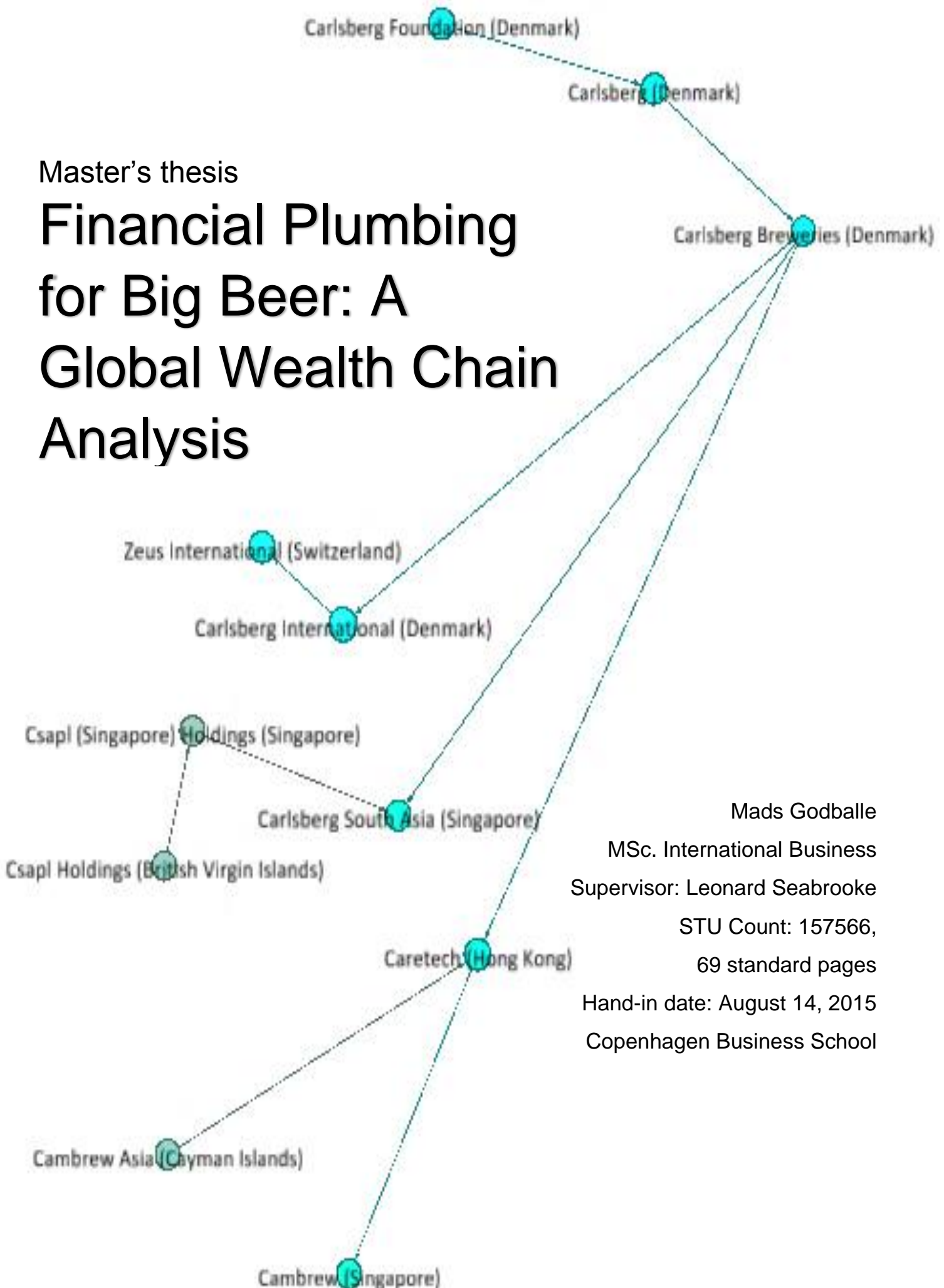


Master's thesis

Financial Plumbing for Big Beer: A Global Wealth Chain Analysis



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Abstract

This paper investigates how Carlsberg operates their legal and financial activities across multiple jurisdictions in order to benefit from different tax and secrecy advantages. In other words, financial plumbing for big beer. This is done by a method of distinguishing between entities generating value from typical supply-chain activities and entities generating value from financial activities. The paper presents two empirical findings. First, that Carlsberg has established 14 entities in jurisdictions such as Singapore, Switzerland and Hong Kong to benefit from financial and secrecy advantages. Second, that financial and legal decentering in Carlsberg also takes place inside entities as they decenter financial and legal activities through contractual linkages with partners. This is supported by a Carlsberg entity registered in Denmark issuing bonds in the Luxembourg stock exchange through an external partnership. The legal and financial decentering of Carlsberg is viewed through the lens of information asymmetries between regulating authorities and Carlsberg, and suggests that Carlsberg benefits when financial services are being supplied from jurisdictions with a high level of secrecy. The Global Wealth Chain theory provides the theoretical framework for the paper and argues to follow the flow of money and financial transactions within the multinational corporation as opposed to Global Value Chain theory, which exclusively focus on the production processes. The paper contributes to studies of financial governance and value chains within International Political Economy by emphasizing how the multinational corporation integrates into international legal structures and consequently offsets national regulatory oversight.

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Chapter 1 Introduction

The contemporary multinational corporation (MNC) is characterized by decentering its activities into the most appropriate jurisdictions. The visible outsourcing of production activities has been one part of the strategy, though this paper argues that the decentering of the MNC concerns a broader spectrum of activities including financial and legal activities. The contemporary MNC no longer has a domestic base controlling production activities in the periphery, instead the MNC has multiple homes depending on where its legal and financial home has the best institutional conditions (Desai, 2008).

Studies of how the MNC shapes production within International Political Economy including Corporate Social Responsibility studies have been dominated by the Global Value Chain theory. This has produced significant knowledge on how the complexity of products influence power and information asymmetries between suppliers and lead firms of production, and had strong influence on policymaking in international organizations like the World Bank and the International Monetary Fund.

This paper argues that the Global Value Chain theory is challenged by the legal and financial decentering of the MNC, as it provides no analytical tools to study this. Once MNCs are decentralized and operate their financial and tangible assets across multiple jurisdictions they become engaged in international legal structures as they are subject to different regulatory regimes which provide different tax and secrecy advantages.

The Global Wealth Chain theory, investigated in this paper, presents a new theoretical framework, which acknowledges the financial and legal decentering of the MNC and provides analytical tools for studying this (Seabrooke & Wigan, 2014).

Global wealth chains are defined as “transacted forms of capital operating multi-jurisdictionally for the purposes of pecuniary wealth creation and protection” (Seabrooke & Wigan, 2014, p. 4). The Global Wealth Chain theory contends that there are three pivotal partners to consider when studying global wealth chains, namely the regulator, the client and the supplier of financial services and products. The information asymmetry arising between the regulating authorities and the two other involved entities is crucial for the pecuniary wealth creation and protection.

The Global Wealth Chain theory builds on the Global Value Chain theory by adopting its firm-specific view and its five governance types ranging from market, modular, relational, captive and hierarchical

for studying financial governance and the degrees of information asymmetry (Gereffi, Humphrey, & Sturgeon, 2005).

The Global Wealth Chain theory generally differs from the Global Value Chain theory by studying how the MNC governs the flow of money and financial transactions within the MNC. This is compared to the Global Value Chain theory which studies how the MNC governs its value chain depending on the transaction costs of outsourcing or insourcing production.

In continuation of this theoretical debate, this paper has been guided by an ambition of theory-testing the Global Wealth Chain Theory and create context specific knowledge relevant for further Global Wealth Chain studies. The paper has therefore been guided by a theory-testing variant of process tracing and studied the Global Wealth Chain theory by investigating the causal mechanism underlying Global Wealth Chains. The theoretical definition of Global Wealth Chains has in relation to this been dissected into a causal relationship where the MNC, (X) - creates and protects pecuniary wealth, (Y) – by decentering its legal and financial activities (causal mechanism)

I study this causal mechanism of financial and legal decentering in the case of Carlsberg by retrieving data about entities under its control, their location and what kind of operations they undertake. This enables the paper to distinguish between entities generating value from supply-chain activities (value chain entities) and entities generating wealth from financial activities (wealth chain entities). The data is retrieved by a method of collecting data in the company registries where Carlsberg is present. The empirical material provided differs from jurisdiction to jurisdiction - from simple company registrations to detailed transparent company information revealing information about shareholders and members of Board of Directors.

The research question for investigating the causal mechanism asks how Carlsberg has established wealth chain entities in jurisdictions which offer tax and secrecy advantages.

The paper finds evidence that Carlsberg has decentered their legal and financial activities in two different layers of their organization.

One layer of this financial and legal decentering is observed in the ownership linkages between Carlsberg's subsidiaries and affiliated entities. This paper finds that Carlsberg has established 14 subsidiaries in Switzerland, Hong Kong and Singapore to take advantage of the strong tax and secrecy advantages. Expressed in popular terms, the paper translates this finding to financial plumbing for big beer.

The second layer of Carlsberg's financial and legal decentering is more opaque and takes place in the contractual linkages of their corporate network. This means that below the first layer of financial and legal decentering, there is a second layer where financial and legal decentering takes place inside the subsidiary. The Carlsberg subsidiary; Carlsberg Breweries illustrates this by issuing bonds in Luxembourg while being registered in Denmark.

The case selection for studying financial and legal decentering has been guided by an information-oriented case selection strategy, and Carlsberg has been selected as it shares characteristics of being a less likely-case to confirm the Global Wealth Chain theory. This is compared to Apple which is one of the most-likely cases to confirm the causal mechanisms of financial and legal decentering. This increases the likelihood that the financial and legal decentering plays an important role in most other companies' wealth creation. In relation to scholarship this paper's research therefore provides a strong argument that the financial and legal decentering of Carlsberg is not just the story of Carlsberg – it is the story of the contemporary MNC. While the cases of Amazon, Apple and Google's questionable tax structures have been repeatedly referenced in the media and literature, the case of Carlsberg suggests that pecuniary wealth creation and protection through decentering of operations extends to smaller MNCs worldwide.

The paper finalizes by viewing the financial and legal decentering through the lens of the Global Wealth Chain theory and information asymmetries. Information asymmetries are important in order to understand global wealth chains as they present a problem for governance but a resource in cases where the MNC seeks to avoid governance. The paper finds that Carlsberg potentially takes advantage of financial services from the Cayman Islands and the British Virgin Islands because these jurisdictions provide secrecy and large information asymmetries towards foreign regulating authorities. However, the study also finds that tax advantages are not only created thanks to information asymmetries. Indian politicians are well aware of a tax treaty giving favorable conditions for tax speculation, but they avoid changing tax regulation and policy accordingly. This indicates that financial regulation also should be studied from other angles such as corruption.

The paper contributes to studies of financial governance and value chains within International Political Economy by emphasizing how the multinational corporation integrates into international legal structures and consequently offsets national regulatory oversight. This should be of great interest to regulating authorities and decision makers of the global economy as well as domestic businesses. While the benefits in isolation of the MNC might be great and the trend towards decentering only

continuing, firms without access to the same benefits of operating across multiple jurisdictions will find it increasingly hard to compete and governments will struggle with collecting revenues from corporate taxation.

Chapter 2 Theory and Literature

Introduction

This chapter addresses how the contemporary MNC increasingly decenters its financial and legal activities in the global economy to take advantage of an incomplete tax treaty network and regulatory differences. These characteristics of the MNC provide a challenge to the Global Value Chain literature which has dominated the way of studying MNCs, and the chapter introduces the Global Wealth Chain (GWC) theory as new theoretical framework for studying the contemporary MNC. The GWC theory studies the flow of money and pecuniary wealth within the MNC and holds an 'accumulation-oriented' view on explaining economic change different from the 'activity-oriented' view of the GVC literature. The chapter finalizes by introducing how the corporate network of the MNC provides a platform for studying wealth chains.

Decentering of the Global Firm

MNCs have been outsourcing productive functions from developed countries to low-cost regions such as Southeast Asia or Eastern Europe for decades. This paper argues by referencing Desai's article "The Decentering of the Global Firm" that the contemporary MNC has been decentering completely including legal and financial activities and not only outsourcing production activities (2008).

There is a difference between outsourcing and decentering which is important to make clear from this paper's beginning. Decentering means according to the New Oxford American Dictionary displacing from the center or from a central position which is different from the process of outsourcing where the company contracts with an outside supplier to undertake activities (Stevenson & Lindberg, 2011).

Decentering of the global firm indicates how the MNC increasingly gives up its national identity by unbundling headquarters and reallocating assets worldwide. Instead of having one home, the MNC has created multiple homes for different functions such as a headquarter home, financial home, legal home and home for managerial talent (Desai, 2008, p. 3).

The case of Alcon Inc. illustrates this development. Alcon Inc. was incorporated and listed in Switzerland but Nestlé (the owner) wished to list Alcon Inc. on the New York Stock Exchange (NYSE) to attract American institutional investors by transforming Alcon Inc. from a foreign stock to a domestic

an American pharmaceutical stock. While adopting the required financial procedures to become listed in the United States (US), Alcon Inc. maintained its Swiss identity for tax purposes. Desai argues that “today, Alcon Inc. is a Swiss corporation sanitized of its Swiss identity, headquartered in America, listed on the NYSE, with a global investor base” (Desai, 2008, p. 2).

The listing of Alcon dates back to 2002, but there are more recent examples of how companies take advantage of decentering more than just the production aspects of their organization. A recent tax dispute between Google and the UK tax authorities revealed that Google’s UK operation during 2013 employed 1800 persons and earned over USD 5.6 billion in revenue while paying only GBP 21.6 million in taxes. This was achieved by using a tax-minimizing strategy popularly called a “double Irish sandwich”. The sales from the UK Google operation were booked in an Irish Google Subsidiary that paid a license fee to a Google entity holding the intellectual property in Bermuda. Consequently, the UK tax authorities argued that profits were routed from the UK through Ireland to the tax haven of Bermuda (Murad, 2014).

The services of the ‘Big four’ accountancy firms provides another empirical example of how the MNC becomes agile and flexible when decentring its activities. PricewaterhouseCoopers (PwC) offers the service of Value Chain Transformation to MNCs which aligns the company’s operational, tax and legal structures to achieve sustainable financial and operational benefits, and Ernst and Young (EY) offers for example tax-effective supply chain management (Ernest & Young, 2015; PWC, 2015b).

The examples of Alcon Inc., Google and the services of PwC and EY illustrate how the contemporary MNC strategically operates in different jurisdictions to obtain certain advantages such as tax minimization and attraction of institutional investors.

Global Value Chain framework

I Introduce the GVC framework as it has dominated the theoretical approach for studying the contemporary MNC¹.

The GVC theory has studied industrial, corporate and regional change by the value chains of sectors like footwear, electronics, consumer goods, automobile assembly and agriculture-food systems (Neilson et al., 2014, p. 4). Furthermore it has influenced the policy agenda of the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organization, The Organization for Economic Co-operation and Development (OECD) and the World Bank (Neilson et al., 2014, p. 2). Seabrooke and Wigan find that scholars and policy makers of these organizations have been encouraged to identify production processes and information asymmetries within the global economy (Seabrooke & Wigan, 2014, p. 6).

This emphasizes how successful the GVC framework has been in circles of academia and policy-making. Regardless of this success, this paper argues by reviewing the GVC theory that the legal and financial decentering of the MNC provides a challenge to the framework.

Global Value Chain Theory

The GVC theory studies governance of global production by analysing how the lead firm organizes its production value chain and interacts with production suppliers. The GVC framework focuses on how lead firms have been outsourcing productive functions in developed countries to low-cost countries, while some important areas of value creation has been maintained in developed countries. The analytical strengths of the value chain analysis have been understanding firms, nations and regions' engagement in the productive and manufacturing spheres of the economy (Neilson, Pritchard, & Yeung, 2014, pp. 1–2).

¹ Gary Gereffi, Professor of Sociology at Duke University, is one of the main scholars behind the GVC approach. His work on GVCs has been cited in 24045 articles on Google scholar pointing towards how influential the approach is.

The book “Commodity Chains and Global Capitalism” from 1994, edited by Gereffi and Korzeniewicz, set out the concept of global value chains² which binds the concept of value-added chains to the governance and organization of global industries (Gereffi et al., 2005, p. 82). Gereffi and Korzeniewicz argue that inter-organizational networks cluster around one commodity and link households, enterprises and states to one another within the world economy (Gereffi & Korzeniewicz, 1994)³. The main factor determining the governance of these international networks are the buyer-driven global commodity chains and producer-driven supply chains. The buyer-driven commodity chain is typically a disintegrated commodity chain governed by explicit coordination of the buyer, whereas the producer-driven supply chain is an integrated commodity chain controlled vertically by the producer (Gereffi, Humphrey, & Sturgeon, 2005, p. 82)⁴.

The GVC framework developed further with the influential article in 2005 “The Governance of Global Value Chains” written by Gereffi, Humphrey & Sturgeon. In this article, the GVC framework takes a more applied approach to value chain governance by identifying five different typologies of value chain governance: market, modular, relational, captive and hierarchy (Gereffi et al., 2005, pp. 83–84).


Governance type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base	Degree of explicit coordination and power asymmetry
Market	Low	High	High	Low
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	

Table 1, Key Determinants of global value chain governance (Gereffi et al., 2005, p. 87)

Table 1 illustrates how three key factors determine the governance type. The complexity of transactions refers to the information and knowledge transfer required to sustain transactions within

² Gereffi and Korzeniewicz initially applied the term Global Commodity Chains which later in Gereffi’s work changed to Global Value Chains. This thesis commonly refers to Global Commodity Chains and Global Value Chains as Global Value Chains for reasons of simplicity.

³ Cited in 2132 articles on Google Scholar

⁴ Cited in 3638 articles on Google Scholar

the value chain. This implies that complex products and process specifications require more intense knowledge transfers between the buyer and the supplier.

The ability to codify transactions influences the complexity of information transmitted between the partners in the value chain. Under circumstances where such information is difficult to codify, the lead company will need to integrate more closely with the suppliers.

