaffordable in the US, where medical costs are the primary reason for individual bankruptcy.<sup>33</sup> In low- and middle-income countries, such outrageous prices break public health budgets and place the burden of paying on sick people and their families, who cannot afford it. As another example, a new medicine to treat multidrug-resistant tuberculosis, bedaquiline, was priced by Janssen—a subsidiary of Johnson & Johnson in South Africa—at \$400 for the six-month course, which makes it unaffordable for most who need it, especially galling when researchers estimate a generic equivalent of the medicine could be made available for only \$48.<sup>34</sup>

In recognition of the global nature of this crisis in access to medicines, the UN Secretary-General set up a High-Level Panel on Access to Medicines that produced a report containing important recommendations to ensure innovation and access to medicines.<sup>35</sup> Oxfam has called on governments and international health organizations to fully implement the recommendations of the High-Level Panel.<sup>36</sup>

Even while Pfizer hiked the price of dozens of drugs, the total compensation of Pfizer's CEO leaped up by 61 percent in 2017, to \$26.2 million. That year Johnson & Johnson's CEO earned \$22.8 million, Merck's earned \$17.1 million, and Abbott's earned \$15.6 million.<sup>37</sup> The

average compensation for a drug company CEO in 2015 was \$18.5 million, 71 percent greater than the median earned by executives in all industries.<sup>38</sup>

The companies' R&D spending is also smaller than the billions they spend on marketing. In 2013, Johnson & Johnson spent more than twice as much on sales and marketing than on R&D (\$17.5 billion vs. \$8.2 billion). Pfizer nearly did as well (\$11.4 billion vs. \$6.6 billion), and Merck spent 20 percent more (\$9.5 billion vs. \$7.5 billion).<sup>39</sup> These marketing costs are also tax deductible.

The reality is that the taxpayer-funded National Institutes of Health in the United States is by far the largest investor in health research, with European governments providing substantial funding, as well.<sup>40</sup> All 210 drugs approved in the United States between 2010 and 2016 benefited from publicly funded research, either directly or indirectly.<sup>41</sup> The source for these public investments, of course, is taxes. Patients thus often pay twice for medicines: through their tax dollars and at the pharmacy—or three times if we count the extra tax dollars we pay because the companies don't.<sup>42</sup>

### **Corporate social responsibility**

Pharmaceutical corporations paint themselves as noble scientists leading the charge against disease. Pfizer's code of conduct says: "Integrity is more than just complying with the law. It is one of our core values."<sup>43</sup> Johnson & Johnson's corporate credo states: "We must be good citizens—support good works and charities and bear our fair share of taxes."<sup>44</sup>

Unfortunately, the reality of these corporations' business practices bears little resemblance to this rhetoric.

These companies should choose the high road. Rather than engage in elaborate schemes to hide their profits, they must pay their taxes in an open and transparent way. After all, the companies' very profitability depends on publicly funded research, public drug certification, public procurement, and public protection of intellectual property.

Governments must do more to reverse their race to the bottom on taxation. They must mandate basic transparency measures that would prevent abuse by multinationals. They must also open up budget and spending processes to citizens to ensure that public spending meets citizen priorities. Oxfam's Fiscal Accountability for Inequality Reduction (FAIR) program supports citizen engagement in government decisions on taxes, budgets, and expenditures, including on health, in dozens of countries around the world.<sup>45</sup>

Governments must allocate sufficient available public resources to important social services, and citizens must engage governments to ensure that budget decisions reflect citizen priorities, including access to affordable health care. Serious coordinated action is essential if we are to unravel the global web of secrecy that encourages rich corporations to avoid paying their fair share. Women and men around the world are standing up and calling for better and fairer tax and health systems, and we stand shoulder to shoulder with them.

### **The way forward**

Tax dodging, high prices, and influence peddling clearly victimize the most vulnerable.<sup>46</sup> Abbott, Johnson & Johnson, Merck, and Pfizer funnel superprofits from people living in poverty to wealthy shareholders and corporate executives, driving ever wider the gap between the richest and the rest.

