responsible investor

New Shareholders for Change group to engage European telecoms on tax avoidance

Targets are Orange, Telecom Italia and Deutsche Telekom

by **Carlos Tornero** | December 6th, 2018

Shareholders for Change (SfC), the new €23bn values-based investor network, is to engage large European telecom firms on their tax practices, after it commissioned a research report analysing tax avoidance in the sector. The report, entitled Bad Connection, has been built upon Vodafone's transparency practices, which are taken as a reference to analyse its European peers. Vodafone is the first multinational that has voluntarily published its country-by-country reporting (CBCR), a system that aims at breaking down results (revenues, profits, taxes, employees, capital investments, etc.) for each jurisdiction in which it operates. SfC analysis shows how Vodafone is allowed by the current international tax system to shift profits from high to low tax jurisdictions using transfer pricing techniques: for 2016-17 overall taxable profits amounted to €1.9bn on a revenue of €57.1bn, according to the SfC report. The report states that despite being legal, the telecoms sector's tax practices can be "ethically disputable" and thus with potential implications for SRI and mainstream investors. "Vodafone's peers do not publish CBCR. As such one wonders whether the reason is [because] these companies have a more aggressive tax profile than Vodafone," the authors of the report stated. They are Tommaso Faccio from Nottingham University and Claudia Apel and Mauro Meggiolaro from Merian Research. In the absence of CBCR, the authors analysed publicly available information for Orange, Telecom Italia and Deutsche Telekom. They identified affiliates in what are called "conduit countries" (low tax jurisdictions in the IMF jargon) which could suggest involvement in "intra-group activities which may lead to tax avoidance".
The authors say that their analysis doesn't try to determine or to quantify the possible tax avoidance of the companies but rather show that the lack of transparency "prevents stakeholders from understanding the potential impact of complex tax structures". As a result, a key part of the report is a set of questions "shareholders may want to ask the management of these groups". Those questions include fees paid to the firms that enable tax avoidance: consulting, legal, accounting and tax firms. "They play a big role in the whole game," said Tommy Piemonte, Head of Sustainability Research at the Bank for the Church and Caritas, the German member of SfC. Piemonte said SfC, as a first step, would start a dialogue with the telecom companies by asking the questions proposed in the report, including at their AGMs. He added that tax responsibility is an issue investors and "the engagement community" are not covering with the urgency and attention it deserves. So far a limited number of investors have addressed this issue. Norges Bank Investment Management is one of them. NBIM told RI it has sent its Expectation Document on Tax and Transparency (which asks for CBCR) to the 500 largest companies held by the 1 trillion-dollar Government Pension Fund Global portfolio, which NBIM runs. NBIM was also among the few investors that voted for a shareholder proposal led by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) asking Facebook to adopt a set of responsible tax principles. SfC, whose focus is tax responsibility as well as human rights and climate change,

yesterday held an annual meeting in which it admitted two new members: Switzerland's Ethos Foundation and UK's Friends Provident Foundation. It takes the new body's membership to nine.