Public Accounts Committee - Minutes of Evidence
HC 716
Oral Evidence

Taken before the Public Accounts Committee
on Monday 12 November 2012

Members present:
Margaret Hodge (Chair)
Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales

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Amyas Morse, Comptroller and Auditor General, National Audit Office, **Gabrielle Cohen,** Assistant Auditor General, NAO, **Paul Keane**, Director, NAO, and **Marius Gallaher,** Alternate Treasury Officer of Accounts, were in attendance.

Examination of Witnesses

Witnesses: **Troy Alstead**, Starbucks Global Chief Financial Officer, **Andrew Cecil**, Director, Public Policy, Amazon, and **Matt Brittin**, Google Vice President for Sales and Operations, Northern and Central Europe, gave evidence.

Q189 **Chair:** You seem a very long way away, so apologies for that. That is the way this room is set up. Can I thank you all for agreeing to come and give evidence to this Committee this afternoon? The purpose of our session is to get some understanding of the way in which you manage your financial arrangements and to try to understand why you don't pay the corporation tax that it appears, on the facts, is due. That is the issue that we are focusing on this afternoon.

I thought to start with, if this is all right with you, we would go one by one-your circumstances are all very different-to try to get some understanding of the individual circumstances, and then move to some general questions, which I think impact on all three global companies. Our particular interest, of course, is that now that so much of UK business is carried out by global entities, corporation tax, and the way in which tax is collected, is hugely important. All three of you are American-based companies, which is also of particular interest. Can I start with Starbucks, Mr Alstead? My understanding is that you filed, in Companies House, losses for most of the years that you have been running coffee houses in the UK. Is that right?

Troy Alstead: Yes, that is correct.

Q190 Chair: Yet if I take you through some of the statements that we have seen, in 2007, which was the 10th consecutive year that you filed losses, your chief financial officer at that time-he must have been a predecessor of yours-Peter Bocian, said that the unit enjoyed operating profit margins of 15%. How do you reconcile those two?

Troy Alstead: Respectfully, we have never seen any record that there are any statements that the operating business in the UK made 15%. We did have one year of profitability. That was in 2006. It was a very small profit, unfortunately, due to reasons that I am happy to discuss with the Committee, and I appreciate the opportunity to have this discussion today. But in all of the context of the historical public transcripts we have found-the analysts' reports that have been published; all of our press releases-they have all spoken to our challenges in the UK and our targets for the UK going forward, and they have very consistently spoken about our difficulty around profitability.

Q191 Chair: This report of a 15% profit rate was in one of the many briefings that you gave to your shareholders. That is my understanding. So what was the true rate of your profits in 2007?

Troy Alstead: The UK Starbucks business made a loss in 2007. It made a profit in 2006 for the first time, which perhaps was a reference point in 2007, made in the previous year. But that was the first profit the company made and it was a very, very small £6 million profitability in that year.

Q192 Chair: As I understand it, there were 46 separate conference calls. Let me to take you to 2008. You filed losses in the UK companies accounts of £26 million, yet Schultz told analysts that the UK business was so successful that he planned to take the lessons learned here and apply them to the USA. I understand that year, or maybe a year later, he promoted Cliff Burrows, who was head of the UK and Europe business to head up the US business. That sounds a bit odd: on the one hand you were claiming losses in the accounts you were filing in Companies House, but on the other you were promoting profits and promoting the individual responsible for the UK business.

Troy Alstead: We have always been, number one, optimistic about our ability to turn the business into profitability here. We have had huge-

Q193 Chair: How do you explain the difference? I am sorry to interrupt you. As I understand it there are transcripts of the conference calls-right? So I don't think anybody around the table is making it up. I am certainly not making it up. If you have these conference calls which tell one story and accounts that tell another, and you then promote the guy responsible for the UK business to run your US business, it just doesn't match. It doesn't ring true.

Troy Alstead: We are required to speak to and file our accounts in the UK-

Q194 Chair: Are you lying to your shareholders?

Troy Alstead: Absolutely not. Absolutely not.

Q195 Chair: Well, how can you reconcile the two businesses?

Troy Alstead: We are required to report our accounts in the UK under one standard. We are also required under US accounting to speak to our profitability in a different way, to eliminate all inter-company transactions that are involved. So those are requirements that we have to meet both in the UK and the US. There is a difference between those two.

Q196 Chair: But you were talking to UK investors here?

Troy Alstead: In our transcripts and our conference calls?

Q197 Chair: That is my understanding. I can take you to 2011: losses of £33 million, and John Culver, president of the international division, told investors, "we are very pleased with the performance in the UK." Yet you filed £33 million losses.

Troy Alstead: We have been encouraged by our ability to drive top-line sales and growth in this marketplace.

Q198 Chair: But you are not making money.

Troy Alstead: No.

Chair: Or you tell us you are not making money.

Troy Alstead: No. I assure you we are not making money and the investors we are speaking to are all of the investors in the company. We have never targeted just to the UK, although we understand that audience. In all earnings releases and conference calls, our primary message has to be under the SEC rules for the US, which are addressing primarily US-based accounting rules and reporting rules.

Q199 Chair: But you are talking about the UK business?

Troy Alstead: Yes. And we are required in the US to speak about it under US rules.

Q200 Chair: I understand that when you talk in the US you take out the royalties, which no doubt we will come to. But it still seems very odd to file losses and then tell your US investors-or your global investors-that you are pleased with the performance in the UK and to promote Cliff Burrows. Why did you promote Cliff Burrows?

Troy Alstead: Cliff Burrows helped us turn the UK from perpetual losses into the one year of profitability. We saw consistent improvement under his leadership.

Q201 Chair: Only the one year you are admitting to.

Troy Alstead: That is correct. Those are results that are-

Q202 Chair: The other thing that is odd to me is that if you have made losses in the UK over 15 years, which is what you are filing, why on earth are you doing business here?

Troy Alstead: We know that we must be in the UK to be a successful global company.

Chair: But you are losing money here.

Troy Alstead: It is a critical market.

Q203 Chair: Why don’t you go over to the US and focus on the US, where you say you are making money-if it’s true?

Troy Alstead: Because we have had tremendous optimism and encouragement over time about our ability-

Q204 Chair: You have given the UK business 15 years, Mr Alstead. You are still making losses, and yet you are carrying on-if it’s true.

Troy Alstead: Yes, I assure you that it’s true. It is very unfortunate. We are not at all pleased about our financial performance here. Everything we are saying and everything we have said historically is fundamentally true.

Q205 Chair: It just doesn't ring true. The two are inconsistent. You have run the business for 15 years and you are losing, and you are carrying on investing here. It just doesn't ring true.

Troy Alstead: We are committed to this marketplace and to our customers. We know that to be a successful-

Chair: Yes, but you are losing money.

Troy Alstead: To be a successful global company we have every intention to make this market successful and profitable.

Q206 Chair: And you have tried for 15 years and failed, and you have promoted the guy who failed over 15 years and succeeded in one year only. That just doesn't ring true, Mr Alstead. That is what frustrates taxpayers in the UK. You've got to give us a better explanation.

Troy Alstead: Occupancy costs on our P and L in the UK are two and a half times higher than in our US business, for example.

Q207 Chair: Your what costs?