As with most drivers of inequality, exorbitant drug prices, aggressive tax avoidance, and excessive lobbying are not accidental. They result from deliberate choices made by companies and by the politicians under their sway. It is our hope that this report will encourage the four companies and others to reform their policies and practices, and that it

will spur governments to enact rules that promote responsibility and benefit all society. We believe such a change is in the companies' long-term interest. Just as extreme inequality is toxic for society, undermining public institutions is no recipe for a stable, profitable industry.

### **Oxfam's recommendations**

#### **We call on companies to:**

**Be more transparent** by publishing all information necessary for citizens to understand and assess the company's tax practices.

- Publish full country-by-country reporting (CBCR) of key financial information.
- Publish a full list of all company subsidiaries in every country where they operate.

**Pay their fair share** by aligning tax payments with actual economic activity.

- Publicly commit to pay tax on profits where value is created and economic activity takes place, and to stop artificially shifting profits to low-tax jurisdictions.
- Take concrete steps to progressively align economic activities and tax liabilities, including shutting down subsidiaries in tax havens when a primary purpose of those subsidiaries is to avoid taxation.

**Use their influence responsibly** to shape a more equitable tax system for sustainable and inclusive growth.

- Publicly commit to advocate for greater transparency, for an end to abusive tax practices, and for stronger international cooperation to stop the dangerous "race to the bottom" on corporate tax.
- Publicly disclose all contributions made to political candidates, policymakers, trade associations, think tanks, coalitions, and other political entities to influence policy in the US and abroad.
- Publicly commit to align the corporations' financial contributions and private advocacy with their credos and codes of conduct on tax policy issues.
- Monitor the impact of their policies, pricing, and other practices on women and girls living in poverty.

#### **Enable access to affordable medicines for all by:**

- Publicly declaring actual spending on R&D, production, and marketing of medicines and committing to full transparency on medicine prices, results of clinical trials, and patent information.
- Publicly declaring support for the UN High-Level Panel on Access to Medicines and its recommendations, including governments' right to use mechanisms in the World Trade Organization (WTO) Agreement on Trade-Related Intellectual Property (known as the TRIPS agreement) to reduce medicine prices, affirming that intellectual property protection must not take precedence over public health needs.

#### **We call on governments to:**

##### **Require companies to adhere to full transparency and pay their fair share of taxes.**

- Mandate and implement public country-by-country financial reporting for all large multinational corporations.
- Require large multinational corporations to pay a fair, effective tax rate on their profits, strengthen rules to discourage profit-shifting, and take action against tax havens.

**Ensure access to medicines for their citizens.**

- Require corporations to disclose the cost of R&D, production, and marketing of medicines before approving product registration.
- Implement the recommendations of the UN High-Level Panel report at the national level and call for implementation by international institutions including the World Health Organization (WHO), the WTO, and the UN.
- Invest in public health services that are free for patients at the point of use.

**We call on citizens to:**

**Join Oxfam to demand that drug companies stop cheating** women and girls out of the chance to beat poverty.

## ANNEX: TAX RESEARCH METHODOLOGY

Oxfam analyzed the corporations' 10-K filings with the US Securities and Exchange Commission (SEC). These filings contain financial statements for the companies' global operations with limited geographical breakdowns. The 10-K data was used to calculate the global profit margin, as the pretax profit divided by sales.

The 10-K reports also include a list of the groups' subsidiaries, with their names and host countries. The Orbis database<sup>47</sup> was consulted to identify the countries where publicly available information may be found and to spot individual subsidiaries of interest based on extraordinary revenues, profits, or tax paid. The research was narrowed to 19 countries based primarily on the public availability of data; these countries were then divided into three groups: tax havens, developing countries, advanced countries. The list of tax havens comes from Oxfam's *Tax Battles* report;<sup>48</sup> the categorization of developing and advanced economies follows the International Monetary Fund (IMF) classifications.