The capabilities of suppliers refer to how for example less capable suppliers require a higher degree of monitoring and control by buyers (Gereffi et al., 2005, p. 85).

Analysing these key determinants will measure the degree of explicit coordination and power asymmetry in the value chain and result in one of the five governance types. The lead firm outsources production to external suppliers on a market basis when there is low degree of explicit coordination and power asymmetry and insources production on a hierarchical basis when the degree of coordination and power asymmetry is high.

The bicycle example exemplifies how the GVC theory works. The value chain of the bicycle industry was in the beginning (1890s) hierarchical as manufactures produced every part of the bicycle. This has changed to market based value chain today where large manufactures are specialized in supplying small parts of the bicycle such as Shimano's bicycle gear (Gereffi et al., 2005, p. 90)

Limits of Global Value Chain Theory

This paper acknowledges that the GVC theory provides insight on understanding how production processes is coordinated between lead firms and suppliers. However, when Gereffi and Korzeniewicz argue that inter-organizational networks in the form of value chains cluster around one commodity and link households, enterprises and states to one another within the world economy, they are only partially correct as they avoid considering the influence of financial and legal activities in this inter-organizational network around commodities.

When the contemporary MNC has a home for production, legal and financial activities it is insufficient only to study the production home.

Gereffi and Frederick argue for example that the global apparel value chain in the recent years have been beset by two major crises with consequences for developing markets. First WTO's phase-out of the quota system which previously had given small export-oriented and less developed economies access to the apparel markets of industrialized countries and second, and second the financial crisis

which has lowered the demand for apparel exports and resulted in enormous unemployment across the industry's supply chain (2010, p. 24).

The arguments are both valid and important for understanding the global apparel industry. However, the GVC theory overlooks another crucial crisis of the value chain, namely tax evasion and profit shifting practices by the MNCs. The largest fashion retailer Zara owned by the parent company Inditex has for example evaded taxes of around USD 325 million in the years of 2009-2014 (Drucker, 2014). When developing countries are engaged in the apparel industry and undertake so-called value-adding activities, their chances of industrial upgrading will be very limited by the aggressive tax minimizing strategies of MNCs, which leaves no taxes in the country.

The same point is raised by Hearson and Brooke in their study of how SABMiller evades up to GBP 20 million per year (Hearson & Brooke, 2012). We must understand the financial side of the MNC to understand how it shapes production

Value-chain theory has also gained success in corporate social responsibility studies (CSR) which have argued that CSR-strategies should be implemented in the supply chain of the company. Lindgreen, Swaen, Maon, Andersen, & Skjoett-Larsen appraise IKEA's CSR practices and argues that IKEA "represents a pioneering case within CSR in Scandinavia, and has a long tradition of working with environmental and social issues" (Lindgreen, Swaen, Maon, Andersen, & Skjoett-Larsen, 2009, p. 82).

However, the praise of IKEA's CSR practices fails to account for the charity fund Stichting Ingka Foundation that has been set up in the Netherlands to reduce the founder's tax instead of functioning as a charity fund. The charity fund has collected EUR 1.6 billion in dividends from IKEA during 1998-2003 and there are nothing indicating that these practices should have stopped (The Economist, 2006). These EUR 1.6 billion in collected tax-free dividends are relevant to address before one start to evaluate IKEA's CSR strategy.

The limitation of the GVC framework can be seen by viewing it through the institutional economist John Commons' idea that an economic transaction occurs simultaneously in a tangible sphere of production and labour, and an intangible legal sphere (Seabrooke & Wigan, 2014, p. 9). The GVC theory as the examples above support is constrained by failing to analyse how economic transactions occur in a legal sphere.

Krippner draws another distinction between ‘activity-centered’ and ‘accumulation-centered’ views on explaining economic change which also is useful for criticizing the GVC framework (Krippner, 2005). She finds in her study of the financialization⁵ of the American economy that the activity-centered view is associated with post-industrialism by highlighting the rising service sector whereas the accumulation-centred view finds economic change explained through a lens of financialization (Krippner, 2005, pp. 175–176). We need to analyse MNCs not only through the ‘accumulation-centered’ approach but also through the ‘activity-centered’ approach.

Global Wealth Chain framework

Taking together the characteristics of the contemporary MNC and the limitations of the GVC framework, I argue based on the article “Governance of Global Wealth Chains” to study MNCs in a GWC framework. The GWC theory focuses on the legal and financial decentering of the MNC and follows flows of pecuniary wealth (Seabrooke & Wigan, 2014). However, the wealth chain framework should not replace the GVC framework rather “wealth chains are the yin to the yang of value chains” (Seabrooke & Wigan, 2014, p. 7).

GWCs are defined as “transacted forms of capital operating multi-jurisdictionally for the purposes of pecuniary wealth creation and protection” (Seabrooke & Wigan, 2014, p. 4). With reference to the decentering of the global firm this definition acknowledges the multi-jurisdictionally operations of the MNC.

The GWC framework borrows from the GVC literature and adopts the same five governance typologies ranging from market, modular, relational, captive and hierarchical (Seabrooke & Wigan, 2014, p. 15). Table 2 below illustrates how these governance types are determined by the degree of explicit coordination between supplier, client and regulator of financial services and products. The degree of explicit coordination is then determined by the complexity of products and services, regulatory liability and capabilities to mitigate uncertainty.

⁵ Krippner defines financialization as “a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production” (Krippner, 2005, p. 174).


Governance type	Complexity of product and services	Regulatory liability	Capabilities to mitigate uncertainty	Degree of explicit coordination
Market	Low	Low	High	Low
Modular	Low	High	Low	
Relational	High	Low	High	
Captive	High	High	High	
Hierarchy	High	Low	High	High

Table 2 Key Determinants of Global Wealth Chains (Seabrooke & Wigan, 2014)

The complexity of products and services refers to the information and knowledge transfer required for the supplier to provide the service or product that meets the requirements of the client. Very complex financial services imply higher need for information and knowledge transfer between the client and the supplier.

Regulatory liability points towards the regulatory pressure put on financial services and products within a GWC and the ease of multi-jurisdictional regulatory intervention.

Finally, capabilities to mitigate uncertainty refers to the capabilities of suppliers to create solutions that mitigate the status of the product and services when regulators challenge these (summarized from Seabrooke & Wigan, 2014, pp. 18–19).

Elaborating on the five governance types, transactions within a market-based GWC occurs through arm's length relationships in established legal regimes where suppliers of products are multiple and they compete on price and capacity.

Modular wealth chains offer more tailored services and products within advanced financial and legal environments that restrict the flexibility of suppliers and clients. The information of these services and products is characterized as complex but with little explicit coordination.

Relational wealth chains are constituted by the exchange of complex tacit information which requires high levels of explicit coordination. Associated switching costs are high as they require strong, trusting relationships between the client and supplier.

Captive wealth chains are characterized by lead suppliers that dominate smaller suppliers by dominating the legal apparatus and financial technology. The options of clients are few given their size.

Finally, hierarchy wealth chains are vertically integrated meaning that the activities of the GWCs are in-house activities. Control of the wealth chain is primarily executed by the senior management often including the Chief Financial Officer. (The five governance types are summarized from Seabrooke & Wigan, 2014, pp. 15–16).

Information asymmetries

The GWC theory argues that the governance of GWCs manifests through information asymmetries arising between clients, suppliers and regulators of financial products and services.

Shell company based in the Cayman Islands provides the example of a market governance based wealth chain. The shell company located in the Cayman Islands works as an intermediary company between the regulator and the client, which disguises the identity of the client to the regulator. The information asymmetry between the regulator and the client is therefore larger compared to the information asymmetry between the regulator and the supplier. The service of the shell company is constituted by creating this information asymmetry between the client and the foreign regulator which gives the client the opportunity of for example tax evasion (Seabrooke & Wigan, 2014, p. 19)

The information asymmetry between the interested parties in the modular wealth chain is low as these transactions take place in well-established legal and financial environments where policies on anti-money laundering and reporting requirements of income are in place. Taking for example the HSBC offshore

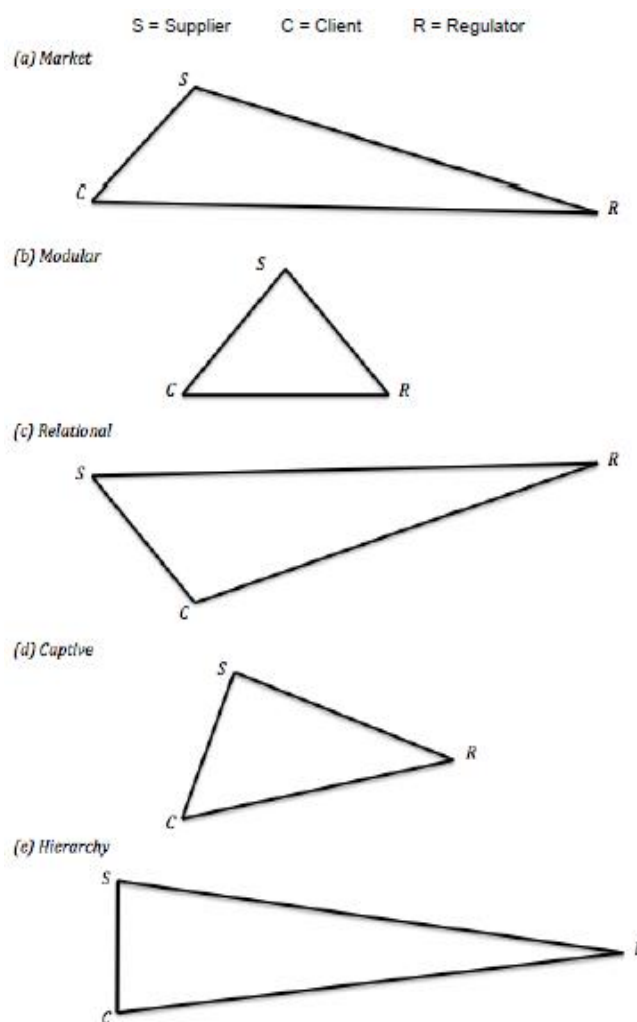


Figure 1 Information Asymmetries in the Governance of Global Wealth Chains (Seabrooke & Wigan, 2014)

account which can be used for tax evasion, a service provided by HSBC, the regulators are aware of this service which implies low information asymmetry between the regulator, client and supplier. This means the advantage of using the HSBC offshore account is not sustained by a high information asymmetry but limited political will to break up the wealth chain (Seabrooke & Wigan, 2014, p. 19).

The service of the supplier in a relational wealth chain is to ensure that the assets of the client are untouched by the regulator even under circumstances where the client is being investigated. The empirical example is the surgeon who has an asset protection trust established in a tax haven, to ensure that if he or she is sued or divorced the regulator cannot confiscate them. The relational form therefore relies on the greatest information asymmetry between the supplier and the regulator, and the information asymmetry between the client and the regulator is lower as the regulator might have knowledge of these assets (Seabrooke & Wigan, 2014, p. 21)

I suggest that the transfer pricing documentation provided by audit companies to regulators on behalf of a client (MNC) illustrates the captive governance type. PWC sells the patented service labelled “Global Coordinated Documentation” and argues

“to cope with the ever-moving target of global transfer pricing compliance, you need an efficient and consistent framework for producing the documentation required to defend your transfer pricing data - wherever and whenever it’s needed” (PWC, 2015a).

The information asymmetry in this case almost resembles the modular form but regulator is more distant to the client and supplier. The supplier and client will only show what is required and avoid transparency to the extent possible, and this moves the regulator more distant to the client and supplier (Seabrooke & Wigan, 2014, p. 21).

Finally yet importantly, suppliers and clients are closely integrated within the hierarchical wealth chain and experiencing a high information asymmetry to the regulators which are far away. This enables the firm to develop highly advanced financial innovation that confuse regulators which is illustrated by the case of Apple’s tax structure which among other countries involve Ireland, the Netherlands as well as Caribbean tax havens (Seabrooke & Wigan, 2014, p. 23).

Inspiration from offshore literature⁶

The section above sets out how the GWC theory provides strong analytical tools for studying the governance of global wealth chains and how information asymmetries sustain pecuniary wealth creation.

This paper applies the GWC theory to understand information asymmetries of Carlsberg's wealth chain, but before this is done, the paper investigates the fundamental assumption of GWC theory in the case of Carlsberg. This fundamental assumption of Carlsberg is the decentering of financial and legal activities. Merton argues in relation to this

"It might at first seem needless to say that before social facts can be "explained", it is advisable to ensure that they actually are facts. Yet, in science as in everyday life, explanations are provided for things that never were" (as cited in Krippner, 2005)

In order to study the decentering of the MNC, I turn towards literature of the International Political Economy which has studied global wealth chains under the label of the "offshore world" (Seabrooke & Wigan, 2014, p. 13). In the remaining part of the paper, I raise three points that are relevant to for studying global wealth chains and the decentering of the MNC. First, tax havens exist inside our economy as a result of the transnational economy which enables the MNC to decenter its activities. Second, the tax treaty network which regulates the operations of the MNC is far from complete. Finally, the MNC takes advantage of regulatory differences in its corporate network by establishing subsidiaries in these jurisdictions.

Tax havens are onshore in the global economy

Tax havens are not only conduits for tax avoidance but belong more broadly to the world of finance, to the businesses who manage the monetary resources of an organization (Palan, Murphy, & Chavagneux, 2009, p. 236). Tax haven jurisdictions should not be conceived as offshore jurisdictions working in another economic system. Tax havens are onshore of the economy and existing inside the global economic system. This is important to state because it relates to the argument of how tax havens rise and what causal mechanisms they are driven by.

⁶ Also referred to as tax haven literature

Overall, there are two differing explanations of why tax havens have risen. The conventional view arguing that the increased state regulation and taxation during the post-war period gave rise to tax havens (Palan, 2002, p. 156). Robert A. John mentions,

“Given that some countries adopt a permissive regulatory environment and others a stringent one, gaps and differentials arise in national systems of regulation. These differences can lead to perverse competition in regulatory laxity and gravitation by some institutions to the least regulated financial centers” (as cited in Palan, 2002, p. 156).

This argument is similar to a ‘race to the bottom’ argument which often is applied to explain how nation-states respond to competitive pressures by relaxing regulation.

This paper advocates for an alternative view where the rise of tax havens are systemically build into the transnational financial economy which operates in a world of national regulation. As a result, tax havens do not rise separately in another economic system in the post-war period but are onshore of the economy and operates inside the global economy (1950s).

This argument is supported by a number of historic cases indicating that tax havens have worked from the beginning of the transnational economy (Picciotto, 1992). United Kingdom became one of the first jurisdictions to impose taxes on individuals’ income with the Napoleonic war raging in the beginning of the nineteenth century. The personal income taxes relied on the principle of residency, meaning that only British citizens should pay tax. When the British system in 1844 made taxation of corporations effective it adopted the principle of residency meaning that joint-stock company became subject to tax like any other person (1992, pp. 4–11).

The problem of defining residency of corporations soon became problematic to the British tax authorities. The mining company; De Beer was for example deemed a UK based company because the investment decisions were taken in London even though the company was formed under South African law and performed its mining activities in South Africa (Picciotto, 1992, p. 6).

The Egyptian Delta Land Company is another case cementing the problems of taxation when the corporation starts to decenter. The Egyptian Delta Land Company was set up in the United Kingdom in 1904 to own and rent land in Egypt, and during 1907, the control was transferred from the UK to Egypt where a new board of directors resident in Egypt took control.

The British tax authorities ruled that the Egyptian Delta Land Company should be treated as a non-UK resident company exempted from paying tax in the United Kingdom. The ruling was controversial

because it turned the United Kingdom into a tax haven where companies registered in London were exempted from British tax as long as they were controlled overseas. The possibility ended in 1988 when the Finance Act arranged that foreign companies incorporated in the UK should also be taxed in the UK (Picciotto, 1992, p. 8).

Comparing the systemic argument which is supported by the historic cases of De Beers and the Egyptian Delta Land Company to the conventional account, sheds light on two different causal drivers (mechanisms) of tax havens. Regulatory laxity and differentials in national taxes drive the rise of tax havens according to the conventional view conversely the systemic view argues that the tax havens are built into the transnational economy when the MNC rises by decentering its activities.

The systemic view does not reject that differentials in national taxes are important for how the MNC decenters its activities, but argues differently that the rise of tax havens have been driven by the transnational economy which enables MNCs to decenter its activities.

Building a treaty based system

Understanding how tax havens work inside the economy in conjunction with the MNC requires an understanding of the treaty based tax system and the corporate network of the MNC.

Regarding the treaty based tax system the cases of De Beer and the Egyptian Delta Land Company show how tax authorities from their beginning have struggled with determining residency of corporations. With reference to Desai's concept of the decentered global firm, the difficulty of determining the residency of the MNC for taxation has only increased by the growing complexity of the MNC's organizational structure of.

Furthermore, some jurisdictions apply a different tax system that targets the source of business operations for determining taxation which implies that income should be taxed where it is earned (at the source). This is fundamentally different from the residency principle that was discussed above where the residency of the person or corporation who receives income is subject to tax.

Hong Kong applies for example the source principle for taxation which entails that only profits which are earned in Hong Kong are subject to tax meaning that profits earned in other jurisdictions but accrued or collected in Hong Kong become tax free (Inland Revenue Department of Hong Kong, 2015).

Countries adopt different variants of these two archetypical tax systems. The MNC doing all its business in the United Kingdom but with control in Hong Kong would in principle be released from

paying tax in the UK. This is due to clash between the residency principle of taxation which in the United Kingdom is defined by location of control and management, and the source principle in Hong Kong which only taxes income earned in Hong Kong.

Conversely, a corporation operating in two jurisdictions applying the residence principle for taxation would risk double taxation of its income as tax authorities often determine residency differently. The tax authorities in the US for example determines residency by the location where the corporation is registered (Nelson, 2013, p. 144)

Countries have in order to avoid double taxation agreed bilaterally on how residency should be determined, and in case where the source principle clashes with the residency principle some countries have agreed on methods maintaining the corporation subject to tax in one of the two jurisdictions.