Troy Alstead: Our property costs-occupancy costs. They are about 24% or 25% of turnover in this market. Much of that has to do with strategic mistakes we have made in the past around the concentration of very high costs, with high street locations concentrated within the city of London rather than being perhaps more diversified around the country. That model just does not work in a coffee shop environment for us, so we have been systematically having, unfortunately, to close stores in the last handful of years, to begin to remove that burden from our P and L. In fact, we recently announced 22 more stores where we have agreed with landlords to pay out of the leases.

Chair: I understand the issue about property costs, but I just do not believe that any corporate entity would sustain so-called losses for 15 years and carry on with the business, or expand it.

Q208 Stephen Barclay: On that point, Mr Alstead, if that is the case, in your submission to the Committee at paragraph 1 you say that you plan to open 300 new stores up and down the country.

Troy Alstead: Yes.

Q209 Stephen Barclay: What return on capital are you saying to investors that they should expect, given that you have been running at a loss for so many years?

Troy Alstead: As we open new stores, each new store, if it is company-operated, has to go through a full return-on-capital analysis to meet those on-paper hurdle rates. Our challenge in the UK is that historically we have not met those achievements, unfortunately, but many of our stores in the UK going forward will also be licensed stores, similar to some strategies we have in Europe, which tends to give us a better opportunity to have a more successful financial model.

Q210 Stephen Barclay: So when do those investors expect to see a return, on those additional stores?

Troy Alstead: Our investors are very clear on our challenges in this marketplace, and I think that they are sceptical of the history we have had in terms of our ability to immediately turn it around. But it is very transparent. There is a very good understanding of what our ability is to improve the marketplace going forward, but they are very clear on what the losses are. That is reflected in all the reporting they have published.

Q211 Chair: Mr Alstead, we are sceptical of your story. I think the allegation is that the way in which you set charges against the UK business means that you manipulate the profits out of the UK into tax havens.

Let me take you through the charges that have been put in public. The first is that you charge for intellectual property. I gather it was originally 6%, and I understand that somehow there has been a negotiation with HMRC and it is now 4.7%. I have to tell you that I am a coffee addict, so I drink far more coffee than is good for my health. I cannot tell the difference between a Starbucks coffee and one from Nero, Costa or anywhere else, so perhaps you can enlighten me. I can, however, tell the difference between a McDonalds and anything else, and I can tell the difference between KFC's drumstick recipe and other chicken takeaways. I cannot understand this great intellectual property that we are paying for, whether it is 6% or 4.7%. I just do not get it. Perhaps you can explain how on earth you reach that figure.

Troy Alstead: I will try to. Licensors, as you have mentioned with all the other brands, typically assess for their licensees these fees to represent goods and services. These are very tangible costs associated with product innovation, store design and trademark protection. All of those activities-

Q212 Chair: Let us be generous to you. Let us stop the 6%, although I am really fascinated as to how you went from 6% to 4.7%. How much of the 4.7% is because of the fantastic skill, which is actually in America and not wherever this stuff ends up-where does your stuff end up? I do not even know. Do we know?

Stephen Barclay: Amsterdam.

Chair: After Amsterdam, does it go to Bermuda?

Troy Alstead: No. We have absolutely no tax-

Q213 Chair: Where does it go from Amsterdam?

Troy Alstead: Half of it stays in Amsterdam1 and half goes back to the States. We have no tax havens in Bermuda, Cayman or anywhere else around the world. We never have and never intend to.

Q214 Chair: How much tax do you pay in Amsterdam?

Troy Alstead: All the royalties that leave the UK-the 6%-are assessed at a net rate over the last five years of about a 16% royalty rate. That is a mixed rate because some of that is taxed in the US and some is taxed in the Netherlands, but it is fully based at 16% over the last five years.

Q215 Chair: Let us just go through it. With the 6%, what are we paying for? For the UK taxpayer, who forgoes the corporation tax, how much are you charging for the design of the building?

Troy Alstead: We launched, for example, a new product-

Q216 Chair: How much are you designing with your 6%? How much of the 6% goes on the design of the building?

Troy Alstead: It is not articulated beneath that which components sit in it. It is an all-

Q217 Chair: There must be some figures underpinning.

Troy Alstead: No, there are not. It is an all-in fee that we have triangulated on over the years to represent-

Q218 Chair: There are no figures underpinning.

Troy Alstead: There are no detailed figures that represent which pieces of product innovation versus store design-

Q219 Chair: So how on earth do you then get that 6% or 4.7% is the fair and proper charge?

Troy Alstead: Two or perhaps three ways. One is understanding what global brands charge for those goods and services to licensees around the world. In the UK, that ranges from close to 5% up to a maximum of 8% or so.

Q220 Chair: No, it does not. McDonald's is about 4%. Burger King is about 4%. KFC do not charge anything.

Troy Alstead: The royalty rate, as we have seen around the world, ranges from that 5% or so-

Q221 Chair: This is really interesting, so you go for what is in the market-what you think you can get away with-and charge it.

Troy Alstead: We have approximately 20-

Q222 Chair: Is that right? Have I understood that right? You look at what the going rate is in a particular jurisdiction and charge it.

Troy Alstead: No, that is not quite right. If I may explain-

Q223 Chair: But you have no figures underpinning it.

Troy Alstead: We have 20 licensees around the world who are independent companies. These licensees are big, sophisticated companies who willingly pay us the 6% royalty, because they clearly recognise the value of the goods and services, the store design, the trademark protection and the value of the global brand that comes into that band. I would also point out that, whereas most licensors charge their licensees multiple fees-a royalty and often a marketing contribution and other funds-in Starbucks we have one. We have just that 6% royalty fee.

Q224 Chair: I want to understand. I am going to turn to Stewart, but I will give you one last chance. Apart from it being the going rate in a country, what are the figures that underpin it? How much for getting the coffee mix right? How much for getting the advertising right? How much for getting the layout of the shops right?

Troy Alstead: It is a collective fee that represents all those services.

Q225 Chair: But how much on each? There must be some logic to it, or it is just what you hope you can get away with.

Troy Alstead: It is negotiated with third parties around the world that validate that the value is there in that 6%. That is the best single way we have of recognising-

Q226 Chair: Who are the third parties? The tax people?

Troy Alstead: We have third-party licensees-large, independent companies all around the world-that also pay the 6% royalty when they license the Starbucks brand in their particular marketplace. That is our best way of understanding, in addition to analysis and benchmarking with other licensors, that that 6% goods and services charge-the royalty rate-is appropriate and justifiable, and it is scrutinised by tax authorities all over the world to validate both sides of that equation.

Q227 Chair: I am not getting a clear answer. I will have one more go at it. Most of your 6% is charged on your wholly owned subsidiaries, but in Germany you have a joint venture with Karstadt, where I assume that you have charged something like that to the chief executive, who may already have pulled the deal because he is losing money on it. So where there is a genuine arm's-length relationship, money is being lost. He said, "It is not possible that all the burdens are just on our side and then if money is made, it all goes to someone else."

Troy Alstead: We are actually in a wholly-owned business in Germany now. We bought out Karstadt as of three or four years ago.

Q228 Chair: Right; a wholly owned business, because he couldn't stand the 6%. He couldn't take it-so where you have got a genuine arm's-length principle it does not work.

Troy Alstead: And we have 20 arm's-length licensees today, the vast majority of whom make money at that 6% and are rather willing to pay us that price.

Q229 Chair: I think it is about tax avoidance.

Troy Alstead: And we would be very pleased to provide that detail to the Committee if it would be helpful.