Countries analyzed		
Tax havens	Developing countries	Advanced economies
Belgium (see box below)	Chile	Australia
Ireland	Colombia	Denmark
Netherlands	Ecuador	France
Singapore	India	Germany
	Pakistan	Italy
	Peru	New Zealand
	Thailand	Spain
		United Kingdom

For all 19 countries, Oxfam searched national company registries and gleaned the financial statements of all subsidiaries of the four pharmaceutical companies that could be found. Data on revenue (sales), pretax profit, and tax paid were extracted from these financial statements. For the four tax havens only, that data was complemented with information from the Orbis database. Orbis data was not used for the advanced economies because it was not necessary; many financial statements are in public registries. Orbis data was not used for developing countries because it proved to be of dubious quality; many entries seemed to be incorrect by orders of magnitude, and others did not match what was found in financial statements.

The United States was also included in Oxfam's analysis in a category of its own, as the home country of the four pharmaceutical companies. US revenue, profit, and tax data came from the 10-K reports.

Three years of data (2013, 2014, and 2015) were used whenever available to smooth out exceptional financial results. For each subsidiary with multiple years of data available, each variable (revenue, profit, tax) was averaged over the available years.

All data was converted from local currency into US dollars using the spot rate on the last day of the relevant year as posted on [www.oanda.com](http://www.oanda.com).

Drug company subsidiaries						
	Number of subsidiaries listed (in countries analyzed)			Number of subsidiaries analyzed		
	Tax havens	Developing countries	Advanced economies	Tax havens	Developing countries	Advanced economies
Abbott	96 (42)	141 (52)	98 (66)	19	16	53
J&J	68 (45)	48 (9)	77 (47)	26	7	54
Merck	129 (80)	116 (19)	152 (97)	20	13	63
Pfizer	191 (114)	117 (24)	148 (92)	19	17	52
<b>TOTAL</b>	<b>484 (281)</b>	<b>422 (104)</b>	<b>475 (302)</b>	<b>84</b>	<b>53</b>	<b>222</b>

Source: 10-K filings as of December 31, 2015. The list of subsidiaries in 10-K reports is not necessarily exhaustive.

Each company's profit margin was calculated in each country by adding up the profits of all the company's subsidiaries in that country, and then dividing that sum by the sum of all the company's revenues. These profit margins are therefore unconsolidated figures: they do not exclude the double-counting inherent to intragroup transactions within a country. (For example, if subsidiary A in country 1 sells goods to subsidiary B in country 1, which resells the goods partly to consumers in country 1 and partly to subsidiary C in country 2, both the sale and related profit are counted twice to compute country 1's profit margin.)<sup>49</sup>

This gross simplification, solely driven by lack of data consolidated at the country level, can significantly alter results. The country-by-country reports that companies provide to tax authorities—and that Oxfam calls on them to publish—contain the consolidated data needed for a better assessment of country-specific profit margins. Note, however, that for the United States the 10-K reports do consolidate profits and taxes, and count revenue as final sales to unaffiliated US-based customers (including sales from non-US subsidiaries).

To generate an allocation of profit worldwide, the 10-K reports were consulted and each pharma company's consolidated global profit margin was calculated.

Global average profit margin (percent)				
Year	Abbott	Johnson & Johnson	Merck	Pfizer
<b>2013</b>	<b>10</b>	<b>22</b>	<b>13</b>	<b>30</b>
<b>2014</b>	<b>12</b>	<b>28</b>	<b>14*</b>	<b>25</b>
<b>2015</b>	<b>16</b>	<b>27</b>	<b>14</b>	<b>18</b>

\* Merck's reported profit margin for 2014 is 41 percent; for this analysis it was adjusted downwards to exclude the proceeds of the sale of a subsidiary.

Using the information from financial statements obtained with the help of local researchers, Oxfam was able to map out the average profit margins per jurisdiction.<sup>50</sup> The total profits of all subsidiaries in a country were divided by the total turnover.<sup>51</sup>

To calculate the tax shortfall in each country, each company's revenues in that country were multiplied by the global profit margin to obtain the counterfactual profit that companies would make in that country if profit margins were uniform all over the world. The country's statutory tax rate was then applied to that counterfactual profit to obtain the counterfactual tax owed in that country. Finally, the actual tax paid in that country was subtracted from the counterfactual tax owed to obtain the tax shortfall.

In addition to comparing profit margins and tax shortfalls across countries, Oxfam qualitatively analyzed the financial statements of selected subsidiaries that exhibited exceptional profit margins or effective tax rates.