However, these bilateral tax treaties are by no means agreed between all jurisdictions. This implies that MNCs in order to protect pecuniary wealth should avoid double taxation as a minimum. Further, it provides an opportunity for tax speculation in geographical areas of the economy which normally are not suspected for tax speculation as there exists no clear multi-lateral criteria for how profits and costs are located between host and home countries (1992, p. 4).

The corporate network of the MNC

In continuation of the incomplete tax treaty network the corporate network of the MNC becomes an important tool for studying how the MNC navigates in the global treaty network. We hereby study how the MNC creates and protects its pecuniary wealth by decentering and controlling its activities in the most attractive jurisdictions.

This illustrates how the corporate network and GWC study is different from typical studies of tax havens within offshore literature by maintaining a firm-specific focus. The GWC theory acknowledges the importance of studying tax havens, and borrows the firm-specific method and approach of the global wealth chain studies.

A corporate network can be defined as a network of related legal entities within a company, which in a web of ownership relations are connected (Sebbacon, 2013). Figure 2 shows a micro example of a corporate network where the ultimate parent company ultimately controls the subsidiary but through an immediate parent company. Corporate networks are also known as business groups, corporate groups or simply group of companies. The annual report of Carlsberg is also labelled “Carlsberg Group Annual Report 2013” because the parent company controls a group of companies.

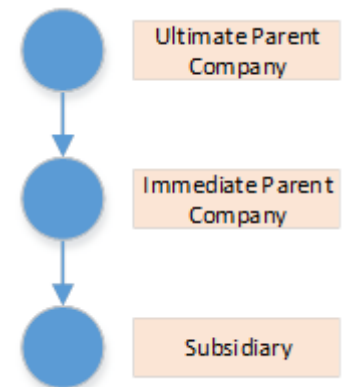


Figure 2 Flow of ownership within a corporate network

Corporate network analyses have been carried out by OpenOil on basis of opendata databases and covered the corporate network of British Petroleum as well as oil companies and contracts within Nigeria and the Middle East and Northern Africa (“Open Oil Data Framework,” 2015).

This paper argues to study the wealth chains of Carlsberg by mapping the entire corporate network around Carlsberg and on this foundation applying the GWC theory’s insights on explicit coordination and information asymmetries. The corporate network covers the multijurisdictional-space accessible to Carlsberg by identifying all entities controlled by Carlsberg and their location.

The idea of studying GWCs through a corporate network analysis is supported by the work of Picciotto (Picciotto, 1992). He proposes the idea of studying tax minimization through intermediary company structures such as the one depicted below.

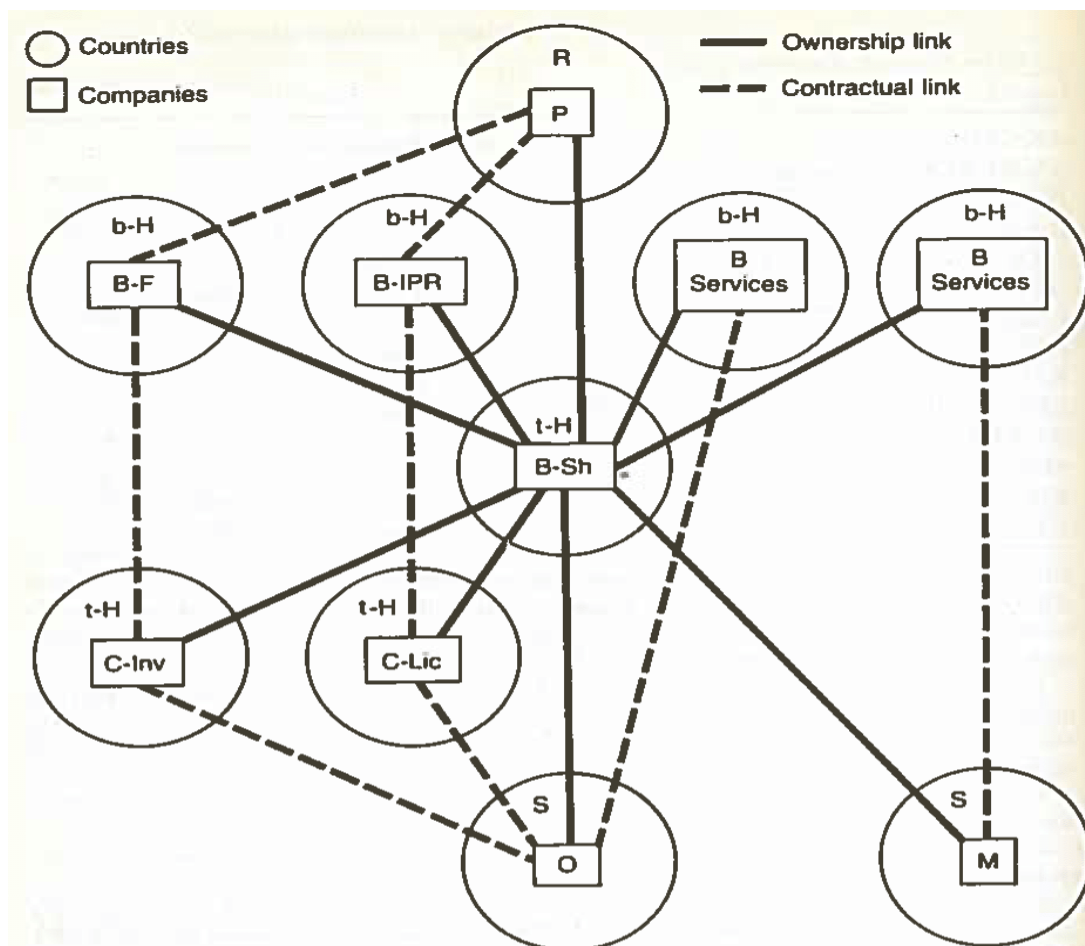


Figure 2 Corporate network strategies (Picciotto, 1992, p. 138)

Figure 3 pays attention to the entity type (identified by the square) and their jurisdictions (identified by the circle). The parent company (P) sets up intermediary base companies (B) to provide services to Operating Companies (O) and Marketing companies (M). The base companies and conduit companies work as “enablers” in the corporate network for tax minimization.

The base companies are holding companies with different types of assets and capabilities for different purposes. B-F is a base company holding financial assets and B-IPR is a base company holding intellectual property rights stored in appropriate jurisdictions (b-H = base-Havens, t-H = treaty-Havens).

The type of assets within the corporate network determines the optimal intermediary company structure. The base company holding financial assets is ideally located in a jurisdiction, which exempts tax on all interest payments to non-residents, and has no treaties established which allows regulators in the parent's jurisdiction to obtain information about these payments. Loans from base company with financial assets to an operating company might have to be routed through a conduit company in a treaty-haven as indicated by the contractual linkages between B-F and C-Inv. (Picciotto, 1992, pp. 138–139).

The basic strategy in the corporate network provided above is to have assets stored in appropriate jurisdictions, and make these assets available to the operating and marketing companies for market-based charges thereby maximizing the costs attributable to the operating and marketing companies. The costs incurred by the operating and marketing companies are then deducted from the business profits, which reduces the source taxation of the operating and marketing companies (Picciotto, 1992, p. 139).

Figure 3 illustrates how subsidiaries can exploit jurisdictional differences and loopholes in the treaty networks. Another important insight of the figure is the distinction between ownership linkages and contractual linkages in a corporate network. Ownership linkages are ownership of shares between subsidiaries whereas the contractual linkages are trade between subsidiaries (internal trade). The contractual linkages of the corporate network are important as internal trade totals around 70% of global trade international trade. Nevertheless, these are difficult to study due to data limitations and the paper is limited to focus on ownership linkages of the corporate network.

Conclusion

I conclude that we must study the financial and legal activities of the MNC to understand how the MNC shapes production and influences the economy. Studying corporate networks and global wealth chains convey this accumulation-oriented approach, which is different from GVC theory's activity and production-oriented approach. The chapter finds that tax havens are an important component of wealth chains and provides a method for creating and protecting pecuniary wealth. This implies that the legal and financial decentering of the MNC drives the pecuniary wealth creation and protection.

Chapter 3 Method

Introduction

The research conducted in this assignment has been guided by the method of process tracing. While a growing number of political scientists apply process tracing in their research some scholars have concluded that a buzzword problem of process tracing has arisen (Bennett & Checkel, 2014). I will therefore explain what process tracing is and how it justifies the empirical research carried out in this paper. Finally, the chapter justifies its selection of Carlsberg as a case by elaborating on its information-oriented case selection strategy which aims at finding the least likely case to verify the Global Wealth Chain (GWC) theory.

Defining Process Tracing

Process tracing is defined differently depending on the source. Bennett and Checkel define process tracing as

“the analysis of evidence on processes, sequences, and conjunctures of events within a case for the purpose of either developing or testing hypotheses about causal mechanisms that might causally explain the case” (2014, p. 7).

Beach and Brun Pedersen (Beach & Brun Pedersen, 2013, pp. 1–2) reference the large catalogue of process tracing literature and settle on a broad definition where process tracing “is commonly defined by its ambition to trace causal mechanisms”.

This assignment adopts the following definition which has been deduced from Beach and Brun Pedersen (2013); process tracing is a qualitative method characterized by its ambition of tracing causal mechanisms and thereby studying relationships and correlations between one or more independent variables, (X) and one dependent variable, (Y).

Process tracing distinguishes itself from quantitative methods by its fundamental belief in explaining outcomes from causality rather than correlation and regularity. The textbook example of process tracing explains an observed correlation between (X) democracy and (Y) peace, implying that democratic nation-states seldom go into war with each other.

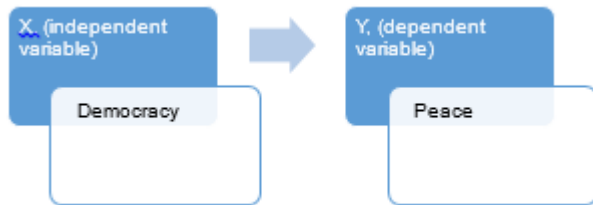


Figure 3 Causality between democracy and peace (Beach & Brun Pedersen, 2013)

Figure 4 depicts the relationship between the observed X, democracy and Y, peace. Within quantitative reasoning, the high number of cases resembling the relationship indicate a regularity between A and B and based upon this the researcher finds correlation.

Process tracing is different as it goes beyond the correlation and studies the causal mechanisms that produce the outcome of peace (Beach & Brun Pedersen, 2013, p. 1). This means that process tracing is a qualitative research strategy requiring one or few cases to make inference. As figure 5 illustrates, process tracing rather seeks to find the causal mechanisms through which the independent variable, (X) transmits causal forces to the dependent variable, (Y).

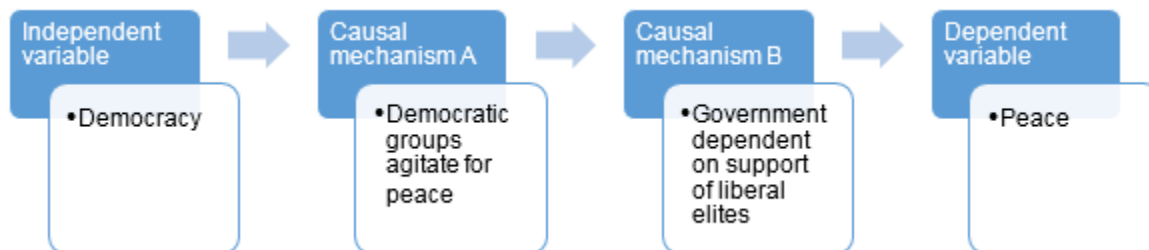


Figure 4 Retrieved from Beach and Brun Pedersen, p. 40, 2013.

Staying within the example of democracy and peace, the process tracing researcher theorizes from political science literature that the relationship is due to the causal mechanism A where democratic groups agitate for peace, and the causal mechanism B where the government is dependent on support from democratic groups and therefore respond to the request. Following this, the researcher must observe that these causal mechanisms exist empirically, and if succeeding, he is able to make inference that applies to other cases of democracy and peace even though he has worked with one specific case.

Philosophical roots of process tracing

The distinction between quantitative reasoning and qualitative reasoning (including process tracing) derives from the ontological debate on how one conceives causality.

The skeptical position initially formulated by David Hume, argues that we cannot measure the causal effect between X and Y, but merely observe the correlation and regularity between objects (Beach & Brun Pedersen, 2013, pp. 24–25). To illustrate, one can imagine the situation prior to 1953 when the black box was invented to record cockpit sound and instrument data during flight. Researchers would be able to observe a correlation between bad weather and airplane crashes, but they would never be able to observe the factual causal mechanism that caused the airplane crash.

Conversely, process tracing can be grouped with scientific realism which assumes a deeper connection between cause, (X) and effect, (Y) (Bennett & Checkel, 2014, p. 10). Helped by the invention of the black box, researchers are then able to observe the causal mechanism that caused the airplane to crash, for example weather related pilot errors, mechanical related pilot errors or sabotage. As Gerring asserts in his Case Study Research, process tracing allows the researcher to “peer into the box of causality to locate the intermediate factors lying between some structural cause and its purported effect” (as cited in Beach & Brun Pedersen, 2013, p. 1).

The above example suggests that we should study causal mechanisms because the black box installed in airplanes gives this opportunity. The truth is that reality is far more complex and that the black box of causality is often difficult to open up. How does a doctor open up the black box of causality between smoking and cancer? Doctors never observe mutations in lung cells while the patient is smoking a cigarette, but finds a correlation (increased risk of lung cancer) between smoking and cancer.

The two different interpretations of causality grouped under the skeptical position and the scientific realistic position (process tracing) derive from two different understandings of causality. The skeptical position relies on a probabilistic causality which requires a high number of cases to confirm a correlation between entities, opposite to process tracing and scientific realism which conceives reality connected by causal mechanism which can be studied through one case.

Within probabilistic causality, the researcher relies on a probabilistic ontology where there are both systematic and non-systematic elements of reality. The example of genetics as provided by Beach and Brun Pedersen is helpful. The researcher observes parents' IQ has some explanatory power in

relation to their child's IQ, however the researcher does not expect a one to one relationship, and consequently the probability distribution of the relationship between the parent's IQ and the child's IQ takes the form of a bell curve (Beach & Brun Pedersen, 2013, p. 26). There are both non-systematic and systematic elements of the observation, and thus we need multiple case studies to support that the correlation is explained by systematic elements. Statisticians also work with an error term in their models to capture the non-systematic elements.

The deterministic causality opposes this by assuming that reality is only composed of systematic elements and things we cannot explain are due to limitation and failures in the theories. This ontological deterministic position implies that randomness and chance appear only because of limitations in theories, models and data as there exist no stochastic factors in the deterministic causality (Beach & Brun Pedersen, 2013, p. 27).

What are causal mechanisms?

Coming closer to a unified understanding of what a causal mechanism is within process tracing, it is important to emphasize that each causal mechanism is vital. Therefore causal mechanisms that are not vital to the causality functioning are considered redundant to the relationship (Beach & Brun Pedersen, 2013, pp. 30–31).

Unfortunately, no researcher finds himself in an ideal world constituting only of deterministic or probabilistic causality, and so real life application must soften this criterion to some extent. In the reality of social science, it is impossible to determine a causal relationship with 100% certainty, or that one causal mechanism captures the causal force transmitted from X to Y with 100% accuracy.

This paper sets forth a definition where a causal mechanism is composed of an entity that undertakes an activity. The causal mechanism is for illustrative purposes both composed of a toothed wheel (the entity) and the movement of the toothed wheel (the activity). Staying within the mechanical example, the activity of the toothed wheel (when the causal mechanism is present) transmits causal forces from X to Y (Beach & Brun Pedersen, 2013, p. 29).

Variants of process tracing

Process tracing has been defined as one single method by Checkel and Bennett in *Process Tracing From Metaphor to Analytical Tool* edited (2014). However, this paper adopts Beach and Brun Pedersen's idea of separating process tracing into three different variants such as theory-testing process tracing, theory-building process tracing and finally explaining-outcome process tracing (Beach

& Brun Pedersen, 2013, pp. 11–12). The explaining-outcome variant has little relevance for this paper and has not been discussed.

Theory-testing process tracing

This paper seeks to test the GWC theory by testing the prediction of how financial and legal decentering becomes the causal mechanism of pecuniary wealth creation and protection. As a result this paper applies the theory-testing variant of process tracing.

Theory-testing process tracing is characterized by being a theory-centric method with purpose of studying the theorized causal mechanism between (X) and (Y) by asking whether the causal mechanism is present or absent, and if it functions as prescribed by the theory (Beach & Brun Pedersen, 2013, p. 12). Within theory-testing process tracing, the researcher deduces causal mechanisms from existing theory or by logical reasoning (Beach & Brun Pedersen, 2013, pp. 14–15).

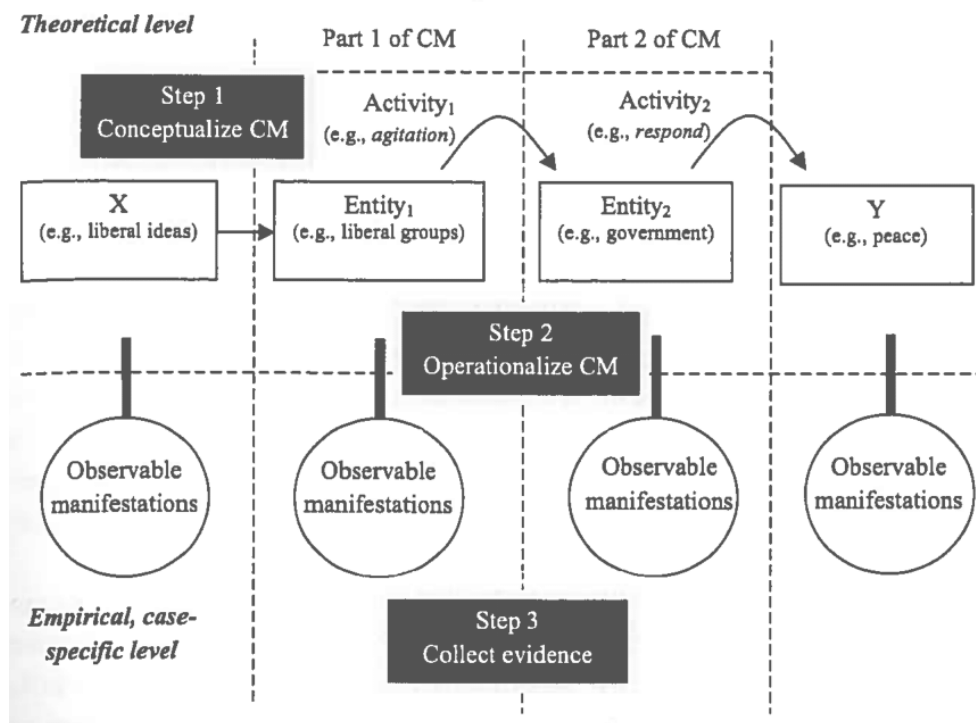


Figure 5 Beach and Brun Pedersen, p. 15, 2013

Figure 6 shows how the theory-testing variant falls in three steps.