Q230 Mr Jackson: I think Henry Ford said the business of America is business; it is a good thing he was not listening to Starbucks, because I do not find your business model very compelling or convincing, if I am honest. I think the heart of this debate is about what you do and where you do it. I would like to ask a very straightforward question. Given that the Starbucks brand is very well established, can I ask you what unique proprietal aspect of the generic coffee-making process you own in order for you to make these payments?

What you do is exactly what Costa Coffee do, and all the other coffee companies. It seems to me that this is a system specifically designed to avoid tax and I do not think there is any evidential basis-if I could put it to you-that you have any proprietal ownership, in terms other than brand, which is completely different from intellectual property rights. It is just about avoiding tax, which is why, for instance-and maybe you will address this issue-you buy your coffee through Switzerland.

Troy Alstead: Respectfully, I can assure you there is no tax avoidance here. We have a global tax rate of 33% around the world. Our tax rate outside of the US is 21%, as it will be filed with the SEC next week. That is higher than most multinationals' global tax rate. We are an extremely high taxpayer. We clearly are not aggressively looking to avoid tax, or looking to avoid tax on any structure anywhere. We have had profitability challenges-very sincere ones, unfortunately, that we are not pleased with-but it is nothing, I assure you, to do with any tax avoidance2.

Q231 Mr Jackson: But can you name me one company-one multinational company, one US-based company-that has a 31% market share by turnover and has been making losses for 15 years?

Troy Alstead: No, I could not be an expert on other companies. I would not pretend to be that. I am happy to discuss how our business has been challenged, and what we are trying to do about it here, very sincerely, and why we have had years of loss-making in this marketplace.

Q232 Mr Jackson: My last question, then. Are you saying that essentially the value created is created in Switzerland or the Netherlands, and not the UK; so when I buy a cup of coffee in the UK the value for the purposes of tax and tax collection is created in Switzerland or the Netherlands, and not when I buy the coffee? That is what, essentially, you are saying.

Troy Alstead: What we are saying is we should have a business that makes a profit in the UK, and that is fully our goal, and fully our intent, and exactly where we have been aiming for many years, here. We have not been successful doing that; but, yes, there is value created by the local business everywhere around the world. That value should result in profitability. That is fundamentally, absolutely our goal to do. There is no intent to do anything different from that. I will acknowledge to you we have not been successful at that in the UK.

There also is a very tangible, specific value that is created in Amsterdam, in the Switzerland office, which I am happy to talk about at any point in time, and in the US, where some of the product innovation still happens, to a great degree, around recipe development. We have launched a new product here in the UK just this summer called "Refresha" that was in test and development for two years. The UK business had no cost basis in that whatsoever. A new machine platform, called the Verismo-equipment which we have just launched here in the UK-

Q233 Mr Jackson: It's a cup of coffee. It's not an internal combustion engine. I take the point about branding and advertising, but the generic coffee-making process is not that difficult.

Troy Alstead: We spend half a billion dollars a year in the categories of research and development, product development, category management, store design-that is at the global, not the country, level.

Q234 Fiona Mactaggart: But in what country are those sums spent?

Troy Alstead: Largely in the US, some in Amsterdam, some in a few other markets around the world; but largely in the US, which is where the vast majority of our headquarters are. That includes things like engineering services in the store, store design and layout, and lean principles around store operations. That is what we, in our big bucket, call the Starbucks system-the way to operate our stores-which over time in most places around the world has resulted in a very healthy, profitable business model. In a handful of markets we have not been successful with that, unfortunately.

Chair: I have a whole list of people, just to tell you all that you are on there: Austin, Steve, Meg, Fiona and Ian.

Q235 Austin Mitchell: Mr Alstead, my heart is beginning to bleed for you. I am going to have to rush down Victoria street and have a double caramel macchiato, because you are in such a bad way. In 14 years of trading in this country, you have paid £1.6 million in corporation tax. You are either running the business very badly, or there is some fiddle going on. I will just compare you with Costa which, in the year ending 3 March 2011, made a profit before tax of £49.5 million, and paid £15.5 million in corporation tax on that. You get away scot-free.

Troy Alstead: In the UK, one of our challenges is-

Q236 Austin Mitchell: That is quite an achievement, isn't it?

Troy Alstead: I would argue it is not an achievement; it is a failing. The single most competitive coffee and espresso market anywhere in the world where we operate is here in the UK. There is some outstanding competition. Consumers have much choice. They likely have more choice, for consumption of coffee per capita, than probably anywhere else in the world, in terms of the contemporary-

Q237 Austin Mitchell: I have been putting on weight drinking enormous quantities of caramel macchiato and you've been losing money on it. It really is incompetent. Either that, or it is the money you are taking out through the 6% royalty. Now, you will not tell us where that 6% royalty goes. Surely it needs to be quantified if we are to have faith that it is not a way of fiddling money out of this country.

Troy Alstead: I am happy to tell you exactly where it goes. The full 6% goes to our regional headquarters in Amsterdam. That is where we have a roasting facility, and all the regional headquarters for our Europe, middle east and Africa businesses are headquartered in Amsterdam. That has been there for many years now. Ultimately, about half of that funding that goes to Amsterdam ends up going directly back to the US, compensating the US for the historical development of the brand, the product innovation and our store design systems-many of the activities that have happened there historically. That is where it is. The remainder-the other half, approximately-sits in Amsterdam supported by the structure of that leadership team, and that operation3.

Q238 Austin Mitchell: You say in your notes here that some of it goes to accountancy services. We have more accountants in this country than in the entire European Union combined. There must be accountants thrusting for work in this country, but we will let that pass. You must also be charging excessively on the roasting of the coffee in Amsterdam by perspiring Dutch people and then the purchase of the coffee in Switzerland. You are overcharging us on those two items.

Troy Alstead: We sell coffee around the world at exactly the same price to all our fully independent licensees, who are big companies, as well as to our company-owned businesses. We don't differentiate prices by country. It is exactly the same price everywhere. It reflects the fact that the coffee we buy is actually the top 1% or 2% of the most expensive coffee in the world. We have 100% fair trade espresso in the UK, and there is a premium that comes with that. We have very costly-it is very important to us, but very costly-operations with our agronomy offices around the world around sustainability and transparency. All those things yield the cost of the coffee.

Q239 Austin Mitchell: But can you tell us the difference in price between what you are paying and what competitors are paying? That is the crucial point. We do not know whether you are overcharging us or not, because the figures are not published.

Troy Alstead: I do not know what competitors pay for their coffee-I do not have that information. Our coffee costs are confidential, sensitive information. I am happy to share that with the Committee, and if I can do so in confidence subsequent to this meeting, I will absolutely do that.

Q240 Austin Mitchell: When the profits go to Holland-Amsterdam or wherever-is this all? You say the royalties are remitted back to the US. What about the profits on the European and British business? Are they remitted back to the US, in which case you will have to pay tax on them, or do they go to the Caribbean-Bermuda or somewhere?

Troy Alstead: We have no tax structure whatsoever in the Caribbean, Bermuda, Cayman or anywhere else in the world. I can assure you of that. I would like to say that very clearly4.

Q241 Austin Mitchell: So it is not stashed away in some tax haven.

Troy Alstead: Absolutely not. The profitability remains in Amsterdam. The profitability that we earn in our global coffee buying operation remains in Switzerland. Some of the funding goes back to the US. We absolutely have none of these offshore island tax havens. We never have; that is just not how we do business5.

Q242 Chair: Can I ask a question about that? You are paying on royalties in the Netherlands, aren't you? Is there a special low-tax regime in the Netherlands on royalties?