The analysis did reveal some anomalies. For example, in Peru and Spain companies paid more tax than our counterfactual estimate. In both cases, a single subsidiary in each market (Abbott's Farindustria in Peru, and Pfizer's Wyeth Farma in Spain) reported profit margins much higher than the global average, driving the results for the country as a whole. Other countries, like the UK, also had individual outliers. Nonetheless, the pattern of low profits and tax underpayment in all jurisdictions other than tax havens was largely consistent.

### **External review**

To better understand the ways in which drug companies arrange their financial and tax operations, Oxfam spoke with current and former executives from the top 10 pharmaceutical and accounting firms on the condition of anonymity, as well as other tax experts. These executives and experts described the carefully designed corporate structures, which systematically minimize the amount of profit that stays in developing countries. The results of Oxfam's analysis were shared with these sources to help review our assumptions and research methodology.

Groups and individuals with whom we consulted include:

- Richard Phillips, senior policy analyst, Institute on Taxation and Economic Policy
- Zorka Milin, senior legal advisor, Global Witness
- A current head of tax for a global 100 company, who wishes to remain anonymous
- An attorney expert in global patent ownership, formerly at a major multinational pharmaceutical company, who wishes to remain anonymous
- An international nongovernmental organization working on tax justice

We also received research assistance from two international corporate tax experts:

- Tommaso Faccio, head of secretariat of the Independent Commission for the Reform of International Corporate Taxation (ICRICT) and a lecturer in accounting at Nottingham University Business School (UK), who until July 2014 was a transfer pricing senior manager in the Deloitte LLP international tax team and who has significant experience advising multinationals on complex international tax issues, particularly in the area of transfer pricing and permanent establishment
- Javier Pereira, who has worked on tax issues with a number of development organizations, including Oxfam and ActionAid

### **How to interpret the results**

None of the results are precise because they exclude subsidiaries for which publicly available data was not found and because the data is not consolidated at the country level

(except for the United States). Both of these limitations could be resolved if companies published the country-by-country reports they provide to tax authorities.

Oxfam's analysis reveals that profit margins in tax havens are higher than in both advanced and developing countries. That difference is statistically significant; that is, it reflects a systematic pattern and cannot be attributed to chance. Although the pattern could be caused by other factors than tax, no other factor is shared among the four tax havens (Belgium, Ireland, the Netherlands, and Singapore) that is not also shared by the advanced countries in our sample, which served as the control group.

### Is Belgium a tax haven?

Although Belgium did not feature in Oxfam's list of biggest corporate tax havens in 2016 owing to methodological reasons, Oxfam did consider Belgium a corporate tax haven in the period covered by this research.<sup>52</sup> This consideration was mainly a consequence of Belgium's notional interest deduction system, a tax incentive that allowed companies to deduct a fictitious interest deduction on the basis of shareholder equity. The system was massively abused by multinational companies, setting up internal banks in Belgium and providing large intragroup loans to subsidiaries elsewhere. Apart from the notional interest deduction, Belgium also offered a range of other advantages to multinationals, such as the excess profit rulings and the patent box.<sup>53</sup>

Following severe international pressure, Belgium reformed both the notional interest deduction and the patent box. From 2018 on, the notional interest deduction won't be calculated on the total stock of equity but only on incremental equity over the preceding five years. This change, combined with newly announced anti-abuse measures, will strongly limit the abuse of the system. However, pharma companies looking to reduce their tax bills still have many opportunities to do so in Belgium, especially by using the country's reformed patent box. The so-called innovation income deduction offers companies such as Janssen Pharmaceutica, a Belgian company that is part of Johnson & Johnson, a massive deduction of up to 85 percent on its profits derived from R&D. Although the European Commission notes that research shows very little evidence of patent boxes stimulating innovation, more and more countries are offering these incentives to attract investments.<sup>54</sup> This adoption of incentives increases tax competition between governments within and beyond the EU, and it accelerates the race to the bottom.

The higher profit margins in tax havens are consistent with profit-shifting to tax havens. Tax avoidance consists of shifting profits across countries so that they do not reflect real business activities, and thus misalign tax payments. One indicator of real business activity that can be measured is sales. To provide an assessment of the extent of tax avoidance, Oxfam compared actual tax paid to the tax owed if global profits were allocated to each country based on the total sales of the subsidiaries located in that country (this figure includes exports from subsidiaries based in the given country).