The first step is to conceptualize the causal mechanism between X and Y. Based on existing theoretical work within political science, the researcher must conceptualize relevant causal mechanisms. For example, democratic groups agitating for peace would be a plausible causal mechanism for peace from democracy.

In the second step, the researcher transforms the theorized causal mechanisms into case-specific predictions on how she expects them to manifest empirically, meaning are they present or absent. Within the democracy and peace example, the researcher might predict that agitation for peace would be found in political speeches or political campaign material.

Finally, the researcher collects the evidence in step three of theory-testing process tracing by testing whether the predicted manifestations of the theorized causal mechanisms are observed empirically. Solid testing and inference is therefore contingent upon the first and second steps of the research. The empirical evidence then either confirms or rejects the hypothesis that predicted a certain causal mechanism between X and Y, and updates our understanding of how good the prediction on the relationship between X and Y was (Beach & Brun Pedersen, 2013, p. 15).

Theory-Building Process Tracing

The purest form of the theory-building variant is hard to find in the social science literature (Beach and Brun Pedersen, 2013, p. 16). However, the emergence of the GWC approach shares some of the theory-building characteristics. The case of how Apple strategically minimizes its tax payments work as an empirical foundation for the GWC framework (Seabrooke & Wigan, 2014). This indicates how the GWC theory inductively has been built in to explain the empirical reality of pecuniary wealth creation and protection.

Theory-building process tracing is another theory-centric variant. Theory-building process tracing is applied in two research situations: first, when the researcher knows of a correlation between X and Y, but no theory is able to formulate the causal mechanisms linking X and Y, and second, when the outcome is known but the causes are unknown (Beach & Brun Pedersen, 2013, p. 16)

The theory-building method is inductive as it starts from the collected empirical material before making inference of manifestations and causal mechanisms. Similar to the theory-testing variant it can be explained in three steps. The researcher initially collects evidence, before inferring the existence of manifestations and finally inferring existence of causal mechanisms. Comparing to the theory-testing

variant, the theory-building variant has a backward inductive logic because it departs from the empirical data and from this induces observable manifestations before inferring existence of causal mechanisms linking x and y (Beach & Brun Pedersen, 2013, p. 17).

Applying process tracing to global wealth chains

This paper works with the theory-testing variant of process tracing and seeks to test the theory of GWCs with the case of Carlsberg. I will therefore start to translate the definition of GWC into a causal relationship between X, (the independent variable) and Y, (the dependent variable). The definition of GWCs is: “transacted forms of capital operating multi-jurisdictionally for the purposes of pecuniary wealth creation and protection” (Seabrooke & Wigan, 2014, p. 4)

Translating this definition into a relationship between two variables gives the following relationship:

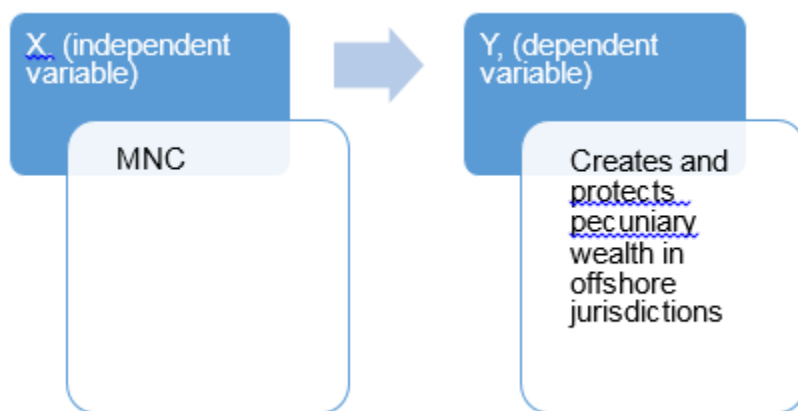


Figure 6 GWC causal relationship

Figure 7 demonstrates a simple causal relationship, which in principle can be studied by both qualitative and quantitative methods. A quantitative method studies this relationship increasing the number of cases which either confirms or disconfirms the correlation between the variables. Process tracing (as a qualitative method) approaches this question from the angle of causality, meaning that the answer lies in tracing the process and underlying causal mechanisms producing the dependent variable.

I define the MNC as corporation which controls assets in more than one country. The MNC can control offices, producing activities

The MNC also known as the transnational corporation is any corporation registered and operating in more than one country at a time. The most simple example is a corporation with its headquarters in one country and wholly or partially owned subsidiaries in one or several other countries (Encyclopaedia Britannica, 2015)

Pecuniary wealth is wealth created and protected by the corporation's legal and financial decentering of activities and excludes the wealth and value generated in the company's supply chain. One typical practice that creates pecuniary wealth is aggressive tax planning where the company allocate profits and costs efficiently to reduce taxes. However, other things like attraction of certain types of investors or access to liquidity markets might also create pecuniary wealth and incentivize the corporation to decenter. This paper focusses primarily on the pecuniary wealth creates from tax minimizing strategies.

Conceptualizing the causal mechanism

Applying theory-testing process tracing to GWC theory requires the researcher to conceptualize a causal mechanism linking these two variables together. In order to carry out this conceptualization and application systematically, this paper relies on a research design formulated by Brun Pedersen and Beach, which investigates the causal mechanism in three steps. First, one must conceptualize (theorize) causal mechanisms from existing theory, second, formulate predictions on how these mechanisms are observed empirically, third, collecting evidence of by testing the predictions (Beach & Brun Pedersen, 2013)

Starting from the GWC definition, I conceptualize the causal mechanism between the MNC, (X) and creation of protection of pecuniary wealth, (Y) to be "transacted forms of capital operating multi-jurisdictionally". This means the transacted forms of capital which operate across several jurisdictions transmit causal forces from the MNC, (X) to the outcome of pecuniary wealth creation and protection, (Y). I term this causal mechanism financial and legal decentering. In order to elaborate, the causal mechanism refers to how the MNC disintegrates its legal and financial activities into jurisdictions providing secrecy and tax incentives, and thereby produces and creates pecuniary wealth.

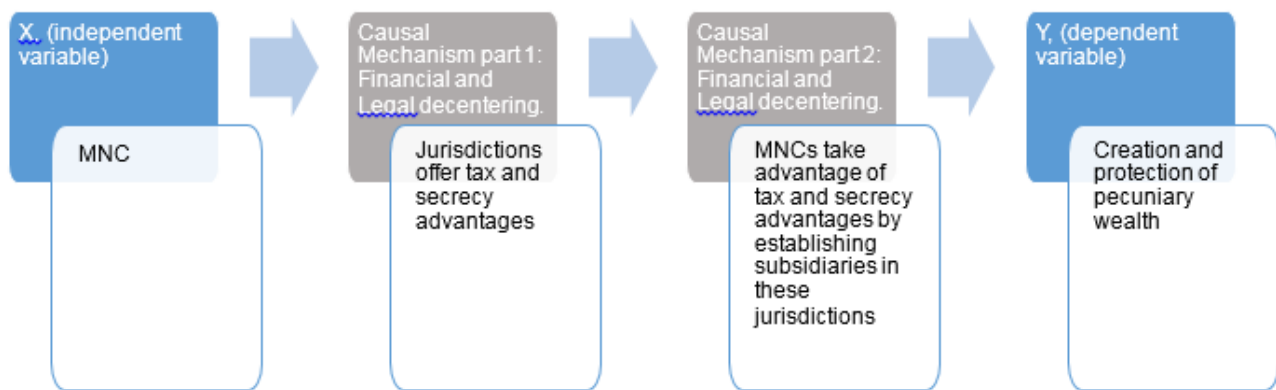


Figure 7 Conceptualizing causal mechanisms

As figure 8 demonstrates, there are two parts constituting the causal mechanism of financial and legal decentering. The first part specifies how jurisdictions offer tax and secrecy incentives whereas the second part states how MNCs take advantage of these tax and secrecy incentives by establishing wealth chain entities in these jurisdictions.

The second part of the causal mechanism builds on the hypothesis that wealth chain entities protect and create pecuniary wealth by providing an intermediary company structure between value generating entities and the ultimate parent company. In this paper, the ultimate parent company is Carlsberg.

Wealth chain entities and value chain entities

In order to test how the MNC takes advantage of the tax and secrecy benefits in jurisdictions, this paper argues to separate between value-chain subsidiaries and wealth-chain subsidiaries. Without this separation, it becomes difficult to determine if the entity is set up for a legal and financial purpose or for other reasons such as distributing and producing commodities. Each subsidiary controlled by Carlsberg in Switzerland cannot be undertaking financial and legal activities as Switzerland provides base for a brewery and relatively important beer market to Carlsberg.

Wealth chain subsidiaries therefore refer to entities that are set up for financial and legal purposes and integrated into the wealth chain of the MNC. Conversely, value-chain subsidiaries are entities

undertaking typical supply-chain activities such as processing of raw materials, manufacturing, distribution retailing and marketing.

The main limitation to this categorization is that Carlsberg shares limited information about their subsidiaries' main purpose of business. Categorizing these subsidiaries therefore primarily rely on company registry searches where the content differs depending on levels of transparency in the jurisdictions. The determining factors for the categorization therefore differ to some extent.

Measures for determining the subsidiary's purpose of business are national industrial classification systems or short texts about the entity's purpose of business written in annual reports. Other determining factors are number of employees as subsidiaries undertaking financial and legal purposes generally have fewer (often zero) employees compared to value-chain subsidiaries. Furthermore, in cases where Carlsberg do not have any breweries established and sells relatively few beers this increases the likelihood that the subsidiary undertakes financial and legal activities. Finally, I argue that Carlsberg subsidiaries set up by law firms specialized in tax minimizing indicates that the subsidiary is a wealth chain entity. This hypothesis is also affirmed in cases where the law firm provides a c/o address to the subsidiary and acts as the company's external company secretary or company presenter.

The distinction is an empirical way to investigate the GWC theory separate from GVC theory, and determine how financial and legal decentering takes place as causal mechanism for pecuniary wealth creation and protection. The distinction refers to Krippner's distinction between accumulation centered views and activity centered views on explaining economic change, and Desai's concept of the decentered global firm with multiple homes (Desai, 2008; Krippner, 2005).

Prediction

After having conceptualized the financial and legal decentering as the causal mechanism for pecuniary wealth creation and protection, and how this will be investigated by separating between value-chain subsidiaries and wealth-chain subsidiaries in Carlsberg's corporate network. I will now formulate a prediction on how this causal mechanism must be observed to verify the theory.

The prediction of how the causal mechanism should manifest is:

Wealth chain subsidiaries are established by Carlsberg in jurisdictions, which offer tax and secrecy advantages.

The prediction does not expect wealth chain subsidiaries only to take advantage of tax and secrecy advantages in typical tax havens due to the argument of how loopholes in the tax treaty network provides potential tax advantages in a number of jurisdictions.

The paper investigates this prediction by categorizing the subsidiaries as either value-chain or wealth-chain subsidiaries, and by collecting information about their location and ownership linkages. However, the research finds 165 affiliated entities and subsidiaries of Carlsberg and has therefore chosen to focus on two different groups of jurisdictions where Carlsberg is located.

The first group of countries we focus on are established in Hong Kong, Singapore and Switzerland and are known as jurisdictions providing strong tax and secrecy advantages to companies. The other group of countries concerns Denmark, United Kingdom and Malaysia which are characterized by providing fewer tax and secrecy advantages to companies.

Justification of case

Having set out the theoretical basis and methodology of this paper, I would like to justify my selection of Carlsberg as a case. The case selection has been guided by an information-oriented selection (Flyvbjerg, 2006; Odell, 2001). The case selection is counter to a random selection based upon expectations about the content of the case which for a single case study increases the utility.

“When the objective is to achieve the greatest possible amount of information on a given problem or phenomenon, a representative case or a random sample may not be the most appropriate strategy. This is because the typical or average case is often not the richest in information.” (Flyvbjerg, 2006, p. 229).

One way to deal with an information-oriented case selection is by distinguishing between the least-likely and most-likely case to verify a hypothesis. Choosing the least-likely case for testing a theory and finding that even this case confirms the theory will increase the likelihood that this theory is valid in other cases. Flyvbjerg references Robert Michel’s study of oligarchy in a grassroots organization as a prime example because Michel’s selection of the least-likely case (horizontally structured grass roots organization) to confirm his hypothesis of oligarchy increases the likelihood that oligarchy applies to most other organizations (Flyvbjerg, 2006, p. 231)

On the other hand, studying the most-likely case study for confirming a hypothesis is suitable for falsification. The reason being that if the most-likely case study fails to confirm the hypothesis, the

hypothesis is likely invalid. Odell formulates a hypothesis from dependency theory that “dependency of a less developed country on the world capitalist system retards or even reverses its development”, and argues that Cuba is the most likely case study due to the Cuban revolution in 1959 isolating Cuba from the capitalistic system. Evidence that Cuba failed to improve or accelerate its development after the revolution would be more telling against the hypothesis compared to cases where they did not make a clear break from the capitalistic system (Odell, 2001, p. 166).

Information-oriented case selection

Seabrooke and Wigan make use of Apple as a case in their theory-building article of Global Wealth Chains (Seabrooke & Wigan, 2014). Apple is one of the most-likely cases to confirm a hypothesis of financial and legal decentering as it has already been covered in the media, and is the largest MNC in the world. However, this paper has the ambition of moving on by theory-testing the GWC which implies that the least-likely case to confirm the GWC theory will increase the likelihood that GWC hypothesis applies to other MNCs.

Determining least and most-likely cases for a theory-testing process tracing study, depends on the characteristics of X, (independent variable) and Y, (dependent variable) (Beach & Brun Pedersen, 2013, p. 151). One way to approach this is by assessing the qualitative thresholds of these variables as is illustrated in figure 9 (Beach & Brun Pedersen, 2013, p. 165).

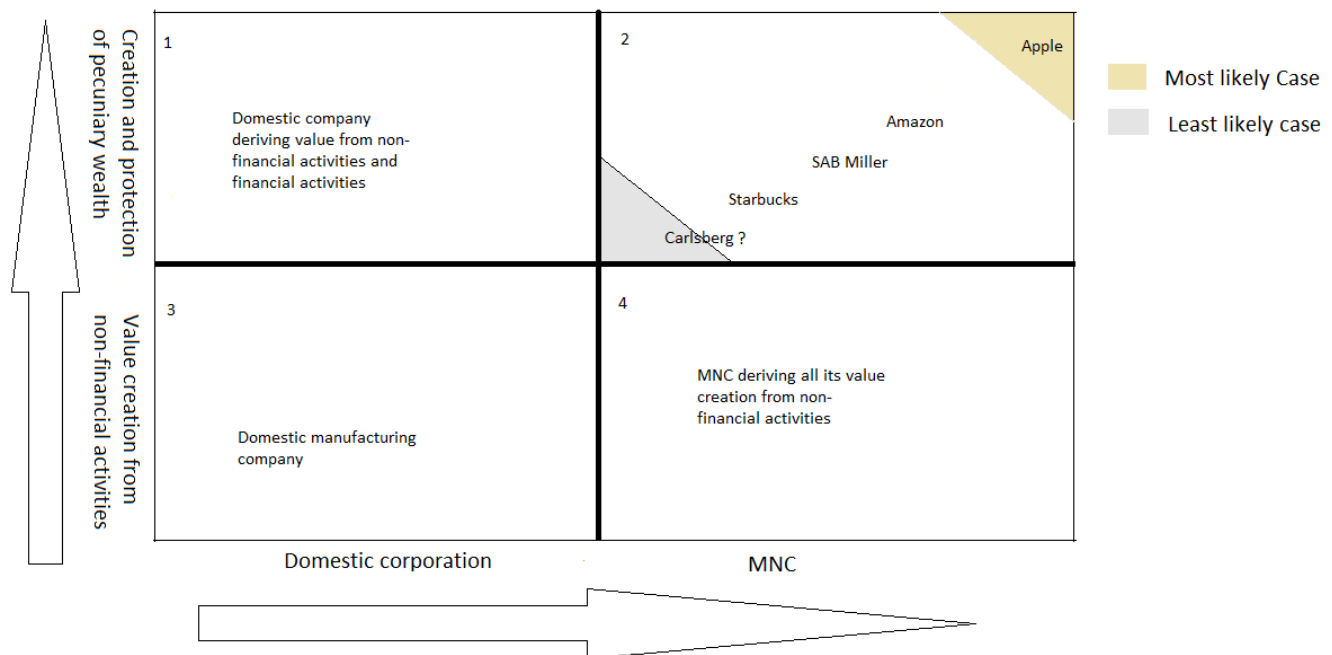


Figure 8 Information-oriented case selection in Process tracing inspired by (Beach & Brun Pedersen, 2013)

Figure 9 shows the x-axis separating between domestic corporation and MNC and the y-axis separating between creation and protection of pecuniary wealth and value creation from non-financial activities. This separates the figure into a matrix of four different parts (see the numbers in the figure).

A case must satisfy certain conditions to test the GWC theory.

Starting by the x-axis, the case for testing the GWC theory must be a MNC⁷. Selecting a domestic corporation to test a theory, which applies to MNCs, is simply incorrect, and this means we only can consider cases in part two and four of the figure.