Troy Alstead: Yes, there is. We have a tax ruling that we have had since-

Q243 Chair: So it is less.

Troy Alstead: Oh yes, it is a very low tax rate.

Q244 Chair: So there is a tax advantage to you from paying the royalties in the Netherlands.

Troy Alstead: It is a favourable tax rate that we have in the Netherlands on all income that comes in from all over the-

Q245 Chair: That is why you put it into the Netherlands.

Troy Alstead: It is not why, but it is an attractive reason to be there, there's no question.

Chair: No, it is why.

Q246 Stephen Barclay: What is the tax rate you pay in the Netherlands?

Troy Alstead: I am very happy to provide that to the Committee, but I am bound by confidentially to the Dutch Government on that. My request would be: could I follow up afterwards and provide it just to the Committee? I am very happy to do that-just confidential6.

Q247 Chair: Confidential to whom?

Troy Alstead: The tax authority, under our Dutch ruling, has asked us not to share that publicly. I will absolutely share it with the-

Q248 Stephen Barclay: You have just answered my next question, which was whether you have a Dutch tax ruling-you do.

Troy Alstead: Yes, we do.

Q249 Stephen Barclay: You have a special arrangement to allow you to pay less tax in the Netherlands.

Troy Alstead: Yes, it is a low-tax ruling that we have in place.

Q250 Stephen Barclay: And it is for that reason that you transfer the profits from the UK, which are booked as losses in the UK, into the Netherlands. Some of that then goes back to the States, but the rest of it pays a lower rate in the Netherlands under a Dutch tax ruling. That is correct, is it?

Troy Alstead: Respectfully, that is not at all the-

Q251 Stephen Barclay: In what way is it incorrect?

Troy Alstead: Respectfully, that is not at all the right characterisation. Again, we have a higher tax rate than just about any other multinational around the world.

Q252 Stephen Barclay: Would you enter into a Dutch tax ruling that meant paying more than the publicised rate in the Netherlands?

Troy Alstead: I-

Q253 Stephen Barclay: Self-evidently not. The whole purpose of a ruling with them is to pay less tax, surely.

Troy Alstead: The purpose of operating our business out of the Netherlands was that we had a roasting plant facility there, and, yes, they do offer very competitive tax rulings-it is not unique just to Starbucks.

Q254 Stephen Barclay: How many people work in the Netherlands operation?

Troy Alstead: Approximately 250 people[7].

Q255 Stephen Barclay: Including the roasting. How many in corporate headquarters?

Troy Alstead: Approximately 75 to 100[8].

Q256 Stephen Barclay: And how many people work in the Swiss operation?

Troy Alstead: I believe that our global coffee buying operation perhaps has 30 people[9].

Q257 Stephen Barclay: Thirty people. And what mark-up do you apply to the coffee you buy in the Swiss operation before it is transferred?

Troy Alstead: The margin that Starbucks makes on coffee that is sold to the UK and everywhere else is approximately 20%-that is the gross margin on that product sale, which is a very consistent wholesale margin on any product anywhere.

Q258 Stephen Barclay: So what do the 30 people in Switzerland do to account for that 20% mark-up?

Troy Alstead: They run all our global buying operations, they run our sustainability programmes, and they have all the agronomy offices that we operate around the world in the growing regions, where we work with farmers around sustainability, transparency and social programmes-that is all run out of our global buying operation. They ensure that the quality of the coffee is appropriate. All the coffee that we buy globally, including what goes to the US, runs through that central buying operation. Switzerland is a world-recognised coffee-buying place-75% of the world's coffee is traded through Switzerland, and Starbucks is only a small fraction of that. That is what led us to be there.

Q259 Stephen Barclay: And how do you come to the figure of 20% from that?

Troy Alstead: That is benchmarked, based on transfer-pricing regulations in tax authorities all around the world. It represents a cost that ensures there is an appropriate level of profitability on activities in the markets where they happen. For example, in all our history in the Switzerland market, we have generated an operating margin that reflects the profit generated on the mark-up on the sales of our coffee. There has been an approximate net profit in the single-digit range-7% or 8%-throughout all our history there.

Q260 Stephen Barclay: Just to confirm, the coffee does not physically go to Switzerland, does it?

Troy Alstead: The coffee is bought in Switzerland and then shipped to our roasting facilities around the world.

Q261 Stephen Barclay: It is bought there. Does it physically go to Switzerland?

Troy Alstead: No.

Q262 Stephen Barclay: So it is bought in Switzerland, and it never physically goes to Switzerland, but you add a 20% mark-up in Switzerland.

Troy Alstead: To support the activities of that operation, which yields a single-digit profitability in Switzerland.

Q263 Stephen Barclay: And that is a wholly owned subsidiary of the group. I will come back to that point later, but let me turn to the earlier point about royalties-the 6% that you said, in paragraph 16 of your submission, had, under discussion with HMRC, reduced from 6% to 4.7%. As a result of that reduction, how much more tax did you pay?

Troy Alstead: We had one taxable year of profitability in the UK in our history, so one year where we would have paid corporate income tax. Now, we paid $25 million to $30 million in other taxes that Starbucks pays in this market every year, but the corporation-

Q264 Stephen Barclay: We are not here to discuss the other taxes; the other taxes are a separate issue. With respect, my question was: as a result of that reduction, how much additional tax did you pay?

Troy Alstead: We paid an additional tax of approximately £8 million as a result of that.

Q265 Stephen Barclay: And what has your turnover been between 2003 and 2008?

Troy Alstead: Our turnover in 2008 by itself, for example, was £374 million. In 2007, it was £328 million; in 2006, it was £287 million.

Q266 Stephen Barclay: Are you aware of any case with any major firm in which HMRC has litigated over corporation tax?

Troy Alstead: No, I am not.

Q267 Stephen Barclay: As far as I am aware, it has not. It just looks like something of a cosmetic fight if it is being reduced from 6% to 4.7%. Financially, the impact is £8 million.

Troy Alstead: It is reflective of the challenges that HMRC put to us over time, given our perpetual loss making. We had believed that our royalty rate was fully supported and justified, as I have said. It challenged us, and that resulted in that settlement down at 4.7%

Q268 Stephen Barclay: Can you explain this, please? In the accounts for the Starbucks Coffee Company UK Ltd, you transferred £50 million into equity in a business that has been losing money year in, year out. Can you explain why you moved £50 million from cash into equity, please?

Troy Alstead: Yes, that was because the business has been losing money. As a result of our challenges with profitability in the UK, the UK business has not been able to make its payments-it has not been able to meet those cash needs alone-so it has needed the infusing of cash. Effectively, there is an inter-company loan between the US Starbucks business and the UK Starbucks business over a period of time. Essentially, that was simply the funding of that business. That was what was represented by that loan. Tax authorities on both sides of that transaction-on both sides of the ocean-require that that be an arm's length transaction, so the interest rate was set at arm's length rates during that period of time.

Q269 Chair: Higher-higher than anybody else.

Troy Alstead: Right now that rate would be about 4.9%-

Q270 Chair: Yes, that is higher than anybody else that we have come across-to your own wholly owned subsidiaries. It is a bit odd. These are wholly owned subsidiaries and you charge a higher interest rate. The only explanation can be to get money out of the UK to avoid tax.

Troy Alstead: No, because that loan is to the US business. Actually, the US has a substantially higher corporate tax rate. There is absolutely nothing about the loan that could actually produce tax savings for us, because it is a much higher tax regime in the US than it is in the UK.