That estimate of tax "shortfall" is admittedly a gross simplification, as sales are a very crude proxy for economic activity. Moreover, there are many factors explaining variations of profit margins across countries that are unrelated to tax, such as country-specific macroeconomic policies or pharmaceutical regulations.

Oxfam's qualitative analysis of individual financial statements confirms that the four tax havens in the sample host relatively more holding subsidiaries, subsidiaries offering financial, management or other services to other subsidiaries, and subsidiaries centralizing trade among other subsidiaries—all activities that offer opportunities for profit-shifting.

While such activities are indicative of tax avoidance, as are significant variations of profit margins between tax havens and other countries, they do not represent a conclusive proof, which only in-depth tax audits could produce.

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<sup>1</sup> In 2013, Abbott spun off its proprietary R&D-based pharmaceutical business into a separate corporation named Abbvie, while Abbott focused on medical devices, diagnostics, nutrition, and branded generic pharmaceuticals. See “Abbott Completes Separation of Research-Based Pharmaceuticals Business,” PR Newswire, January 2, 2013, <https://www.prnewswire.com/news-releases/abbott-completes-separation-of-research-based-pharmaceuticals-business-185406542.html>. Abbott does not sell pharmaceuticals in the US, although Abbott does continue to sell pharmaceutical products as a major part of its global business. While Abbott, like Johnson & Johnson, provides a variety of health care services and products, this report refers to Abbott as a pharmaceutical or drug company. In addition, this report focuses on the US-based pharmaceutical company Merck and Company, Inc., sometimes known as Merck Sharp & Dohme (MSD) outside the US, not the German-based pharmaceutical company Merck KGaA.

<sup>2</sup> Oxfam identified 1,381 subsidiaries of the four companies and found publicly available data for 359 of them: 53 in developing countries, 222 in advanced economies, and 84 in tax havens. The developing countries examined were Chile, Colombia, Ecuador, India, Pakistan, Peru, and Thailand; the wealthy countries were Australia, Denmark, France, Germany, Italy, New Zealand, Spain, and the UK; and the tax havens were Belgium, Ireland, the Netherlands, and Singapore.

<sup>3</sup> Global profit rates are derived from annual 10-K filings with the US Securities and Exchange Commission (SEC). Oxfam calculated the profit margins in developing countries, advanced economies, and tax havens by taking the profits of all subsidiaries per jurisdiction divided by total turnover. See the annex, “Tax Research Methodology,” for more information.

<sup>4</sup> Oxfam was unable to obtain tax data in the most secretive tax havens (e.g., Bermuda, and the Cayman Islands) and instead examined data from those countries that are tax havens but have some actual manufacturing or research facilities. These countries seem to be used by the companies as “pivots,” where profits are allocated before being allocated yet again to the more secretive jurisdictions.

<sup>5</sup> Institute on Taxation and Economic Policy (ITEP), “Offshore Shell Games 2017,” October 17, 2017, <https://itep.org/offshoreshellgames2017/>.

<sup>6</sup> Ibid.

<sup>7</sup> Thomas Tørsløv, Ludvig Wier, and Gabriel Zucman, “The Missing Profits of Nations,” VoxEU.org/CEPR Policy Portal, July 23, 2018, <https://voxeu.org/article/missing-profits-nations>.

<sup>8</sup> These figures are estimates that represent the difference between the taxes the companies say they actually pay and what they would pay under a system of global apportionment that assumes profit margins are equal across countries. See the annex, “Tax Research Methodology,” for more information.

<sup>9</sup> Centers for Disease Control and Prevention (CDC), “Genital HPV Infection—Fact Sheet,” Human Papillomavirus (HPV), <https://www.cdc.gov/std/hpv/stdfact-hpv.htm>.

<sup>10</sup> World Health Organization (WHO), “Human Papillomavirus (HPV) and Cervical Cancer,” fact sheet, [http://www.who.int/news-room/fact-sheets/detail/human-papillomavirus-\(hpv\)-and-cervical-cancer](http://www.who.int/news-room/fact-sheets/detail/human-papillomavirus-(hpv)-and-cervical-cancer).