In relation to the y-axis, we only consider cases that satisfy the criterion of the y- variable in figure 9, namely creation and protection of pecuniary wealth. Creation and protection of pecuniary wealth is separated from the value-creation stemming from non-financial activities. With reference to the

⁷ See page 39 for a definition of the MNC.

categorization of wealth-chain entities and value-chain entities, the value chain entities create value from non-financial activities contrary to the wealth chain entities creating pecuniary wealth.

The most-likely and least-likely cases to investigate the causal mechanism predicted by the GWC theory are consequently found in part two of the figure. Whether they are least-likely or most-likely depends on how they satisfy the two criteria (X,Y).

Apple illustrates the most likely case to verify the GWC theory. Apple operates in the majority of all countries in the world and is a multinational corporation with stress on multinational. In addition to this, Apple has been operating a complex financial structure and been accused of dodgy tax planning (Seabrooke & Wigan, 2014, p. 23). The allegations have primarily been surrounding Apple's tax structure involving Ireland and Bermuda (Agence France-Presse, 2014).

The number of other companies that the causal mechanism of GWC would apply to when companies like Apple and Amazon proved its existence would be very limited. Consequently, I have pursued to find the least-likely case study to confirm the GWC theory.

Carlsberg has a relatively low number of business operations abroad compared to the case of Apple and this explains why Carlsberg is closer to the center of figure 9. Comparing the pecuniary wealth creation between Apple and Carlsberg, it is evident that Carlsberg's scores considerably lower on this parameter. Carlsberg operates a number of wealth chain entities, and Carlsberg has been accused by the finish tax authorities for evading tax in Finland, and has been in the media after they purchased a Dutch company with financial ties to the Dutch Antilles (Nyborg, 2010; Politiken, 2014). However, the scope of this pecuniary wealth creation still seems considerably lower compared Apple.

As a result of this, the paper selects Carlsberg as a case due to its characteristics of being a less-likely case to support the causal mechanism. This increases the likelihood that the causal mechanism applies to other companies if the investigation of Carlsberg confirms this.

Conclusion

The decentering of legal and financial activities is the strongest causal mechanism for the MNC's protection and creation of pecuniary wealth. The chapter states the prediction which must be observed to confirm this causal mechanism and the GWC theory. The prediction is, Wealth chain subsidiaries are set up in jurisdictions, which offer tax and secrecy advantages for capital. This requires a theoretical distinction between value-chain subsidiaries engaged in typical supply-chain activities, and

wealth-chain subsidiaries engaged in typical wealth chain entities. Finally, the paper increases the likelihood that this causal mechanism applies to other MNCs by choosing a case with less-likely characteristics to confirm the GWC theory.

Chapter 4: Case Study of Carlsberg

Introduction

This chapter starts by introducing the different data sources, which have laid the foundation for the case study. The chapter continues by introducing the complete corporate network of Carlsberg⁸ covering around 165 entities and subsidiaries spread across 45 jurisdictions. In order to demarcate the case study the chapter focusses on how Carlsberg have organized their wealth chain in two different groups of jurisdictions such as Singapore, Switzerland, Hong Kong which provide typical tax and secrecy advantages and Denmark, Malaysia and the United Kingdom which provides fewer typical tax and secrecy advantages. The overall purpose of the chapter is to test the prediction formulated in the previous chapter, namely that Carlsberg has established wealth chain entities in jurisdictions, which offer tax, and secrecy advantages for capital.

Data and wealth chains

“They say in financial circles that those who know do not talk and those who talk don’t know.” (Palan et al., 2009).

As the above citation indicates, it is extremely difficult to collect information about companies’ financial transactions and structures because they are reluctant to share this information. Milberg has also noted this challenge as he comments “the task of linking value chain analysis to the issue of financialization is complicated by data limitations” (2008, p. 422).

Explaining why these data limitations exist we find that secrecy jurisdictions like Switzerland, Cayman Islands and Luxembourg provide companies with a legal guarantee to disguise the beneficial owner of the entity. This provides both a problem for tax authorities and researchers when collecting information for a corporate network study. Furthermore, MNCs are extremely reluctant to share information about their organizational structure, cash flows and transfer pricing activities. I contacted a qualified staff member of Carlsberg about this project but she eventually withdrew her interest and support of the project because she was unable to provide information above and beyond the annual report of

⁸ Carlsberg refers to the group of Carlsberg and the other entities are part of this group. Carlsberg A/S ultimately controls the group.

Carlsberg. Finally, no jurisdictions disclose companies' country-by-country reporting of profits and cash flows, which makes it impossible to follow the precise flow of money and financial transactions within the organization and across jurisdictions. The importance of making country-by-country reporting publicly available has also been raised by the BEPS Monitoring Group⁹ in relation with the BEPS standards (BEPS Monitoring Group, 2014).

Data sources

Given this field's inherent data limitation, I would like to clarify how I have retrieved data and the sources of data involved. I distinguish between four different sources of data: the annual report of the Carlsberg Group, company registrations, detailed free company information and purchased company information. Carlsberg's annual report is published on the Carlsberg website whereas the other sources of data are found by searching public registries.

The table below illustrates how the data sources differ in terms of relevance for a corporate network study.

Data source	Relevance of information for this study
The annual report of the Carlsberg Group (Carlsberg A/S)	Low
Company Registrations	Low ¹⁰
Detailed Purchased company information	High ¹¹
Detailed Free company information	High

Table 3 Table indicating data sources' level of information

The information provided by Carlsberg Group's annual report has little relevant information for a corporate network analysis. The annual report clarifies the entity's location but avoids disclosing the

⁹ The BEPS Monitoring Group "is a group of specialists on various aspects of international tax, set up by a number of civil society organizations which research and campaign for tax justice including the Global Alliance for Tax Justice, Tax Justice Network, Christian Aid, Action Aid, Oxfam, Tax Research UK" (Beps Monitoring Group, 2014, p. 1)

¹⁰ This differs slightly from jurisdiction to jurisdiction. It is for example possible to determine the purpose of business from Swiss company registrations.

¹¹ Purchased information in the Cayman Islands is limited and only provides legal status of the company, inauguration date and the address of the company

immediate parent controlling the entity, and the entity's purpose of business, both of which are important questions for understanding the corporate network of Carlsberg.

The company registrations disclose the entity's location and in some jurisdictions, they reveal the entity's purpose of business. Company registrations consist of information filed by Carlsberg to the jurisdictions but fail to identify the immediate parent of the entity.

The third and fourth data source give information on location, immediate parent and the entity's purpose of business. In some jurisdictions, such information has been provided for free whereas it had to be purchased in other jurisdictions.

Data sources and jurisdictions

Among the jurisdictions providing a searchable company registry, these differ in the information they provide. Denmark and United Kingdom provide free detailed company information including information about the entity's purpose of business and immediate parent. However, such information must be purchased in Finland, Sweden, Norway, India, Hong Kong, Singapore, Malaysia, Estonia and the Cayman Islands. During the research, information has been purchased about Carlsberg's entities in Malaysia, Singapore and Hong Kong. This selection was motivated by their reputation as tax and secrecy havens, something that will be elaborated upon later in this paper. Some jurisdictions like Latvia, Vietnam, Cambodia, the US and Thailand provide a searchable registry with information on the entity's location, and with no possibility of purchasing additional information. Entities in these jurisdictions have been found by company registrations.

For some jurisdictions in which Carlsberg operates there is no searchable company registry available. These include Kazakhstan, Greece, Malawi, Sri Lanka and Uzbekistan. Furthermore, Carlsberg operates in Belarus, Bulgaria, France, Georgia, Hungary, Lithuania, Latvia, Portugal, Republic of Serbia, Taiwan, Ukraine, Russia, Latvia, Italy, Montenegro, the Netherlands, Poland and the Czech Republic, where language provides a barrier for searching the registries. This implies that this paper's research has not been able to find these entities established in these jurisdictions from another source than the annual report of Carlsberg. Consequently, there is no information about the purpose of business or the immediate parent controlling the entity, and so they have been removed from the detailed investigation.

The complete corporate network of Carlsberg

Figure 10 overleaf illustrates all the entities found in the investigation of Carlsberg's corporate network, and includes 165 entities affiliated and controlled by Carlsberg spread across 48 jurisdictions. The largest entity in the figure is Carlsberg A/S which is the ultimate parent company controlling the entities and the beneficial owner. Due to the overwhelming amount of data, figure 10 does not include information such as company names, ownership relations and jurisdictions. See Appendix A for an illustration of Carlsberg's corporate network including company names. Further, see Appendix B which contains all the information which has been collected for this investigation. The material is organized so that each entity's data source can be explored by following the URL link in the appendix or by reviewing the data material available online <http://tinyurl.com/CarlsbergGWC>

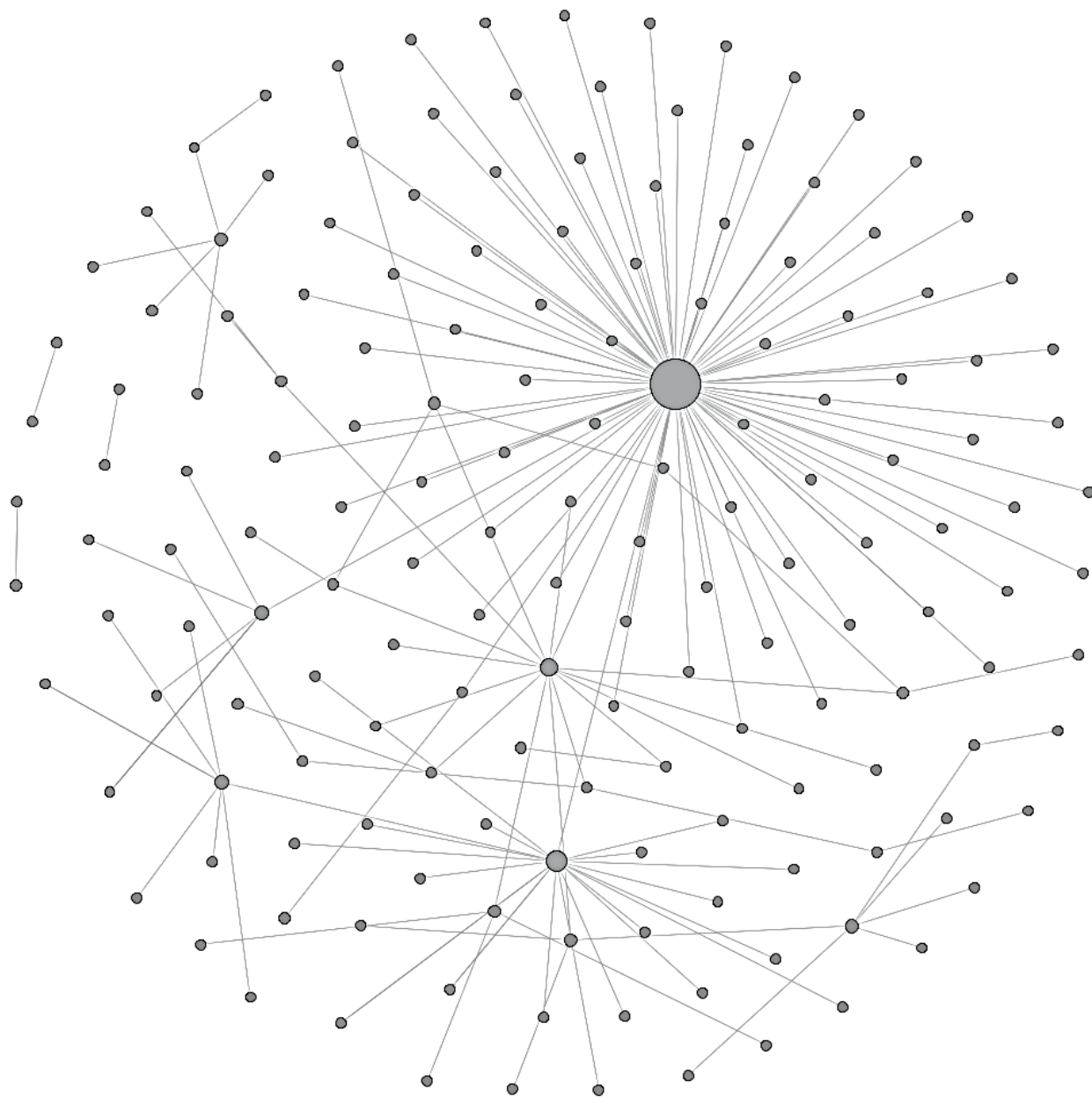


Figure 10. The complete corporate network of Carlsberg. Circles represent Carlsberg entities, and lines represent ownership links between entities.

Entities in typical tax and secrecy havens

This section tests the prediction that Carlsberg should set up wealth chain entities in the jurisdictions offering tax and secrecy advantages to corporations.

Figure 11 overleaf illustrates how Carlsberg have organized their entities in jurisdictions like Hong Kong, Singapore and Switzerland which provide strong financial and secrecy incentives. Tax Justice Network (TJN) ranks Switzerland number one at their index with a secrecy score of 78, Hong Kong number three with a secrecy score of 72 and finally Singapore is ranked number five with a secrecy score of 70¹² (Tax Justice Network, 2015). In order to strengthen the tax and secrecy haven status of these jurisdictions, a study comparing lists of tax haven jurisdictions, including lists issued by OECD in 2000 and IMF from 2000 and 2007, find Switzerland, Hong Kong and Singapore present on nine out of twelve lists (Palan et al., 2009, pp. 41–44).

The investigation has also found Carlsberg is affiliated with entities in the Cayman Islands and the British Virgin Islands. Carlsberg Breweries owns 50% of Caretech in Hong Kong and the remaining shares are held by Cambrew Asia in the Cayman Islands.

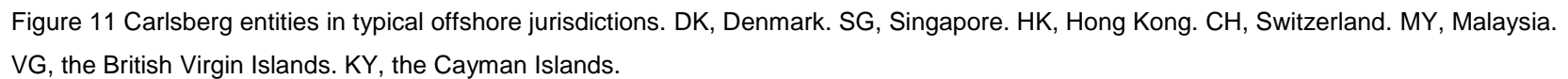
In the case of Csapl Holdings in the British Virgin Islands, it controls Csapl (Singapore) Holdings in Singapore a minority owner of Carlsberg South Asia. The majority owner is Carlsberg Breweries with an ownership of 66.66%. However, I cannot find evidence that these entities in the Cayman Islands and the British Virgin Islands are controlled by the Carlsberg Group due to the limited data access provided by these jurisdictions.

Regarding data accessibility, these jurisdictions differ compared to jurisdictions like Denmark where transparent company information is provided for free. The level of accessible information in Switzerland depends on the local legislation of the cantons, and Carlsberg are located in cantons sharing very limited company information. The data reveals information on the entity's purpose of business but avoids sharing information about the immediate parent of the entities. As a result, the Swiss entities are free-floating in figure 11. The consolidation of these entities in the annual report of Carlsberg determines that Carlsberg A/S is their ultimate owner.

The entities in Hong Kong and Singapore have been identified by purchased information. In the case of Hong Kong, this documentation reveals shareholders of the entity, and members of the Board of

¹² The other jurisdictions finding their way into the top five are Luxembourg and the Cayman Islands.

Directors including information on the external personnel servicing functions like Company Secretary and Company Presentor. Singapore provides more detailed information and gives information about the shareholders, the Board of Directors and financial information such as assets controlled by the entity and the entity's EBIT. Overall, the level of information from Hong Kong, Singapore and Switzerland is lower compared to Denmark and this restricts the depth and level of findings to some degree.



Singapore

The investigation finds eleven entities ultimately controlled by Carlsberg in Singapore. Nine out eleven entities are categorized as wealth chain entities of Carlsberg.

Carlsberg has no brewing activities in Singapore and the market is the smallest of Carlsberg's markets in terms of sales. They have a market share of 18% in a country of 5.4 million where the average beer consumption per capita is around 22 liters. The low sales of Carlsberg in Singapore is compared to Russia where Carlsberg have a market share of 39% in a country with than more 140 million inhabitants and per capita beer consumption of 59 liters (Carlsberg A/S, 2013). The Singaporean market makes up such a small part of Carlsberg's overall market that this increases the likelihood that these entities have been set up for financial and legal purposes.

Carlsberg Breweries in Denmark owns Carlsberg Gec, Carlsberg Asia, Paduak Holding and Carlsberg South Asia in Singapore, and Carlsberg Asia additionally controls 50% of Brewery Invest and Carlsberg Marketing located in Singapore. Moreover, Carlsberg's joint venture (Caretech) between Carlsberg Breweries and Cambrew Asia in the Cayman Islands controls 100% of the entity Cambrew in Singapore. Finally, Carlsberg Brewery in Malaysia also features in figure 11 due to their 100% control of the entity Carlsberg Singapore located in Singapore.

Holding Companies

All companies in Singapore except Carlsberg Gec. and Brewery Invest are registered at the Singaporean authorities under the classification "other investment holding companies". This piece of information combined with Carlsberg's limited sales of beer indicates that these are wealth chain entities set up for financial and legal purposes.

The purchased information of Carlsberg Asia, Carlsberg Singapore, Carlsberg South Asia, South Asian Breweries reveal that these entities control total assets worth SGD 1.6 billion, and by the end of 2013 their earnings before interest and taxes (EBIT) was SGD 99 million¹³. Among these entities, Carlsberg Asia is by far the most important entity holding assets worth SGD 766 million and EBIT of 76 million in 2013.

The low level of value chain activities in Singapore indicates that the 99m in EBIT likely comes from other value chain activities outside Singapore. Overall, I find that Carlsberg's wealth chain entities in

¹³ Exchange rate in July 2015 SGD/USD 1/0,73.

Singapore confirms the prediction that Carlsberg have established themselves in these countries to take advantage of the tax and secrecy advantages.

Hong Kong

Three out of four subsidiaries of Carlsberg in Hong Kong qualify as wealth chain subsidiaries.

Carlsberg controls four entities in Hong Kong despite very low sales of beer and no brewing activities. Carlsberg have a relatively low market share of 25% in Hong Kong with a population of 7.2 million and a per capita beer consumption of 24 liters (Carlsberg A/S, 2013). This supports the categorization below which finds three wealth chain entities in Hong Kong. Nevertheless, it is also fair to say that the investigation of wealth and value chain entities has been challenged by limited company information, and in relation to this, Carlsberg Brewery Hong Kong has not been subject to research.