Q271 Nick Smith: Does your US operation pay money to Holland and Switzerland?

Troy Alstead: It does not pay money to Holland and Switzerland. It does for coffee buying; not to Holland, but it buys its coffee from Switzerland, yes. All our global coffee comes through Switzerland-everywhere in the world-whether it is to independent licensees or to all our company-owned structures round the world.

Again, I think the important point here is that we have $200 million of royalty payments coming from totally independent companies around the world-unrelated to Starbucks entirely, but paying that same 6% royalty-which pay the same price for the coffee. It is extremely validated by all the analytics-the benchmarks and comparisons-as well as the fact that big, sophisticated companies are willing to pay that price for the value they get.

Q272 Nick Smith: Does the US pay 6%?

Troy Alstead: No, because the ultimate brand ownership of the company was rooted in the United States. That is where it was located.

Q273 Meg Hillier: In paragraph 6 of the information you sent us in advance, you talk about Lausanne being a global hub for commodity trading. Why is it that 75% of the world's coffee is traded through Switzerland? Is there a favourable tax rate for doing that?

Troy Alstead: Part of that is history. Long before Starbucks put our coffee buying in Switzerland, that was true. Yes, around coffee trading and trading houses in general, Switzerland offers a very competitive tax rate, which certainly complements that activity.

Q274 Meg Hillier: And then you charge 20% for selling it on to everybody else.

Troy Alstead: We must require to get cost and generate a profit whenever activities happen wherever they happen around the world. We always ensure that, wherever that profit sits, that is exactly where the activity happens.

Q275 Meg Hillier: And then you are paying less tax in Switzerland than if you did that, say, in London.

Troy Alstead: Yes. The Swiss tax rate has been approximately 12% over history.

Q276 Meg Hillier: What is your total tax payment in, say, the last financial year in Switzerland? Have you got that figure?

Troy Alstead: I do not have that with me. I am happy to provide that.

Q277 Meg Hillier: Could you provide that?

Troy Alstead: I am very happy to.

Q278 Meg Hillier: You talked earlier about your research and development costs. Presumably those get offset against tax, because they are then a dent in your profit margin. Is that right?

Troy Alstead: They would be tax-deductible costs in our business, yes, wherever they may occur.

Q279 Meg Hillier: Can you just remind us what the figure is that you spend on research and development to decide how to make a caramel macchiato or a frappuccino? What is your total cost for developing those products?

Troy Alstead: The number I quoted was approximately half a billion dollars a year, which includes not just product development-although that is a piece of it; for example, the frappuccinos and the Refresha products-but category development, marketing and brand development, the store design work we do, and the testing, engineering and certification of equipment. It is all the things that go into what we believe are very significant and important value-add businesses to make a store work successfully anywhere in the world. That is what that big category of spending is.

Q280 Meg Hillier: You spend a lot on that.

Troy Alstead: Yes, we do.

Q281 Meg Hillier: And that can obviously help you on the tax front. I won’t run through the figures again, because colleagues have mentioned this, but if you look at what Costa or Caffè Nero earn and pay, they are also brands. In total numbers, I think that Costa comes top in the high street in the UK. It presumably spends money on research and development, but it still manages to pay tax. I am slightly puzzled. I wonder if you are paying more than other companies to make the Starbucks brand.

Troy Alstead: I can’t speak about Costa, though I know they have been very successful here. Our intent is to make up that gap and be equally successful over time, and we have every intention of doing that.

Q282 Meg Hillier: How can you reassure us that the money you spend on research and development is genuine money and not inflated costs business to business within Starbucks for developing different ways of selling a cup of coffee?

Troy Alstead: The best way I can demonstrate that to you is by virtue of the fact-I am happy to provide this list to you afterwards if it is helpful-that all the large independent successful companies around the world recognise the value, so in a completely genuine arm's length transaction pay that 6% royalty. That is $200 million a year paid by completely independent parties into Starbucks so that they can operate the business and keep the value.

Q283 Meg Hillier: But isn't that partly because your operating model is-or was-as I understand it, to buy up a lot of high street competitors, so you have several Starbucks on the same stretch of high street in busy parts of the city in London? You are not making profit on them, but competitors are not there to buy the business. If you are setting up a coffee shop, your chance of setting up against Starbucks is limited. So, is it partly that people are paying because it is one way to be sure of keeping their coffee shop open? If you are with another company, you might get taken over or knocked out by the competition from Starbucks.

Troy Alstead: What you describe is part of our failed strategy in the UK. Many years ago we did go way too aggressive with opening sites on the high street and it was competitively driven. As I mentioned earlier, it is a very competitive marketplace here. We went too fast towards opening stores and we were willing to pay for high street locations that ultimately we could never make money on. Those, coincidentally, are now the stores that we have been closing.

We have closed more than 100 stores in the UK in the past 10 or 12 years. We announced a few weeks ago that unfortunately we have 22 more stores on which we have reached agreement with landlords. We need them, being exactly those high street landlords that we need to buy out of those lease commitments and close those operations. It is unfortunately a strategy-not by virtue of the wonderful partners, which is what we call employees who run the stores here-that is a legacy from the past when we opened stores that unfortunately will never make money for us.

Q284 Meg Hillier: You mentioned the Dutch tax arrangement that you have. You say that you have a confidential agreement with the Dutch tax authorities. Is that with the Dutch tax authorities or the Dutch Government?

Troy Alstead: It is part of the Dutch Government, so the Dutch tax authority. I fully appreciate that I have a responsibility to you, so I do want to provide that information. I am trying to find a way also to meet my obligations to them10.

Q285 Meg Hillier: I am not clear how the Dutch tax system works. In the UK, taxpayer confidentiality is important to our tax authorities-to HMRC-but you would be entitled to tell us that information. Are you saying that that is not the case in the Netherlands?

Troy Alstead: I feel bound by that relationship not to release it specifically. That is what we have been communicated.

Meg Hillier: It looks a bit cosy from the perspective of the British taxpayer.

Q286 Chair: Is it a sweetheart deal that you don't want to reveal to us? Your chap is nodding behind. It is a sweetheart deal that you don't want to reveal to us.

Troy Alstead: I am fully prepared to give you that information, as I have said. I would rather not have it revealed publicly. That is what we have been asked to do. I will happily after this meeting provide it in writing to the Committee.

Q287 Meg Hillier: Chair, I think there might be some issues we should be raising with the Dutch Government.

Q288 Chair: Is it the Dutch authorities that said you could not reveal it?

Troy Alstead: They asked us to hold that in confidence over time.

Q289 Chair: Okay. I want to intervene with one question. The whole point of buying in Switzerland is to save money for the business, isn't it?

Troy Alstead: No, that is not the whole reason. Global coffee buying happened there long before we got there. If we were going to trade coffee it had to be in Switzerland.

Q290 Chair: Okay. You say in your thing to us that you buy there because of major economies of scale-you save money. You say that in paragraph 6. "We achieve major economies of scale from centralising this activity."

Troy Alstead: That could be anywhere in terms of economies of scale. It is in Switzerland-

Q291 Chair: But you say that is what you do?

Troy Alstead: Yes.

Q292 Chair: Is that what you do?

Troy Alstead: We do all global buying in one place, in Switzerland.