<sup>11</sup> Ibid.

<sup>12</sup> Union for International Cancer Control (UICC), “UICC Members Respond to the Global Call to Action to Eliminate Cervical Cancer,” June 27, 2018, [https://www.uicc.org/uicc-members-respond-global-call-action-eliminate-cervical-cancer?utm\\_source=Capacity+building+list&utm\\_campaign=56de8d2e48-](https://www.uicc.org/uicc-members-respond-global-call-action-eliminate-cervical-cancer?utm_source=Capacity+building+list&utm_campaign=56de8d2e48-).

<sup>13</sup> HPV Information Centre, <http://www.hpvcentre.net/statistics.php>. For statistics, select Module: “M2. Disease burden estimates”; Topic: “Cervical cancer”; Indicator: “Number of deaths.”

<sup>14</sup> Centers for Disease Control and Prevention (CDC), “HPV Vaccines: Vaccinating Your Preteen or Teen,” Human Papillomavirus (HPV), <https://www.cdc.gov/hpv/parents/vaccine.html>.

<sup>15</sup> The CDC recommends two doses of the vaccine: CDC, “HPC Vaccine Information for Young Women,” <https://www.cdc.gov/std/hpv/stdfact-hpv-vaccine-young-women.htm>. Oxfam calculated these estimates by taking the estimated price paid for these vaccines in each country and multiplying by two doses. We then divided the estimated tax loss per each country by the price for two doses. Thailand price sources: <https://www.thaitravelclinic.com/cost.html>; Latin American countries’ price sources: prices from PAHO, [https://www.paho.org/hq/index.php?option=com\\_docman&task=doc\\_download&gid=43314&Itemid=270&lang=en](https://www.paho.org/hq/index.php?option=com_docman&task=doc_download&gid=43314&Itemid=270&lang=en); Pakistan/India, GAVI price of \$4.50 per dose, [https://www.unicef.org/supply/files/2018\\_03\\_08\\_HP\\_V\\_.pdf](https://www.unicef.org/supply/files/2018_03_08_HP_V_.pdf).

<sup>16</sup> \$73,780,584/\$9 = 8,197,843. We calculated the number of children born per year using the World Bank's crude birth rate and population figures for 2016: World Bank, "Birth Rate, Crude (Per 1,000 People)," <https://data.worldbank.org/indicator/SP.DYN.CBRT.IN?view=chart>; and World Bank, "Population, Total," (data for 1960 and 2017), <https://data.worldbank.org/indicator/SP.POP.TOTL>. We divided in half for the number of girls born per year. Thus, our formula was: population/1,000 x birth rate = children born per year/2 = girls born per year. Our results gave us 12,588,235 girls born each year in India and 355,783 in Thailand.

<sup>17</sup> HPV Information Centre, <http://www.hpvcentre.net/datastatistics.php>. For statistics, select Module: "M2. Disease burden estimates"; Topic: "Cervical cancer"; Indicator: "Number of deaths."

<sup>18</sup> Calculations made as explained in note 3. See the annex, "Tax Research Methodology," for more information.

<sup>19</sup> Oxfam calculations are based on data from the Center for Responsive Politics, "Industry Profile: Summary, 2017," OpenSecrets.org, <https://www.opensecrets.org/lobby/indusclient.php?id=h04&year=2017>.

<sup>20</sup> Lighthizer's firm was Skadden, Arps, Slate, Meagher & Flom LLP.

<sup>21</sup> Center for Responsive Politics, "Industry Profile: Summary, 2017."

<sup>22</sup> Ibid. The proportion of "revolvers"—the term for former government officials turned lobbyists and vice versa—working for the pharmaceutical industry has held steady at about 60 percent since 2010. See Center for Responsive Politics, "Lobbyists Representing Pharmaceutical Research & Manufacturers of America, 2017," OpenSecrets.org, <https://www.opensecrets.org/lobby/clientlbs.php?id=D000000504&year=2017>.