Three of the four entities are controlled by Carlsberg whereas Carlsberg Supply Company Asia in Hong Kong is unconnected to the remaining corporate network. The reason is that the entity is 100% controlled by Carlsberg Supply Company located in Switzerland where beneficial ownership information is inaccessible. The story behind Carlsberg Supply Company Asia is that Tricor Nominees Limited (Tricor) located in Hong Kong established the entity on the 24th of December 2013, but on the same day, the only share in the company was transferred from Carlsberg Supply Company in Hong Kong to Carlsberg Supply Company in Switzerland. I argue that this company structure between two tax and secrecy havens indicate that Carlsberg Supply Company in Hong Kong is a wealth chain entity. The fact that Tricor also acts as the entity's Presentor and Company Secretary strengthens this claim further, meaning all relevant company records are stored in the office of Tricor.

Carlsberg's collaboration with Tricor is interesting because Tricor offer tax minimizing services developed in close collaboration with tax and legal advisers and trust administration services with the possibility of Tricor acting as a trustee for selected trusts. So these are Services that potentially integrate into a larger multi-jurisdictional network because Tricor operates in Barbados, the British Virgin Islands, Brunei, Dubai UAE, India, Malaysia, Singapore, Vietnam, United Kingdom, Thailand, China, Macau, Korea, Japan and Indonesia (Tricor, 2015).

Carlsberg Brewery Hong Kong has also been termed a wealth chain entity due to a similar collaboration with Tricor and the fact that Carlsberg Brewery Hong Kong has no brewing facilities. Carlsberg Asia in Singapore controls 51% of Carlsberg Brewery Hong Kong, and Carlsberg Breweries

in Denmark control the remaining 49%. The shares of the company are worth HKD 261 million¹⁴ which implies activity and value in the company and overall we conclude that this entity is a wealth chain entity.

Turning towards the third entity controlled by Carlsberg in Hong Kong; Caretech. Caretech is interesting because it is a joint venture based in Hong Kong between Carlsberg Breweries (Denmark) and Cambrew Asia (the Cayman Islands). Caretech additionally controls Cambrew in Singapore, and both entities are part of a joint venture between Carlsberg Breweries and Cambrew (Angkor Brewery) in Cambodia. The joint venture was launched in 2005 and gave Carlsberg access to the Cambodian market.

Generally, Carlsberg's subsidiaries support the hypothesis that Carlsberg have set up wealth chain subsidiaries to take advantage of the tax and secrecy legislation in Hong Kong'. The company structure of the joint venture points towards a classical way of evading taxes as Carlsberg controls a value chain subsidiary in Cambodia through a wealth chain subsidiary established in a tax and secrecy haven like Hong Kong. Further research is required to determine the exact advantages of this company structure, but Hong Kong's zero tax on income which is not sourced (earned) in Hong Kong certainly provides a strong incentive.

Switzerland¹⁵

Carlsberg control five entities in Switzerland, and two of these are categorized as wealth chain entities whereas one seems to undertake both value-chain and wealth-chain activities.

Switzerland, compared to Hong Kong and Singapore, is a more important beer market given Carlsberg's 43% share of a market where the 8.1 million inhabitants drink 57 liters of beer per year. Adding to this, Carlsberg owns the value chain entity SB SwissBeverage which besides brewing activities, is responsible for sales and distribution.

Figure 11 illustrates how Feldschlossen Supply Company AG and Carlsberg Supply Company both have been labelled value chain entities.

Carlsberg Supply Company, which was mentioned in relation to their controlling interest in Carlsberg Supply Company Asia in Hong Kong, undertakes typical value chain activities of planning,

¹⁴ Exchange rate July 2015 HKD/USD, 1/0,13

¹⁵ Limited findings due to language barrier

procurement, production and logistic, and the entity plays a central role by managing the production and logistics network for the west European market (Carlsberg Supply Company, 2013). The company information further reveals that the entity “may” acquire patents and provide financial services and products, however it cannot be confirmed that these activities are carried out. Considering Carlsberg’s Supply Company control of the wealth chain entity in Hong Kong, which gives favorable conditions for pecuniary wealth creation and low tax payments, I argue that this company is an example of how it is possible to be a wealth chain entity and a value chain entity at the same time.

Conversely, Feldschlossen Getraenke Holding AG and Zeus International are typical wealth chain entities responsible for managing investments in enterprises. Zeus International transferred a small surplus of DKK 4 million to its immediate parent Carlsberg International by the end of 2013 and we cannot investigate its integration into the corporate network further due to limited company information. Nevertheless, the company has a c/o address at Buetler Legal in Switzerland who specialize in “providing legal and tax consultancy work and mediations for Swiss and foreign companies” (Buetler Legal, 2015).

Carlsberg have established themselves both with wealth chain and value chain entities in Switzerland. The cases of Feldschlossen Getraenke Holding AG and Zeus International, combined with Carlsberg Supply Company’s control of a subsidiary in Hong Kong supports the prediction that Carlsberg set up wealth chain entities in Switzerland to benefit of the financial and secrecy advantages. As the method chapter pointed out earlier, we should not expect wealth chain entities to replace value-chain entities as Carlsberg meanwhile have duties of distributing and producing in Switzerland.

Entities in typical onshore jurisdictions

Figure 12 overleaf illustrates Carlsberg’s entities established in Denmark, the United Kingdom and Malaysia which are characterized by providing relatively few tax and secrecy advantages. However, the theory chapter importantly raised the point that tax advantages might be observed ‘onshore’ of the economy by other channels such as favorable double tax treaties between jurisdictions.

To investigate the prediction that wealth chain entities are established in jurisdictions, which offer tax and secrecy advantages requires some circumspection before one makes conclusions of inefficient wealth chains.

First, however, I would like to emphasize that United Kingdom, Denmark and Malaysia generally provide few tax and secrecy advantages to MNCs. Denmark is ranked 66 out of 82 jurisdictions and the United Kingdom 21.

With regards to the Malaysian subsidiaries of Carlsberg they are located in Malaysia and not in the Malaysian island Labuan which is considered a tax haven according to TJN. This justifies why these Malaysia is grouped together with Denmark and United Kingdom as Tax Justice Network does not consider the remaining Malaysia a tax haven (Tax Justice Network, 2013c). n

Denmark

The Carlsberg entities located in Demark are a good starting point for understanding Carlsberg's corporate network. Carlsberg A/S is the ultimate parent company in the corporate network of Carlsberg and has its shares listed at the Danish Stock exchange. The Carlsberg A/S entity (the ultimate owner in the corporate network) has been labelled a wealth chain entity as it undertakes no production functions, and primarily conducts financially steering of the Carlsberg group and collects all value before making it visible in its annual report.

Carlsberg A/S is controlled by another wealth chain entity, the Carlsberg Foundation. The Carlsberg foundation controls Carlsberg A/S by maintaining 70% of the voting shares, and 25% of the equity shares¹⁶.

Carlsberg A/S controls Carlsberg IT, Carlsberg Insurance and Carlsberg Ejendomme Holding with 100% ownership. I have not researched Carlsberg Ejendomme Holding but the activities of Carlsberg IT and Carlsberg Insurance are typical value chain entities. Carlsberg provides services of IT to entities in the Carlsberg Group and Carlsberg Insurance is a captive insurance company providing insurance services to the group.

Carlsberg Breweries and Carlsberg Finans

Carlsberg A/S has full ownership of Carlsberg Breweries, and Carlsberg Breweries control 36.41% of Carlsberg Finans. The Carlsberg entity in Russia named Baltika Breweries controls the remaining shares (63.59%).

¹⁶ Carlsberg Foundation controls five apartment blocks that are of no interest to this paper's research.

Carlsberg Finans control the Danish Malting Group that is a traditional value chain entity supplying the entire group with its malt production, and the Polish equivalent controlled by Danish Malting Group serves the same function. The Polish subsidiary is part of an outsourcing strategy of shifting production to lower cost countries.

Carlsberg Breweries and Carlsberg Finans are characterized as wealth chain units undertaking financial activities due to their responsibility of raising long-term debt in the international capital markets to cover funding needs of Carlsberg Breweries and the entities controlled by Carlsberg Breweries (Carlsberg Breweries, 2015). Carlsberg Finans issued one bond program of GBP 250 million in 2001 which matured in 2011, and another worth GBP 200 million in 1998 which matured in 2013. In both cases, Carlsberg Breweries was the guarantor (The Carlsberg Group, 2015a). The activities of Carlsberg Finans have faded out since these bond programs matured, and Carlsberg Breweries have now exclusively overtaken the responsibility of issuing bonds. Carlsberg Breweries have outstanding Euro denominated bonds of EUR 3.5 billion and outstanding British Pound denominated bonds of GBP 300 million (The Carlsberg Group, 2015a). Carlsberg Breweries has also agreed a committed revolving credit facility worth EUR 2.51 billion with a bank due February 2019 (The Carlsberg Group, 2015b). Due to its responsibility for raising capital and investing it in the corporate network, this entity is one of the most important financial entities in the corporate network of Carlsberg.

The prospectuses of the bonds issued by Carlsberg Breweries and Carlsberg Finans reveal that the bonds are listed at the Luxembourg stock exchange and never have been listed in Denmark. Furthermore, Carlsberg's subsidiary in the United Kingdom Carlsberg UK is the legal home for these bond programs as all legal claims must be held against this entity. The listing of bonds in Luxembourg takes place by using the listing agent BNP Paribas Securities Services located in Luxembourg.

With reference to the prediction, this finding supports that Carlsberg have established wealth chain entities to take benefit of certain tax and legal advantages. However, the tax advantages are not experienced in the case of Carlsberg Breweries in Denmark as they have decentered their activities and been able to make use of the Luxembourg stock exchange while being protected under United Kingdom's company law. This demonstrates that the financial and legal decentering of Carlsberg cannot only be observed through the ownership linkages in the corporate network.

Further research is needed to clarify what potentially motivates this company structure. However, tax seems to be the most clear advantage of listing in Luxembourg. According to the Stock Exchange in Luxembourg there are certain tax benefits given Luxembourg's tax treatments (Luxembourg Stock Exchange, 2015)

Group treasury as a part of Carlsberg Breweries

In relation to Carlsberg Breweries function of raising capital by issuing bonds in Luxembourg, I think it is relevant to mention Group Treasury. Group treasury is located in Denmark as a part of Carlsberg Breweries and has comprehensive financial responsibilities of cash management implementation, providing an internal bank, complex funding processes, developing business models and synergies, M&S, Intra Group capital structure and tax, credit rating, financial risk mitigation including commodities hedging and reorganization of business (Vestergaard, 2013).

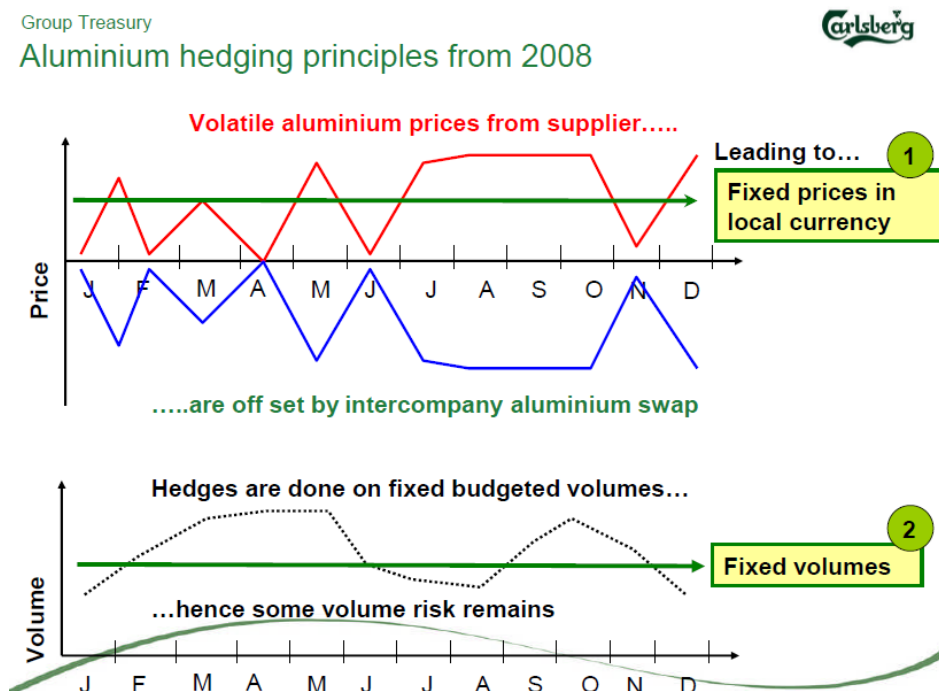


Figure 13 Illustration of Carlsberg's hedging activities (Vestergaard, 2013)

One key responsibility of Carlsberg Treasury is hedging. The material of Carlsberg gives the example of a Carlsberg subsidiary, which purchases large quantities of aluminum from the external aluminum supplier Rexam. The Carlsberg subsidiary is not the only entity in the corporate network buying

aluminum and due to this, Carlsberg is exposed to enormous risk of changing aluminum prices. In order to hedge against this risk, Carlsberg Treasury purchases an over-the-counter swap targeted on aluminum from an external bank, and transforms these swaps into intercompany swaps that hedge against the volume of aluminum purchased by the respective subsidiaries. As figure 13 illustrates, the swap offsets the volatility in the aluminum markets so the prices of aluminum are fixed in local currency (reduction of risk) to the advantage of Carlsberg.

The material provided by Group Treasury also supports our hypothesis that financial and legal decentering adds value to the balance sheet by as it emphasizes its control of cash flow and capital structure has “significant impact” (Vestergaard, 2013, p. 10).

Similar to the bond programs of Carlsberg Breweries, Group Treasury shows how financial and legal decentering takes place regardless of the location of Group Treasury. Group Treasury can transform over-the-counter swaps in Denmark into inter-company swaps that spread through Carlsberg’s corporate network. As a side comment, Group Treasury employ eight employees spread over Hong Kong, Switzerland and Denmark while being registered in Denmark.

Carlsberg Breweries also control Carlsberg International and Carlsberg Invest which both have been characterized as wealth chain entities. Carlsberg invest undertakes financial activities and their responsibility is controlling the brewery Oy Sinebrychoff in Finland. This relationship therefore illustrates a value chain entity located in Finland, and a wealth chain entity located in Denmark.

The financial income of Carlsberg Invest was DKK 296 million in 2013. Of these revenues, DKK 157million came from Sinebrychof, and DKK 103 million was due to a cash contribution by the Carlsberg Group. On the financial cost side, Carlsberg Invest paid interest charges of DKK 104million to Carlsberg Breweries. The earnings before tax was DKK 157 million and Carlsberg Invest deducted around DKK 4 million giving a total positive result after tax of 161 million. According to the company information, Carlsberg Invest has not paid any substantial tax during 2012 or 2013. This indicates that if Carlsberg pay taxes on their income from Sinebrychof they do it at the source destination in Finland.

The case finds evidence of a legal and financial decentering but contrary to our prediction the wealth chain controlling a value chain entity is set up in Denmark, and routing profits directly from the Finnish subsidiary into Denmark. However, it is important to mention that Carlsberg Invest was found guilty of tax evasion in relation to Sinebrychof in the years between 2006-2010 by the Finnish court. The

Finnish administrative court found that Carlsberg has transferred the ownership of the shares from Denmark to Finland, and Carlsberg Invest subsequently borrowed money to the purchase of these shares (Politiken, 2014). This indicates that financial and legal decentering in extreme cases might not even require the use of low tax jurisdictions in order to protect and create pecuniary wealth.

Carlsberg International

Carlsberg International is 100% controlled by Carlsberg Breweries and Carlsberg International owns 100% of Hue Brewery, 60% of South East Asia Brewery and 50% of Lhasa Brewery Company, and all three of these entities have been characterized as value chain entities. Finally, Carlsberg International controls Zeus International which was researched in the previous group of jurisdictions.

The revenues of Carlsberg International totaled DKK 141 million in 2013, and these revenues were collected from Hue Brewery which generated profits of DKK 87 m, Zeus International which earned around DKK 4 million, South East Asia Brewery which lost DKK five million and finally Lhasa Brewery earned DKK 85 million. Compared to financial costs of around DKK 13 million and a tax payment of DKK seven million, the company had a positive net result of DKK 120 million by the end of 2013.

Carlsberg International as a wealth chain entity disproves the hypothesis that Carlsberg should establish wealth chain entities in jurisdictions which provide tax and secrecy incentives. According to the prediction Carlsberg should not repatriate gains directly into Denmark due to low tax and secrecy gains. However, further research is required to investigate how the double tax treaties influence this repatriation of gains by Carlsberg International. Carlsberg International have for example DKK 952 million in postponed earnings from controlled and associated companies, and DKK 589 million debt to controlled entities and associated companies which might help Carlsberg controlling their tax payment.

United Kingdom

Carlsberg Breweries control Carlsberg UK Holdings with 100% ownership. Carlsberg UK Holdings qualify as an entity set up for financial and legal purposes due to its legal status as a holding company. Carlsberg UK Holdings additionally controls 100% of Carlsberg UK and Carlsberg Supply Company.

Carlsberg Supply Company is filed as a manufacturer of beer and is thus categorized as a value chain entity in the corporate network. This applies as well for Carlsberg UK that according to the company documents have 1234 people employed in production and distribution, 328 in sales and 140 in administration and therefore is a value chain entity because it is focused on production.

Carlsberg UK controls Holsten (UK) with 100% ownership which currently has status as a shelf company with no activities. Moreover, Carlsberg UK controls SDE Holdings in China, Carlsberg Uzbek, Tetley's Brewery Wharf Limited And Joshua Tetley & Son Limited. The two last mentioned entities have status as dormant companies¹⁷, and SDE holdings in China cannot easily be investigated due to a language barrier.