Q293 Chair: So why don't you pass that on to your wholly owned subsidiaries? Why do you charge them 20%? Why don't you just pass that on, if for any other reason than what it looks like to us-you are avoiding tax? In Switzerland you have a lower tax regime. Where are you taxed in Switzerland, which canton?

Troy Alstead: Vaud-

Q294 Chair: What is it there? 2%, 3%, 4%, what is it?

Troy Alstead: It is a 12% tax rate.

Q295 Chair: 12%-less than the 24% here.

Troy Alstead: Yes, it is.

Q296 Chair: So why don't you let the UK coffee houses have the advantages of the economies of the scale and sell the beans to them at price, at the price you get?

Troy Alstead: We must generate a profit in every location around the world-

Q297 Chair: Why?

Troy Alstead: Because the Swiss tax authorities will require that we pay a tax on those inter-company activities. Just as if we generated income in the UK, we have tax obligations.

Q298 Ian Swales: That is where I wanted to come in. You were talking about the operation in Switzerland, and you said earlier that you make 7% or 8% profit on that. Is that on the cost of the operation in Switzerland, or is that on the turnover of the operation in Switzerland?

Troy Alstead: That is on the turnover-the sales of that operation.

Q299 Ian Swales: So an organisation of 30 people, which buys and sells these beans, makes 7% or 8% profit on its sales, just for commodity trading. Yes? It must be an incredibly profitable activity.

Troy Alstead: It is not just commodity trading, although that a key part of that activity. It is also all the coffee certifications around the world, the sustainability programmes, the agronomy offices that we have located in the growing regions-

Q300 Ian Swales: I am sure you are not going to tell me, but I am guessing that the net profit on that would be absolutely enormous. Do you know of another commodity trading activity in the world that makes that kind of profit, simply on buying and selling?

Troy Alstead: I do not have benchmarks on other companies, but we are very prepared to provide that information to you.

Q301 Ian Swales: They sell this all to Holland, the entire- Sorry, do they buy for anyone else besides Starbucks?

Troy Alstead: No, just for Starbucks.

Q302 Ian Swales: Just for Starbucks. And then they sell everything they buy straight to Holland, is that right?

Troy Alstead: No, we sell to all our manufacturing geographies around the world; Holland is simply one of them.

Q303 Ian Swales: Is it only the UK or only the European use that goes through Holland?

Troy Alstead: The European use goes through our Amsterdam manufacturing operation in the Netherlands.

Q304 Ian Swales: In Amsterdam. So the US operations, for example, they get theirs direct from Switzerland.

Troy Alstead: Yes.

Q305 Ian Swales: Do they pay the same price as Amsterdam?

Troy Alstead: Yes.

Q306 Ian Swales: Okay. Then the Amsterdam operation presumably puts a mark-up on before it sells to the UK. Is that the same mark-up to every country?

Troy Alstead: Yes it is. It is the same price whether it is company-owned or licensed within the EMEA region for us.

Q307 Ian Swales: And are you able to say-forget the European headquarters-what the profitability of the roasting operation is? You gave us a figure for the buying, what about the roasting?

Troy Alstead: Again, the mark-up effectively-the profit on the sales of that coffee-is approximately at 20% gross margin.

Q308 Ian Swales: Is that 20% on top of the 7% or 8%?

Troy Alstead: No, that is all in.

Ian Swales: Altogether, okay.

Troy Alstead: The 20% is not net profit, that is the gross profit, and then we do have the expenses of running the operation as well, so it generates lower profitability ultimately.

Q309 Ian Swales: So you have to pay for the buying and the roasting out of that 20%, are you saying?

Troy Alstead: The 20% is the gross profit that sits on the sales of the coffee.

Q310 Ian Swales: Are your franchisees or licensees free to buy anybody else's coffee?

Troy Alstead: No. If they operate a Starbucks coffee shop, they must buy Starbucks coffee. That is what makes it a Starbucks coffee shop.

Q311 Ian Swales: So you can charge them whatever you like really.

Troy Alstead: No, because they would never agree to that if that was the case.

Q312 Ian Swales: Okay. How has it moved over time, and how does it move? Has this 20% gone up, down or stayed the same?

Troy Alstead: It has stayed the same over time. It is a cost plus, so if green coffee costs rise, it will move up or down over time, but the percentage margin has been very stable.

Q313 Ian Swales: So it is directly related to the market price for coffee. Is it the market price as quoted in the press or whatever, or is it what you actually pay in Switzerland?

Troy Alstead: It is what Starbucks actually pays for the various coffees we buy in the growing regions around the world.

Q314 Ian Swales: And whatever that price is, that is how the cost plus is calculated.

Troy Alstead: Ultimately, yes.

Q315 Ian Swales: I know from my own background, transfer pricing is the best way to do this, not royalty payments, so I am just guessing that there is something in this transfer pricing area.

Troy Alstead: Transfer pricing is how the coffee moves all around the world. That is a separate item from the royalty, which is the goods and services around the Starbucks store, the branding and the product innovation.

Ian Swales: I understand.

Q316 Fiona Mactaggart: How much do you pay in tax on the money that is remitted to the US?

Troy Alstead: Our average US tax rate is approximately 38%.

Q317 Fiona Mactaggart: Right. And you said to us that you spent 16% tax on royalties, half of which was in the Netherlands and half of which was in the US. That seems to me as though you are paying not just a very low percent in the Netherlands, but nothing.

Troy Alstead: No, we are paying tax but it is a very low tax ruling.

Q318 Fiona Mactaggart: Would you provide the Committee with both the amount of tax-if you have to do that privately, I am sure that the Chair would accept it-and evidence that the Dutch authorities have formally requested you not to reveal it?

Troy Alstead: I can consult and see what we can provide to you. I am very happy to be as transparent as I can about that relationship. I assure you that in our relationship over the years, they have very much wanted us to be confidential in our discussions.

Q319 Fiona Mactaggart: I am interested in what you have said about the number of people whom you employ in Switzerland and the Netherlands. As I recall, it was a few hundred, compared with 8,500 people here in Britain, and yet you are paying tax in those places and not here. That, you will understand, is one of the reasons why people find the structure of your company strange. You are certainly generating activity, which enables these profits down the line, here in coffee shops in Britain. You say you are shutting 22 of them because they are not profitable, but 22 out of 700 does not seem very significant to me. You can understand, can't you, why we feel that this is arranged in order to push the profits into places other than the places where the sales are generated that actually make the profits possible down the line?

Troy Alstead: I do understand. Again, we pay £25 million to £35 million of tax every year in the UK. We have not, unfortunately, paid the income tax, although we fully intend to. We have to get this business into profitability. We have challenges with our property costs, challenges that are reflective of high costs in the market but also of our own failings over time with our real estate strategy. It is 15 percentage points of turnover higher here than our benchmarks in the US, for example. That is fundamentally why we have had such a challenge making money in this market.

Q320 Fiona Mactaggart: What is the difference in the price of a cup of coffee here and in the US?

Troy Alstead: It is probably approximately 20% higher on average, I would say. It depends on the market, because it is not a flat price.

Q321 Fiona Mactaggart: Exactly. So it is 15% higher in property costs, and it is 20% higher to pay for a cup of coffee. It seems to me that you are covering those additional costs in the cost of your coffee.

Troy Alstead: No, actually the percentage of property costs is on the higher price, so it is that much more relative to the two and half points even than what I said, but just as a percentage of turnover, which captures the higher price of the beverages here, it is extremely costly on our P and L. It is something we are working to fix, but we just have not been successful at fixing the financial model yet.