<sup>23</sup> Johnson & Johnson, Pfizer, and Merck are members of PhRMA. An executive vice president from Johnson & Johnson and the board chairs and CEOs of both Merck and Pfizer sit on PhRMA's board of directors. PhRMA, "Our Leadership," <https://www.phrma.org/about/our-leadership>. Abbott is not a member of PhRMA.

<sup>24</sup> Oxfam calculations are based on data from Federal Elections Commission filings compiled by the Center for Responsive Politics (<https://www.opensecrets.org>). Political action committees pool campaign contributions from members and donate those funds to campaign for or against candidates, ballot initiatives, or legislation.

<sup>25</sup> "Las presiones internacionales contra Colombia por su política de precios de los medicamentos," *Contamos*, March 26, 2018, <http://contamos.com.co/noticias/las-presiones-internacionales-contra-colombia-por-su-politica-de-precios-de-medicamentos/>; Inside US Trade, "Colombia To Reduce Price Of Swiss Cancer Drug In Lieu Of Compulsory License," June 16, 2016, <https://insidetrade.com/daily-news/colombia-reduce-price-swiss-cancer-drug-lieu-compulsory-license>; Inside US Trade, "Lighthizer outlines list of actions Colombia must take ahead of OECD accession," February 26, 2018, <https://insidetrade.com/daily-news/lighthizer-outlines-list-actions-colombia-must-take-ahead-oecd-accession>.

<sup>26</sup> Ibid. The International Alliance of Patients' Organizations (IAPO) 2014 budget of \$3.38 million included \$100,000 from Johnson & Johnson, \$60,000 from Pfizer, and \$43,000 from Merck. On IAPO, see <https://www.iaopo.org.uk/>. The companies fund similar patients groups in wealthy countries. See Emily Kopp, Sydney Lupkin, and Elizabeth Lucas, "Patient Advocacy Groups Take in Millions from Drugmakers: Is There a Payback?," *Kaiser Health News (KHN)*, April 6, 2018, <https://khn.org/news/patient-advocacy-groups-take-in-millions-from-drugmakers-is-there-a-payback/>.

<sup>27</sup> US Government Accountability Office (GAO), "Drug Industry: Profits, Research and Development Spending, and Merger and Acquisition Deals," GAO-18-40 (2017), 16.

<sup>28</sup> Sarah Knapton, "First New Antibiotic in 30 Years Discovered in Major Breakthrough," *Telegraph*, January 7, 2016, <https://www.telegraph.co.uk/science/2016/03/14/first-new-antibiotic-in-30-years-discovered-in-major-breakthrough/>.

<sup>29</sup> William Lazonick, Matt Hopkins, Ken Jacobson, Mustafa Erdem Sakinç, and Öner Tulum, "US Pharma's Financialized Business Model," Institute for New Economic Thinking Working Paper 60 (July 13, 2017), 4, [https://www.ineteconomics.org/uploads/papers/WP\\_60-Lazonick-et-al-US-Pharma-Business-Model.pdf](https://www.ineteconomics.org/uploads/papers/WP_60-Lazonick-et-al-US-Pharma-Business-Model.pdf). Stock buybacks boost share prices as well as CEO compensation linked to share price.

<sup>30</sup> US House of Representatives, Committee on Oversight and Government Reform, "Skyrocketing Drug Prices: Year One of the Trump Administration," Democratic Staff Report, May 11, 2018, 2, <https://democrats-oversight.house.gov/sites/democrats.oversight.house.gov/files/Skyrocketing%20Drug%20Prices-Year%20One%20of%20the%20Trump%20Administration.pdf>.

<sup>31</sup> Ibid., 5.

<sup>32</sup> Jonathan D. Rockoff, "How Pfizer Set the Cost of Its New Drug at \$9,850 a Month," *Wall Street Journal*, December 9, 2015, <https://www.wsj.com/articles/the-art-of-setting-a-drug-price-144962808>.