Concerning Carlsberg Uzbek in United Kingdom, this is a holding and administration company of the subsidiary UzCarlsberg in Uzbekistan, and therefore an entity set up for financial and legal purposes. UzCarlsberg in Uzbekistan is on the other hand a value chain entity due to its brewing activities and more than 400 employees. This ownership relationship demonstrates a separation between wealth chain and value chain entities, a separation that also applies to the case of Carlsberg Chongqing in the UK which is a financial entity without any staff but one that controls around 18% of the brewery Carlsberg Chonquing in China.

In order to conclude on the entities established in the United Kingdom by Carlsberg, they disprove our prediction that Carlsberg establishes wealth chain entities in the most appropriate jurisdictions as the United Kingdom give few typical secrecy and tax advantages. However, further research is required to investigate if there exists advantages of controlling subsidiaries in for example Uzbekistan and China from the United Kingdom. These advantages could stem from attractive double tax treaties between these countries.

Malaysia

Carlsberg controls five entities in Malaysia and four of these have been categorized as value-chain subsidiaries and one remains non-categorized.

Figure 12 also sets out how Carlsberg Brewery Malaysia owns 100% of Carlsberg Singapore, Euro Distributors Sdn. and Carlsberg Marketing Sdn and 70% of Luen Heng F&B. The investigation of Carlsberg in Malaysia is complicated by the Malaysian authorities, which do not disclose the beneficial owner of Carlsberg Brewery Malaysia. The company information reveals only that Carlsberg Brewery

¹⁷ "A company is dormant if it has had no 'significant accounting transactions' during the accounting period. A significant accounting transaction is one which the company should enter in its accounting records" (Companies Act 2006, 2015)

Malaysia is controlled by a shareholder group managed by United Overseas Bank in Malaysia. As a result we have no information on the immediate parent controlling Carlsberg Brewery Malaysia, which explains why this entity is free-floating in the figure and not connected to Carlsberg Breweries.

The company information shows that Carlsberg Brewery Malaysia undertakes producing and brewing activities and is responsible for producing and brewing beer to the Malaysian and Singaporean Market. Euro Distributors Sdn. and Carlsberg Marketing Sdn. and Luen Heng F&B have been categorized as value chain entities as the documentation of these companies reveals no financial activities. Carlsberg Brewery Malaysia controls the entity Carlsberg Singapore located in Singapore with 100% ownership and this has been investigated in the analysis focusing on entities located in typical tax and secrecy havens.

According to our prediction Carlsberg are established in Malaysia with typical value chain entities including one brewery, but no wealth chain entities. This supports our hypothesis because Malaysia provides few tax and secrecy advantages to corporations, the corporate tax rate is for example 25% which motivates accruing profits in other locations (“Corporate tax rates table | KPMG | GLOBAL,” 2014)

Conclusion and discussion of findings

Overall, the empirical research of Carlsberg's corporate network finds strong evidence that Carlsberg have decentered their financial and legal activities into jurisdictions which provide tax and secrecy advantages. The case of Switzerland, Hong Kong and Singapore finds 14 typical wealth chain entities established in these jurisdictions out of 20 entities. This implies that the causal mechanism of financial and legal decentering has been observed and most likely applies to other corporations which are MNCs and have some wealth creation stemming from financial activities.

Concerning the entities of Carlsberg in Malaysia, the study finds no wealth chain entities established which corresponds with our prediction as Malaysia provide relatively few tax and secrecy advantages.

In case of the United Kingdom and Denmark, we find numerous wealth chain entities established here as well. This does not disprove our prediction due to Carlsberg's control of entities in Switzerland, Hong Kong and Singapore. However, it points towards some inconsistency in Carlsberg's tax strategy as they are repatriating gains from Finland and Uzbekistan into Denmark and United Kingdom which overall provides few tax advantages. Further research is required to cover how these intermediary

company structures between United Kingdom and Uzbekistan and Denmark and Finland still provides the possibility of tax speculation.

The case of Carlsberg Breweries creates important context specific knowledge for further research in Global Wealth Chains by illustrating how subsidiaries easily decenter by raising debt at the Luxembourg stock exchange. This emphasizes that a simple corporate network analysis focusing on how entities are controlled and where they are located only observes the most obvious examples of financial and legal decentering. The implication is that financial and legal decentering takes place in two layers of the MNC. One layer where the company operates across several jurisdictions by establishing wealth chain entities in appropriate jurisdictions, and a second layer where also the subsidiary is able to decenter its financial and legal activities through contractual linkages like the partnership between Carlsberg and the listing agent in Luxembourg.

This strengthens the idea that tax havens should be studied as onshore of the economy and integrated into the global economy and not as isolated tax havens. The issuance of bonds in Luxembourg paves way for another important point of how the financial and legal decentering of the global firm decreases the varieties of capitalism which have been discussed within International Political Economy (Hall & Soskice, 2001). By raising debt directly in international capital markets the MNC becomes detached from varieties of capitalism as they no longer cooperates with national banks for raising debt.

This discussion of how companies relate to nation states can be seen by two different view based on legal scholarship (Palan, Rafferty & Wigan, 2015). On the one hand, financial and commercial activities of firms have “lifted off” from the nation state’s regulatory space. On the other hand, financial transactions can never “lift off” because they must touch down in specific jurisdictions to achieve the benefits provided by these jurisdictions (secrecy for example) (Palan, Rafferty, & Wigan, 2015).

The case of Carlsberg illustrates this when they touch down in Singapore, Hong Kong and Switzerland to exploit the regulatory advantages provided in these countries. But at the same time Carlsberg is also “lifting off” from the national regulatory space when Carlsberg Breweries gains access to an unregulated bond market in Luxembourg by obtaining a legal home in the United Kingdom.

Chapter 5 Applying Global Wealth Chain Theory

Introduction

The rationale of this paper has been that the Global Wealth Chain (GWC) theory must be verified before we apply the theory. The purpose of the last chapter is therefore through application of the GWC theory to understand how the financial and legal decentering gives rise to information asymmetries between Carlsberg and regulating authorities. Information asymmetries are important for global wealth chains as they present a problem for governance but a resource in cases where the MNC seeks to avoid governance (Seabrooke & Wigan, 2014, p. 11). The chapter studies three potential suppliers of financial services to Carlsberg which are located in the Cayman Islands, the British Virgin Islands and Singapore.

Applying Global Wealth Chain Theory Empirically

The purpose of this paper is to view the wealth chain activities of Carlsberg through the lens of information asymmetries. This is done by applying the GWC theory to the legal and financial decentering, which was researched in the previous chapter.

Seabrooke and Wigan have applied the GWC theory to the case of Apple and based on material from investigations led by the US Senate's Permanent Subcommittee found that Apple's tax planning activities across multiple jurisdictions constitute a hierarchical global wealth chain. Part of this material focused on the cost sharing agreement between Apple and a subsidiary in Ireland (Seabrooke & Wigan, 2014, p. 23).

Even though this paper has collected a large amount of data it differs considerably as it does not have access to transfer pricing documentation (cost sharing agreement) like the US Senate's Permanent Subcommittee used in the case of Apple.

If this chapter should have analyzed the case of Apple without help from the material provided by the US Senate's Permanent Subcommittee. The application would have assumed that the Irish subsidiary provided a service to Apple thanks to the regulatory environment in Ireland.

The chapter therefore works with hierarchical wealth chains meaning wealth chains where the supplier is controlled or closely affiliated to Carlsberg. Another characteristic is that the service of the supplier is constituted by the secrecy and tax advantages in the jurisdiction. This paves for understanding how the legal and financial decentering of Carlsberg becomes an important resource but also that the application avoids digging into the "second layer" of Carlsberg's financial and legal decentering.

The paper analyzes the information asymmetry around three suppliers of financial services in the corporate network of Carlsberg. Table 4 provides an overview of the three different entities.

Table 4 Overview of the entities

Supplier	Client	Regulator
South Asian Breweries (Singapore)	South Asian Breweries Group (India)	Indian authorities
Cambrew Asia (the Cayman Islands)	Caretech (Hong Kong)	Hong Kong authorities
Csapl Holdings (the British Virgin Islands)	Carlsberg South Asia (Singapore)	Singaporean authorities

However, before the analysis is carried out, the paper starts by elaborating on how the three determining factors of the GWC theory are interpreted and measured to determine the information asymmetries. This is a contribution of this paper and further research should work on how these determinants can be investigated empirically.

Information and knowledge transfer

The first factor concerns the information and knowledge transfer with regard to the product or service being provided by the supplier to meet the client's requirements (Seabrooke & Wigan, 2014, p. 18). I determine this depending on whether the entity is under control of Carlsberg. When Carlsberg controls more than 50% of the supplier's shares, this implies high integration between the client and supplier. Conversely, a supplier which is not controlled by the client will be less capable of sharing information

which reduces the complexity of services as they are provided by external suppliers. The above ownership test is built on the definition of control set in The International Financial Reporting Standards (International Accounting Standards Board, 2008).

Carlsberg's listing of bonds in Luxembourg provides an example of a low information and knowledge transfer between Carlsberg Breweries (client) and the listing agent in Luxembourg (supplier). This has the effect that Danish regulating authorities easily monitor the practice. The main reason why this wealth chain activity exists is consequently due to limited political will and multilateral differences of opinion.

I make one addition to the ownership test, and argue that we can assume effective information and knowledge transfer between entities, even though Carlsberg does not control the entity, if the board of directors are overlapping.

Regulatory liability

For measuring the regulatory liability on transactions between the supplier and client, I suggest reviewing the reports written by Tax Justice Network (TJN) and the reports published in relation to the Global Forum on Transparency and Exchange of Information for Tax Purposes.

The Global Forum on Transparency and Exchange of Information for Tax Purposes (The Global Forum) is a multilateral framework cooperating with around 120 jurisdictions on issues of tax transparency and exchange of information (OECD, 2013c). The reports are peer reviewed and classified as either phase one or phase two. Phase one investigates the quality of a jurisdiction's legal and regulatory framework for accessing and exchanging information on tax matters with reference to the OECD standard. Phase two looks at the practical implementation of these legal and regulatory practices.

The OECD standard for exchange of information sets out the standard for how information is exchanged bilaterally between jurisdictions. When Danish regulating authorities for example make an information request on German subsidiaries controlled by a Danish parent company, the Germany authorities should respond according to the OECD standard.

In order to achieve full compliance with the OECD standard, jurisdictions must among other things ensure that information mechanisms allow for exchange of information, the treaty network cover all

relevant trading partners and that the jurisdiction provide information under its network of agreements in a timely Manner (OECD, 2013d, pp. 121–125)

The peer reviewed reports are characterized by the OECD's new ambition of cooperating with 'tax havens' rather than the old strategy of blacklisting jurisdictions (Palan et al., 2009, p. 213).

Jurisdictions such as the Cayman Islands for instance, have had ratings indicating areas to improve on rather than a status of non-compliance.

Capabilities to mitigate uncertainty

The third determining factor concerns capabilities of the supplier to mitigate uncertainty when challenged by foreign regulating authorities. I argue that these capabilities primarily are determined by the regulatory environment surrounding the entity. The recent wave of policy initiatives for exchange of information provides an entrance point for studying the likelihood of regulatory change, and thereby how capable entities will be of mitigating uncertainty when challenged by foreign regulating authorities.

The Global Forum has for example in continuation of the 'traditional' exchange of information agreement launched a new standard for automatic exchange of information. The standard involves government obtaining information about their financial institutions and other investment entities and start exchanging this data automatically with other jurisdictions (KPMG, 2015). This increases the financial reporting standards of financial institutions and PwC emphasizes that

"Taxpayers with offshore assets as well as financial institutions that hold them ... will all face new challenges under the OECD's updated common reporting standard" (PwC, 2014)

The new standard for automatic exchange of information has been signed by over 61 jurisdictions and will be implemented from around 2017. Other examples of policy initiatives threatening the legal status of corporations in tax havens are the Foreign Account Tax Compliant Act of the US and the UK. I will study how jurisdictions have responded to these governance and policy initiatives.

South Asian Breweries in Singapore

I will now investigate South Asian Breweries in Singapore by applying the GWC theory as it was elaborated above. The object is to analyze the information asymmetry between the regulating authorities of India and South Asian Breweries Group in India (client) and Cambrew Asia in the

Cayman Islands (supplier). South Asian Breweries was classified as a wealth chain entity in the previous chapter.

Figure 14 below illustrates how South Asian Breweries is controlled completely by Carlsberg South Asia which is majority-owned by Carlsberg Breweries. I have made an addition to this figure by including South Asian Breweries Group in India. It has been impossible to verify by the Indian authorities that South Asian Breweries in Singapore control South Asian Breweries Group in India¹⁸. However, the annual report of Carlsberg A/S reveals this ownership linkage.

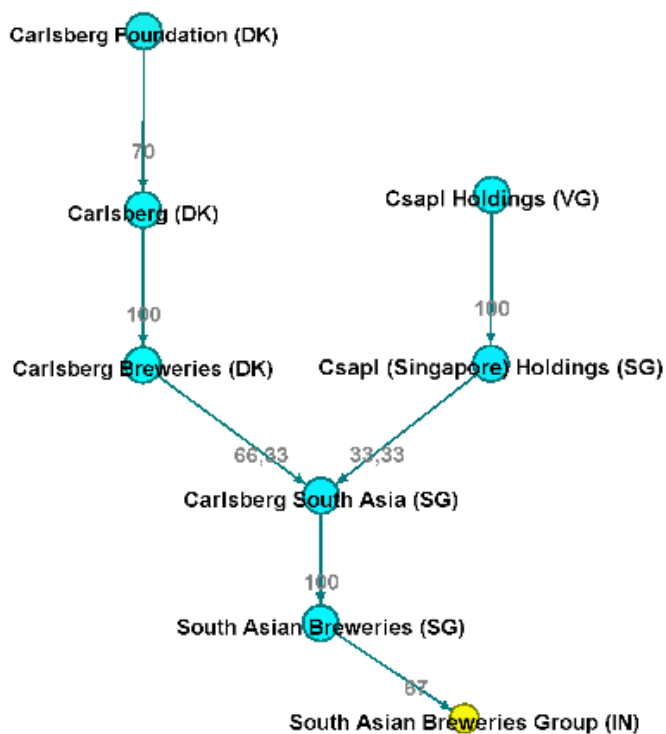


Figure 14 Selected clip out of figure 11 focusing on South Asian Breweries and South Asian Breweries Group

¹⁸ I could not retrieve data about the Indian entity due to technical issues with the Indian registry.

Integrated knowledge and information sharing

The supplier South Asian Breweries is closely integrated into the corporate network of Carlsberg and is ultimately being controlled by Carlsberg. South Asian Breweries' control of the South Asian Breweries Group in India provides good conditions for knowledge transfer and information sharing between these two entities.

Low regulatory liability in Singapore

TJN ranks Singapore number five on the financial secrecy index and mentions that Singapore has below 46 information exchange agreements (Tax Justice Network, 2013d). The TJN further mentions an undercover investigation by Global Witness that cited a Malaysian tax lawyer for saying that Singaporean companies are protected by a "Chinese wall", which makes it impossible for the Malaysian authorities to get any information out of Singapore (TJN, 2013).

Regarding the peer reviewed report under the Global Forum, Singapore has been assessed as largely compliant with the OECD standard including compliance with seven central elements in the report and largely compliant with three elements (OECD, 2013e, p. 11). Despite the relatively positive evaluation, there is one considerable problem of Singapore's treaty network as a domestic tax interest requirement applies to 35 out of the 73 signed information exchange agreements (OECD, 2013e, p. 108). This means that the requested authority (Singapore) is allowed to respond to this request only if the information is relevant for domestic tax purposes. This is considered a significant impediment to information exchange according to the OECD (OECD, 2013e). Another problem about the treaty network of Singapore is that a number of the country's main trading partners are excluded such as the US, Hong Kong, Malaysia, Indonesia, South Korea

I would add that the tax rate and how this can be negotiated underscores the low regulatory oversight on transactions flowing from South Asian Breweries. The standard corporate tax rate has been decreasing in the last decades and is currently down to 17%. However, the corporate tax in Singapore is a matter of negotiation as KPMG's tax adviser Chiu Wu Hong also notes that

"If you become a big company, you may be given a more favorable tax rate of 5 or 10 percent, based on negotiations with the government (...) the more employment your firm creates and the more it adds to GDP, the less tax you will pay. A rate of zero percent is not unheard of. Corporate deductions for expenses are liberally approved, though personal ones are less easy to get through".

In continuation of this, PwC comments on the tax incentives in Singapore and notifies that “the basis for further customized incentives beyond the minimum level is not disclosed, leading to a perception that the administration of tax incentives is opaque” (Tax Justice Network, 2013d).

The above refers generally to the regulatory liability on transactions flowing in and out of Singapore. However, the tax treaty negotiated between India and Singapore is no exemption to the low regulatory pressure.

The tax treaty between India and Singapore makes profitable round tripping of capital possible. This refers to the circular movement of capital and involves sending capital from India to Singapore before masquerading it as foreign capital when sending it back into India to earn advantages offered to foreign direct investment (Johnston, 2011). Mauritius and Singapore have been the most attractive jurisdictions for round-tripping capital into India, and India attracted USD 9.03 billion in foreign direct investment from Mauritius and USD 6.74 billion from Singapore during 2014-2015. Singapore's popularity has been increasing in recent years due to Indian political initiatives to strengthen the tax treaty between Mauritius and India (PTI, 2015).

Furthermore, the tax treaty exempts any capital gains arising from sale of Indian shares by a Singaporean resident (persons and entities) as long as the Indian subsidiary has expenditures above SGD 200 thousand (Rau & Ghosai, 2012).

This supports the conclusion that the regulatory liability on transactions from South Asian Breweries in Singapore and South Asian Breweries Group in India is low.

Strong capabilities to mitigate uncertainty

The capabilities of South Asian Breweries to mitigate uncertainty are found strong due to its location in Singapore. The legal framework in Singapore and the Singaporean authorities help reduce risk when corporations are challenged by foreign tax authorities. This has recently been illustrated by the cases of two mining companies, Rio Tinto and BHP Billiton, which according to the Australian Tax Office has been channeling profits to Singapore from Australia (Chenoweth, 2015). The entities of Rio Tinto and BHP Billiton have been disguised as marketing entities with no intervention from the Singaporean authorities.