Q322 Stephen Barclay: What is the tax rate you pay in Switzerland?

Troy Alstead: Approximately 12%.

Q323 Stephen Barclay: Is there a Swiss ruling on that, or is that the standard rate?

Troy Alstead: My understanding is that that is a much more common rate that is provided to trading houses. I do not think it is a special ruling.

Q324 Jackie Doyle-Price: Earlier on, you said that one of the reasons why you were in the UK and you were prepared to tolerate these losses was that you had to be in the UK to be recognisable as a global brand. You have kept referring over and over again to the competition in the UK marketplace. Is it a fair characterisation of your position that Starbucks is willing to take short-term losses for long-term establishment as the global leading player?

Troy Alstead: Partially, yes. We are prepared to commit to the long term here. We have every intention that we must make long-term profitability. We have not yet; I appreciate that and I fully understand why the question is there; but absolutely we are prepared to invest to build our business over the long term. Every time we start a market around the world, they usually lose money for a short period of time to begin with, but nowhere near as long as here. That has been our challenge and our failing, historically.

Q325 Jackie Doyle-Price: The reason why this concerns me is that it looks very much to me like you are manipulating your tax affairs in order to support very aggressive anti-competitive behaviour. You have referred repeatedly to the issues with your real estate, but we see in a report in the *FT* that that was one of the consequences of the degree to which you were outbidding Coffee Republic for commercial sites. The figures speak for themselves: Coffee Republic now has a mere handful of stores compared with Starbucks, which is growing. That leaves me in a very uncomfortable position, both as a consumer and as a taxpayer. We in Britain are very concerned about fair play, and one of the reasons why we have embraced Starbucks is because of your emphasis on fair trade and your emphasis on ethics. Do you really think this will help you build the position that you want, both as a global player and as a main player in Britain?

Troy Alstead: I can assure you that we are not trying to outbid coffee shops today. Yes, five and 10 years ago, as we were rapidly growing in this marketplace, but we had no intention to be outbidding somebody as much as we had an intention to build our presence on the high street. That led us to pay often very high rates-often unsustainably high rates, unfortunately-but not intentionally: we believed at the time we signed those stores that they would become profitable for us. It has become clear over time that many of them will and many of them will not. We have since then really refined our strategy to recognise that the high-priced, long-lease prime real estate sites may not be the best strategy here, and we have to be much more diversified throughout the country. That is how we have modified our strategy over time, but yes, we did make those real estate mistakes-not conscious decisions, but mistakes-in those early days.

Q326 Jackie Doyle-Price: I was looking at your website earlier today, and you have got some very positive statements about the ethics of your company. Would you consider making a commitment to the British marketplace about the degree to which you will have a fair approach to taxation here?

Troy Alstead: Very much so. I assure you that we have every intention to be a fair taxpayer everywhere we are. We are never aggressive in avoiding taxes by any means. As I said earlier, we do not have tax havens in place; that is just not how we do business. We look forward to deepening our investment in this marketplace. We have every intention to do that.

Q327 Chair: We look forward to it too, Mr Alstead, after 15 years when you have not. Before we move on to Amazon, what we have got out of this is that in Switzerland you charge 20% profits on every coffee being bought in the UK, where you only pay 12% tax. You have not been able to explain to us the 6% royalty in any meaningful way. You charge for loans to your wholly owned subsidiaries at least 2% above the going rate. It seems to us that you are exporting your profits to minimise your tax. It does not surprise me that the YouGov brand index, which used to have a three-point positive, now has a 26-point negative. Are you happy with that?

Troy Alstead: No. We are not happy with it at all.

Q328 Chair: Let's move on to Amazon, and then we will come back to some general questions at the end.

Amazon, when I buy a book from you-I do it online, and I am a regular buyer-I get amazon.co.uk. That is what I am told. Is that correct? I can show you. In fact, I think you write to me every day with new offers. It is from amazon.co.uk. Do you accept that?

Andrew Cecil: Chair, maybe I can explain how we are set up as a single European company, because I think that is very useful background for the Committee.

Q329 Chair: Let me ask you my questions, because I am asking from a UK perspective. It is the UK where we seek the taxes in these troubling times, and we want everybody to give their fair share-all in it together. I just want you to explain it to me. I buy from amazon.co.uk-that is where I buy from.

Andrew Cecil: Amazon.co.uk is the trading name for Amazon EU Sarl, and we operate-

Q330 Chair: But you are saying to me that this is a UK company that I am buying from.

Andrew Cecil: No, you are purchasing from a single European company. We operate a single European company.

Q331 Chair: But it says to me-I'll show it to you-amazon.co.uk. Is that actually to lie to me about the origins of your company?

Andrew Cecil: Not at all. Maybe for the Committee's benefit I can explain how we manage our business-

Q332 Chair: No, I just want to pursue this issue, because I think I am buying from a British company. That is what I think when I get an e-mail from you or when you advertise. I think I am buying from a British company. I then agree to purchase something and I get an e-mail from you telling me that it is being delivered from a UK warehouse. That is correct, too?

Andrew Cecil: Yes, we have eight warehouses in the UK.

Q333 Chair: And I am told how much I am going to have to pay for the Royal Mail to deliver the books, or the toys, or the kettles to my home.

Andrew Cecil: Chair, if I may, it may be that it is delivered from a fulfilment centre in the UK, but could it actually be-excuse me, warehouse. We use the term "fulfilment centre".

Q334 Chair: No, because I am always asked to pay the UK Royal Mail postage. That is what I get on my bill.

Andrew Cecil: You will be charged the postage as a UK customer, but actually we may be delivering that product from any of our in excess of 20 fulfilment centres across Europe.

Q335 Chair: I can tell you that they always come to me with a UK postage stamp on them. I am a regular purchaser of books, toys, kettles and so on, and there is always a UK stamp.

Andrew Cecil: Again, if I could explain, we run a single European business-

Q336 Chair: I believe I am dealing with a UK company; it comes to me via the Royal Mail with a UK stamp on it. That is what happens, and I tell you again that I have been purchasing from you-so far; I may change my mind-regularly in that way. When did any book that I purchased ever get to Luxembourg?

Andrew Cecil: We do not have-

Q337 Chair: Do you have books in Luxembourg?

Andrew Cecil: No, we do not have a fulfilment centre in Luxembourg. We have our European headquarters in Luxembourg, and as a single-

Q338 Chair: But the books are here?

Andrew Cecil: The books could be in the UK; they could be in France. If you are purchasing books in English, it is very likely that they will be in our fulfilment centres in the UK.

Q339 Chair: Thank you. I wish I could say that I am fluent in other languages, but on the whole I purchase books in English. So I buy from, I think, a UK company; I am billed by the UK company; I am billed from the UK-

Andrew Cecil: No, I think you will see that Amazon.co.uk is a trading name for a Luxembourg company, Amazon EU Sarl.

Q340 Chair: I am billed from the UK. I can tell you, that is where it comes from. My bill comes from the UK. Do you want to see one of my bills? I have got them here.

Andrew Cecil: I can assure you, Chair, that you will be billed by a Luxembourg company, albeit we will be applying-

Q341 Chair: So are you telling me that the bills are printed in Luxembourg?

Andrew Cecil: The bills themselves may be printed in one of our fulfilment centres; that is one of the services-

Q342 Meg Hillier: When you say fulfilment, you mean one of your warehouses?

Andrew Cecil: Yes. Apologies, I thought I had sorted that out.