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- <sup>35</sup> Report of the UN Secretary-General's High-Level Panel on Access to Medicines (2016), <http://www.unsgaccessmeds.org/final-report/>.
- <sup>36</sup> Oxfam, *High-Priced Medicines and Lack of Needs-Driven Innovation: A Global Crisis That Fuels Inequality* (2017), [https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/ib-high-priced-medicines-innovation-220917-en.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-high-priced-medicines-innovation-220917-en.pdf).
- <sup>37</sup> Equilar and *New York Times*, "The 10 Highest-Paid CEOs in 2017," Equilar.com, May 25, 2018, <http://www.equilar.com/reports/56-equilar-new-york-times-highest-paid-ceos-2018.html>, based on the annual Equilar 200 studies.
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- <sup>40</sup> See Royal Society, *UK Research and the European Union: The Role of the EU in Funding UK Research* (2015), <https://royalsociety.org/~media/policy/projects/eu-uk-funding/uk-membership-of-eu.pdf>; and Technopolis, *The Role of EU Funding in UK Research and Innovation* (2017), <https://www.raeng.org.uk/publications/reports/eu-funding-in-uk-research-and-innovation>.
- <sup>41</sup> Ekaterina Galkina Cleary, Jennifer M. Beierlein, Navleen Surjit Khanuja, Laura M. McNamee, and Fred D. Ledley, "Contribution of NIH Funding to New Drug Approvals 2010–2016," *Proceedings of the National Academy of Sciences* (PNAS) 115, no. 10 (2018): 2329–34, <http://www.pnas.org/content/early/2018/02/06/1715368115>. NIH funding during the period totaled more than \$100 billion.
- <sup>42</sup> The critical role the large companies play is in development: they finance the clinical trials required for drug approval.
- <sup>43</sup> Pfizer, "Pfizer Code of Ethics & Conduct/ Pfizer Business Conduct Policies," <https://www.pfizer.com/purpose/transparency/code-of-conduct>.
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- <sup>46</sup> This is especially the case in developing countries, where corporate tax revenues make up twice as large a proportion of total tax revenues as in rich countries. UN Conference on Trade and Development (UNCTAD), *World Investment Report 2015: Reforming International Investment Governance* (2015), [http://unctad.org/en/PublicationsLibrary/wir2015\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf), cited in Esmé Berkhout, *Tax Battles: The Dangerous Global Race to the Bottom on Corporate Tax* (Oxfam, 2016), <https://www.oxfam.org/sites/www.oxfam.org/files/bp-race-to-bottom-corporate-tax-121216-en.pdf>.
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- <sup>48</sup> Berkhout, *Tax Battles*.
- <sup>49</sup> An example of the problem of double counting is Pfizer in the Netherlands. One subsidiary (CP Pharmaceuticals International CV) is a holding company owning hundreds of other Pfizer subsidiaries around the world. Its total after-tax profit was 15.6 billion euros for the fiscal year ending on November 30, 2015, of which 14.5 billion euros was the consolidated profits of its subsidiaries, most of which from other countries. That 14.5 billion euro, together with the related revenues, is also reported in the subsidiaries' financial statements (when we could find them), and is counted toward Pfizer's profit margins both in the Netherlands and in the subsidiaries' home countries. It is striking that many of such large holding structures seem to be based in tax havens.

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<sup>50</sup> For tax havens, we have supplemented data from subsidiaries' financial statements with data from the Orbis database.

<sup>51</sup> Owing to data limitations, we were not able to consolidate turnover and profit at the country level. That means that sales between subsidiaries of the same group in the same country are double-counted.

<sup>52</sup> Belgium has been a key profit-shifting destination, while also being a victim of profit-shifting to nearby tax havens such as the Netherlands or Luxembourg. The macroeconomic data that were used to build the Oxfam tax havens list therefore evened out, and Belgium fell outside of the top 15. See Berkhout, *Tax Battles*.

<sup>53</sup> In 2016, the European Commission determined that excess profit rulings are a form of illegal state aid. See European Commission, "State Aid: Commission Concludes Belgian 'Excess Profit' Tax Scheme Illegal; Around €700 Million to Be Recovered from 35 Multinational Companies," January 11, 2016, [http://europa.eu/rapid/press-release\\_IP-16-42\\_en.htm](http://europa.eu/rapid/press-release_IP-16-42_en.htm). Belgium recently stopped issuing these types of rulings.

<sup>54</sup> European Commission, "Country Report Belgium 2018" (2018), <https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-belgium-en.pdf>.

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