Brief: Big Tobacco, Big Avoidance

Philp Morris International's questionable financial flows

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Introduction

Research by the Investigative Desk for the Tobacco Control Research Group at the University of Bath has revealed that tobacco giant Philip Morris International (PMI) has an intricately entwined web of Dutch and Swiss subsidiaries, which have channelled billions of euros between them, in a way that could help the tobacco giant avoid tax. At least 25 PMI subsidiaries have been identified in Switzerland alone.

From 2010 until 2015, a Swiss subsidiary of PMI, Philip Morris Brands sàrl, received 9.3 billion euros in dividends from Dutch subsidiary Philip Morris Holland Holdings BV. An unknown Swiss subsidiary (or subsidiaries) also received a further 1.4 billion euros in interest paid by Dutch subsidiaries in those years. Furthermore, a Swiss subsidiary (or subsidiaries) received 182 million euros in royalties from the Netherlands in the same period. All in all, in six years PMI shifted an amount equal to 29% of its worldwide net profits in that period from the Netherlands to Switzerland, all untaxed.

The billions that PMI moved to Switzerland had not been generated in the Netherlands, either. Subsidiaries from countries including the Czech Republic, Turkey, Indonesia, Ecuador, and Russia sent billions to the Dutch branch of the tobacco manufacturer at least until the end of 2015.

Such a route is not unusual, as many multinationals use the Netherlands as a transit country on route towards a tax advantaged final destination.

A Dutch Problem

It is highly likely that PMI continued to move billions of euros to Switzerland via the Netherlands after 2015. However, it is no longer possible for outsiders to follow the trail: the annual reports that the tobacco giant submitted to the Dutch Chamber of Commerce from 2016 became opaque as Dutch Philip Morris Holland Holdings is now classified as a micro company which has different reporting requirements. Despite the billions flowing through the company, it can get away with this categorisation as no-one works there. It is effectively a shell company.

A second requirement for micro businesses is a net turnover of less than 700,000 euros. Crucially, income from interest and dividends does not count as net turnover for financial holdings, whereas these are their usual sources of income. These rules make the Netherlands ideal for multinationals that do not need anyone looking over their shoulders at their tax structures.

That same change in Dutch law also makes it impossible to determine the role of another Dutch subsidiary of PMI, which has occupied a central position in the tobacco manufacturer's company tree since 2017. Philip Morris International Holdings is the parent of the Swiss subsidiary but is a direct subsidiary of the US branch of the tobacco manufacturer. It is impossible to trace the money flows through this company because the publicly annual reports do not contain any information.

PMI is not alone

It is not surprising that tobacco manufacturers shift a lot of money from the Netherlands to Switzerland. Switzerland is famous for is financial secrecy and is popular among tobacco manufacturers. Three of the four global players in the tobacco industry have a physical presence in Switzerland. PMI has an operational headquarters in Lausanne and a research centre in Neuchâtel. Geneva is home to JT International SA, the holding company of Japan Tobacco International. Both tobacco giants produce cigarettes on a large scale in Swiss factories, as does British American Tobacco.

Conclusion

The evidence suggests the tobacco industry is shifting money via Switzerland as a way of minimising its tax liabilities and has the advantage of doing so in a country notorious for its financial secrecy. Global authorities might want to revisit the international tax laws that allow the tobacco industry, an industry that makes billions in profits, to pay such minimal amounts in tax.

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