Singapore has pledged to implement the automatic exchange of information standard developed by the OECD in 2017 (OECD, 2015). However, it is doubtful whether Singapore will give up its current

role as a financial hub. Singapore has for example not given up its domestic tax requirement, meaning that Singapore's tax authorities are required to get an Order from the High Court stating that the disclosure of protected information is not contrary to public interest (OECD, 2013e, p. 8). This seems like a considerable barrier to regulatory change.

Low information asymmetry and strong tax advantages

Concluding on the information asymmetry between South Asian Breweries' in Singapore (supplier), South Asian Breweries Group in India (client) and the Indian regulating authorities, the case contradicts how the GWC theory predicts the information asymmetry to articulate.

Our investigation finds a close integration between the client and supplier which enables complex services, low regulatory liability given the favorable tax treaty between Singapore and India, and low likelihood of regulatory change which provides strong capabilities to reduce risk when challenged by foreign regulators.

According to the theory, this creates a large information asymmetry between the client and regulator, and supplier and regulator as figure 15 below illustrates.

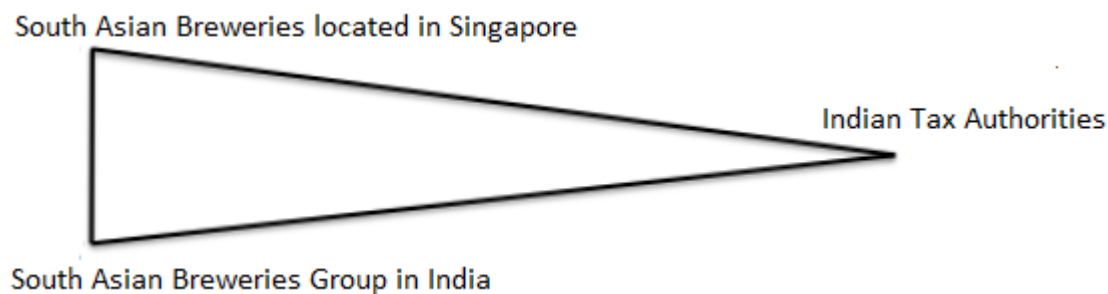


Figure 15 Information Asymmetry between South Asian Breweries, South Asian Breweries Group and Indian Authorities

The problem is that the tax advantages experienced by Carlsberg in India are not due an information asymmetry. The Indian authorities are well aware of how capital is round-tripped by using Mauritius and Singapore as destinations and the loophole exists in full publicity.

Consequently, the loophole exists due to limited political will to obstruct the round tripping of capital and not due an information asymmetry.

The limited political will might stem from the fact that Indian politicians themselves are enjoying the benefit of round-tripping capital through Singapore (Hanna, 2013). This underscores how regulation of financial markets also must be studied from other political economic angles focusing on for example corruption.

Cambrew Asia in the Cayman Islands

I will now study Cambrew Asia in the light of information asymmetries. Cambrew Asia was not part of the previous chapter's categorization of wealth chain and value chain entities, because we have no information about the beneficial owner of Cambrew Asia. This is easily done due to Cambrew Asia's status of a legal exempted company, which only can be obtained when the company operates outside of the Cayman Islands (Higgs & Johnson Counsel & Attorneys At Law, 2013). I assume Cambrew Asia is able to provide Caretech in Hong Kong with financial services and advantages given its location in the Cayman Islands.

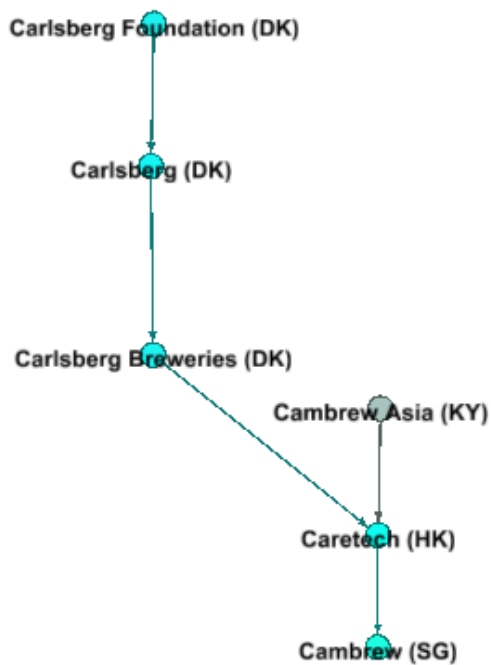


Figure 16 Selected clip out of figure 12 focusing on Cambrew Asia in the Cayman Islands

Cambrew Asia is located at the address: P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and shares address with Codan Trust Company (Cayman) Limited. Codan Trust is an international network of trust companies with headquarters in the British Virgin Islands and the Cayman Islands, established by the law firm Conyers Dill, & Pearman (2015).

Regarding data accessibility, it was difficult to obtain information about Cambrew Asia from the Cayman authorities something which TJN also previously has criticized (Tax Justice Network, 2013b). Retrieving information about Cambrew Asia cost USD 40; and turned out only to reveal the name of the company, its incorporation date, file number, legal status and the location of the registered office.

Integrated knowledge and information sharing

I consider the knowledge transfer and share of information between Cambrew Asia and Caretech in Hong Kong integrated, as they are part of a joint venture agreement. This implies that Cambrew Asia controls Caretech by 50% and Carlsberg Breweries controls the remaining 50%. Clearly, joint venture agreements will never give a company a controlling interest as the purpose of the agreement is a shared ownership.

Low regulatory liability in the Cayman Islands

Regarding the regulatory liability, The Global Forum's peer reviewed report finds the Cayman Islands' largely compliant with the OECD standard on exchange of information agreements. This equals a B-rating. The Cayman Islands' network of exchange of information agreements has increased rapidly since 2009 and currently totals 30, of which 25 are in force (OECD, 2013b, pp. 7–9).

Among the countries which the Cayman Islands has negotiated such agreements are the US, Germany and Denmark. In a scenario where transactions occur between Cambrew Asia and Caretech in Hong Kong, one might expect the regulatory pressure to be high given the B-rating of the Cayman Islands and their exchange of information agreements.

However, as there exists no bilateral treaty between the Cayman Islands and Hong Kong, the general rating of the Cayman Islands becomes irrelevant for studying the regulatory liability on transactions flowing between the Cayman Islands and Hong Kong.

The regulatory pressure is further limited considering that Cambrew Asia is registered with the legal status as an "exempted company". Companies obtain the status of an exempted company by paying a government fee of around USD 1200, and by confirming annually that operations of the company have taken place outside of the Cayman Islands. This confirmation can be signed and filed by the Company Secretary (Higgs & Johnson Counsel & Attorneys At Law, 2013).

The status of exempted gives additional tax and secrecy advantages in an already favorable tax climate that imposes no taxes on either income, capital or capital gains (Higgs & Johnson Counsel & Attorneys At Law, 2013). Exempted companies are given a 20 year tax free guarantee, the protection that Shareholders shall not be listed on a public trade or business registry, the company can have only one shareholder and no requirement of holding meetings for the Board of Directors (Higgs & Johnson Counsel & Attorneys At Law, 2013).

I conclude the regulatory liability on transactions between Caretech in Hong Kong and Cambrew Asia to be low.

Strong capabilities to mitigate uncertainty

I argue that Cambrew Asia's capabilities to mitigate uncertainty are effective given its location in the Cayman Islands.

The Cayman Islands has signed bilateral and multilateral initiatives such as US Foreign Account Tax Compliant Act, UK Foreign Account Tax Compliant Act and the automatic exchange of information standard by the OECD. The implementation of these exchange of information agreements potentially threaten the secrecy advantages of Cambrew Asia.

However, the Cayman Islands maintains strong capabilities to mitigate this uncertainty. Taking for example the US Foreign Account Tax Compliant Act there are two models by which the standard can be implemented, and the Cayman Islands has chosen a model two where exchange of information is transferred through the Cayman authorities, and not automatically and directly between the entity under request and the US authorities, as prescribed by model one (Arthur Bell CPAs, 2015; OECD, 2015).

This is interesting when considering the relationship between the government and the private sector which Ridley¹⁹ proudly calls a special relationship. There are two groups at the Cayman Islands, namely, the Financial Services Council and the Private Sector Consultative Committee which provide the government with advice, input and feedback on financial and economic initiatives. The Monetary Authority Law stipulates in this regard that these groups must be consulted before the regulator issues or amends rules or statements (Ridley, 2007). This implies the private sector has access to law making and amending in these jurisdictions which gives companies located in the Cayman Islands effective capabilities to mitigate uncertainty when new exchange of information agreements threatens their existence.

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Mr Timothy Ridley is Chairman of the Cayman Islands' Monetary Authority (Ridley, 2007)

Large information asymmetry



Figure 17 Information asymmetry between Cambrew Asia, Caretech and Hong Kong authorities

The triangle above resembles the information asymmetry which arises between Cambrew Asia (supplier), Caretech (client) and the Hong Kong Regulating authorities.

Given a joint venture agreement between Cambrew Asia in the Cayman Islands and Caretech in Hong Kong they are able to cooperate about complex financial transactions that require a high level of knowledge transfer. On the other hand the non-existing exchange of information agreement between Hong Kong and the Cayman Islands creates a large information asymmetry to the Hong Kong authorities. In principle, one could argue that there exists no information asymmetry in this case because Hong Kong is a tax haven applying a source system for taxation meaning that only income earned in Hong Kong is subject to tax. Under the assumption that Caretech repatriates gains from Cambodia where the value-generating part of the joint-venture agreement seems to be set up, there is no taxation on this income.

Regarding governance of this company structure, this hierarchical wealth chain clearly creates the maximum of distance towards any regulating authority.

CSAPL Holdings in the British Virgin Islands

Figure 18 illustrates that CSAPL Holdings control 100% of the shares in CSAPL (Singapore) Holdings which controls 33.33% of Carlsberg South Asia located in Singapore. Carlsberg South Asia is consolidated in the annual report of Carlsberg Group and Carlsberg Breweries control this entity by 66.66%.

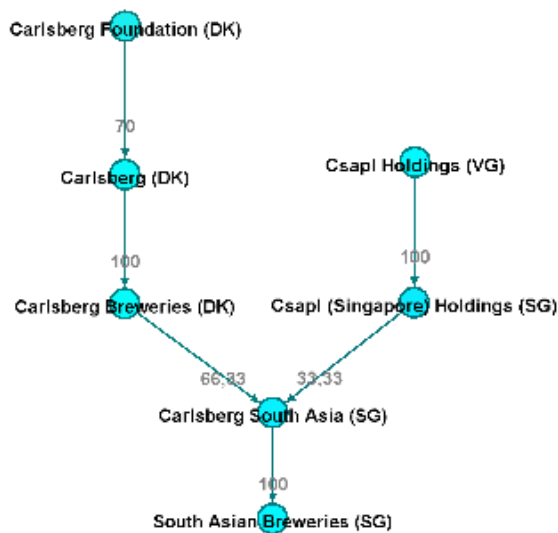


Figure 18 Selected clip out of figure 13 focusing on Csapl Holdings located in the British Virgin Islands

The authorities at the British Virgin Islands do not provide a searchable registry of registered entities in the British Virgin Islands, and thus the immediate parent of CSAPL Holdings cannot be determined.

The documentation of Csapl (Singapore) Holdings reveals that Csapl Holdings controls this entity. Csapl Holdings is domiciled at the address of Overseas Management Company which provides services within Trusts, managed structures and “virtual office packages” (Overseas Management Company, 2015). This finding, together with the British Virgin Islands’ general reputation as a hub for company incorporations and zero tax on corporate income and capital gains supports the hypothesis that this entity is a wealth chain entity capable of supplying valuable financial services to the corporate network of Carlsberg (Ey, 2015, pp. 186–187).

Integrated knowledge and information sharing

I assume that Csapl Holdings is closely integrated with Carlsberg, given its control of Csapl (Singapore) Holdings which holds a minority interest of 33.33% in Carlsberg South Asia. The 33.33% deviates from the ownership test which introduced the chapter. However, I argue that because the incumbent Director of Csapl (Singapore) Holdings serves the Board of Carlsberg South Asia and the Board of South Asian Breweries, it is fair to assume that they are still closely integrated and able to share complex information.

Low Regulatory liability in the British Virgin Islands

TJN eargues that British Virgin Islands must make major progress in terms of transparency and ranks them 20th on the financial secrecy index. TJN finds the British Virgin Islands equivalent to a secrecy score of 66% which is a mid-range score (Tax Justice Network, 2013a). Among the positive elements emphasized by the TJN are the exchange information agreements that have been negotiated with the UK and the US. However, the peer reviewed report published by the Global Forum criticizes the implementation and enforcement of this exchange of information agreement. The peer reviewed report finds that the British Virgin Islands overall are non-compliant with the OECD standard due non-compliance in three out of the ten determining elements.

The peers find that the British Virgin Islands were unable to provide sufficient accounting information because they have no system of monitoring the entities and therefore no possibility to enforce the legislation currently in place (OECD, 2013a, p. 100). Moreover, on the requirement that authorities should have the power to obtain relevant information about entities when this information is requested by foreign tax authorities, the peers find that the British Virgin Islands were non-compliant in the fulfillment of this requirement. Finally, the report finds the British Virgin Islands were non-compliant with the element stating that they should provide information under its network of agreements in a timely manner. In reality, they responded to 64% of all information requests within 90 days and 80% within 180 days, and ten requests from 2012 are still outstanding (OECD, 2013a, pp. 102–103).

Paying specific attention to the bilateral information agreements of the British Virgin Islands they have 15 agreements enforced including agreements with countries such as Denmark, United Kingdom, the US, Australia and Norway (OECD, 2013a). It is worth mentioning in this regard that the British Virgin Islands and Singapore have no such agreements in place, meaning Singaporean authorities would have serious difficulties in obtaining information about transactions flowing between Csapl (Singapore) and Csapl Holdings.

Overall, I conclude that the regulatory oversight on transactions flowing from Csapl Holdings in the British Virgin Islands is quite low especially when considering that Csapl Holdings is controlled from Singapore which is excluded from the 15 exchange of information agreements that the British Virgin Islands has negotiated.

Strong capabilities to mitigate uncertainty

The British Virgin Islands provide Csapl Holdings' with strong protection against new exchange of information agreements.

The British Virgin Islands has recently experienced a decrease in its global share of new company incorporations, which means a decrease in government revenues. This comes after a growth period where the number of incorporations that took place in the British Virgin Islands increased from around 100,000 in 1993 to over 480,000 by 2013. This is underscored because the Financial Steering Committee in the British Virgin Islands believes that one of the reasons to this decline has been a poor compliance rating with the OECD standard which previously was discussed, and due to the fact that they have been blacklisted as a tax haven by the French.

What is interesting for the mitigation of uncertainty arising from such exchange of information initiatives, is that the financial steering committee openly suggests to lobby France and the OECD to improve its compliance ratings and reputation in the international financial services community (Financial Services Steering Committee British Virgin Islands, 2014)²⁰. This indicates low likelihood of regulatory change in the British Virgin Islands.

This is further strengthened by the British Virgin Islands' signing of the US' Foreign Account Tax Compliant Act. The British Virgin Islands has signed a Model 1B which implies that the exchange of information goes through the government. Considering their strategy of lobbying the OECD and the government of France points towards how this information potentially will be delayed or captured. TJN has also expressed their skepticism towards this Model 1B agreement

"Given the British Virgin Islands' role as the quintessentially 'captured' state, it is hard to imagine that this information exchange will run at all smoothly or comprehensively" (Tax Justice Network, 2013a).

I find that Csapl Holdings due to its location at the British Virgin Islands has strong capabilities for mitigating risk when regulating authorities in the future will request information.

²⁰ A report written by the financial steering committee which is chaired by the premier of the British Virgin Islands and signed by him in the introducing chapter.

Large information asymmetry

Figure 19 illustrates a large information asymmetry between the client (Carlsberg South Asia) and the regulator (Singaporean tax authorities), and the supplier (Csapl Holding) and the regulator.



Figure 19 Information Asymmetry between Csapl Holdings, Carlsberg South Asia and Singaporean Tax Authorities

Csapl Holdings is close to Carlsberg South Asia in figure 19, as the above investigation found these entities closely integrated. Furthermore, the potential transactions flowing between the client and the supplier are remote to the Singaporean tax authorities, as no exchange of information agreement exists between Singapore and the British Virgin Islands.

Given the tax and secrecy advantages in both Singapore and British Virgin Islands, the company structure looks excessively remote from any regulating authority.

As already mentioned we cannot determine the beneficial owner of Csapl Holdings due to data limitations. This means the research is challenged by the same information asymmetry as foreign tax authorities. However, assuming that Carlsberg A/S ultimately controls Csapl Holdings, Carlsberg will take advantage of controlling the entity hierarchically (in-house) because they can avoid contracting with the entity directly from Denmark. Instead Carlsberg can reroute profits through their corporate network to British Virgin Islands.

Conclusion

The chapter analyses information asymmetries between three different potential suppliers of financial services in the corporate network of Carlsberg. In the cases of the Cayman Islands and the British Virgin Islands, the information asymmetries are large as both jurisdictions provide strong secrecy

incentives for establishing entities there. In the Singaporean case, Carlsberg potentially takes advantage of a loophole in the tax treaty between Singapore and India. This finding contradicts with the GWC theory as it takes place without any notable information asymmetry between the Singaporean supplier and the Indian regulating authorities. The Indian authorities are well aware of this loophole and other explanations such as corruption might explain why it is upheld. There exists hundreds of potential information asymmetries in the Corporate network of Carlsberg, and this paper has only been able to analyze a few. However, it is clear that Carlsberg by establishing themselves and being affiliated with entities in jurisdictions such as the Cayman Islands, the British Virgin Islands and Singapore become integrated into international legal structures which effectively offsets the national regulating authorities. As long as the transnational economy flows across national borders of regulation MNCs will always be one step ahead of regulators.

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Sources for all the company information is provided in the Appendix B or visiting <http://tinyurl.com/CarlsbergGWC>