Q343 Chair: So the bills are printed in the warehouses, which on the whole, because I buy English books, are in the UK, and I think I am buying from a UK company. What business is conducted in Luxembourg?

Andrew Cecil: In Luxembourg we have our European headquarters. To give the Committee a sense, we have in excess of 500 people working there. In fact, we are still recruiting very heavily and we expect to add another 100 people to our headquarters in Luxembourg-

Q344 Chair: And how many people do you have in the UK?

Andrew Cecil: Across the UK today, we have about 15,000 employees.

Q345 Chair: The figure we have got is 2,265, to be absolutely precise. That is the figure for people employed here.

Andrew Cecil: If I may, I would like to correct that, Chair. We have in excess of 15,000 people working-

Q346 Chair: 15,000?

Andrew Cecil: Yes.

Chair: My goodness.

Andrew Cecil: If I may continue, Chair, we have just announced that we are actually hiring an extra 10,000 seasonal employees to help us with Christmas.

Chair: Okay-

Andrew Cecil: If I may finish, I have just one final point. Just in September, while we were opening our new warehouse in Hemel Hempstead, we announced that we would be hiring also an extra 2,000 people over the next 12 to 24 months.

Q347 Chair: We are delighted that you are have business in the UK. I was delighted that I thought I was buying from a UK company, which delivered, from a UK warehouse, books that have never appeared in any other jurisdiction. Why are you not paying tax in the UK?

Andrew Cecil: We do pay tax in the UK-

Q348 Chair: Why aren't you paying corporation tax in the UK?

Andrew Cecil: We pay corporation tax in the UK.

Q349 Chair: How much do you pay in corporation tax? 0.2% is the figure I have got, I think-or something like that.

Andrew Cecil: I am happy to say that the accounts of our UK company, Amazon.co.uk Ltd, are publically filed. For 2011, we had revenues of £207 million; we made an after-tax profit of £1.2 million and we recorded a tax expense of £1.8 million.

Q350 Ian Swales: Can we follow the Chair's paper chase a bit further? Clearly, she is has the understandable perception that she is buying from the UK. Can you talk about the invoicing: how that works, how the money flows, and how the money then flows back to the UK for delivery and so on? What are the actual arrangements?

Andrew Cecil: If I may, what I was trying to do at the outset was explain that we are operating a single European company, which is I think to your point. That company is our retail business across Europe, known as Amazon EU Sarl. That is a pan-European business: we have five websites across Europe; we are serving tens of millions of customers across the whole of Europe, as well as sellers.

That is our principal trading company in Europe. The accounts for that company are publicly available in Luxembourg, and I am very happy talk to those accounts.

Q351 Ian Swales: So when the Chair buys her book, the money comes to Luxembourg and you essentially pay a small amount back to the UK to have it delivered. Is that correct?

Andrew Cecil: The company we have in the UK, Amazon.co.uk Ltd, is a service company for group companies including our Luxembourg European headquarters.

Q352 Ian Swales: How is Amazon.co.uk Ltd? What is its income? How does it get its income?

Andrew Cecil: As I mentioned, these are publicly available. They are filed in Companies House. So for 2011, the turnover of Amazon.co.uk Ltd was £207 million. We-

Q353 Ian Swales: From doing what? How did it get £207 million?

Andrew Cecil: That is essentially for providing services in the UK for the Amazon Europe companies-services such as operating the fulfilment centres, which is going to be receiving inventory, picking, packing and then passing on those products to our-

Q354 Chair: How much is declared in Luxembourg of sales into the UK?

Andrew Cecil: To the point, as a European company, what we file in our accounts are our Europe-wide revenues. For 2011, we had Europe-wide revenues of €9.1 billion. If I may, I will give the Committee some other data points there. We made a profit after tax of €20 million on those sales.

Q355 Chair: €20 million on €9 billion?

Andrew Cecil: Yes.

Q356 Chair: Can you answer my question? Out of the €9 billion-it looks like a peanuts profit, so presumably that was all exported to some tax haven.

Andrew Cecil: No, not at all.

Q357 Chair: Oh. Where did it go then?

Andrew Cecil: That is the profit that we make on what-

Q358 Chair: Say it again? On €9-point-what billion, how much did you make?

Andrew Cecil: Chair, maybe just to give you a parallel, I can talk to our worldwide figures for 2011. Our worldwide-

Q359 Chair: No, don't befuddle us with that. We really care about the UK, because we think you are not paying the right tax in the UK. What I am interested in is how much of your Luxembourg business is sales into the UK.

Andrew Cecil: Unfortunately, we have never broken out revenue figures on a country or website basis.

Q360 Ian Swales: You must be joking. Come on, you can't be serious.

Andrew Cecil: We operate a pan-European business. Those are the only figures we have ever broken out.

Q361 Ian Swales: I used to be a finance director of a pan-European business. If somebody asked me, "What do you sell in each country?" I would be fired immediately if I did not have the answer to the question. That's ridiculous.

Andrew Cecil: Those are numbers that we have never disclosed publicly.

Q362 Ian Swales: Will you disclose them privately?

Andrew Cecil: I am very happy, should the Committee wish, to come back and see whether it is possible to disclose them privately to the Committee.

Ian Swales: That is totally evasive.

Q363 Mr Jackson: Did you say that you do not know the sales and revenue in each jurisdiction, or that you do not want to tell the world?

Andrew Cecil: What I said was that we have never publicly disclosed any sales figures for those jurisdictions.

Q364 Mr Jackson: So you do know. You, for instance, make a cost-benefit analysis as to whether it is worth your while investing in capital-say, building a new warehouse at Milton Keynes or wherever. You have a business case for each individual jurisdiction-each region.

Andrew Cecil: We would certainly have a business case for making a large investment, such as investing in building a new fulfilment centre. We are currently looking to build three new fulfilment centres in the UK, and obviously we present a very specific business case on each of those fulfilment centres.

Q365 Mr Jackson: Okay, can I come back from Mr Swales's questions? I am fascinated by this idea that this entity in Switzerland, which in 2010 employed 134 as opposed to 15,000 in the UK, is the engine room of this business, in terms of value and tax liability. What about payroll? Where is the centre of activity in terms of finance and payroll?

Andrew Cecil: If I may just correct that, it is in Luxembourg, not Switzerland.

Mr Jackson: I beg your pardon-Luxembourg.

Andrew Cecil: And it is not 134. We are in excess of 500 people today, and we are hiring.

Q366 Mr Jackson: Okay, 500, as opposed to 15,000. Where is finance and payroll for the UK business?

Andrew Cecil: All the strategic functions for our business in Europe are based in Luxembourg. That could be our retail business, our third-party business, our transportation teams, our customer service, HR, finance-

Q367 Mr Jackson: But where is finance and payroll for your UK operations? Where is human resources and web design for your UK operations?

Andrew Cecil: Maybe I can come to that. Working for Amazon.co.uk Ltd, we also have people looking at those issues supporting the European company.

Q368 Mr Jackson: That is a very circuitous answer to a straightforward question. We are following a sort of audit trail here with a book. The book is billed from the UK; it is packed from the UK; it is bought in the UK from a domain name that ends with .co.uk. We are talking about the value added to the business: is it in the UK or is it overseas? And I am asking you: are the support functions for that business in the UK?

Andrew Cecil: The employees of the UK entity are basically working for Amazon.co.uk, and they are being rewarded for that in the revenue figures of the UK company.

Q369 Mr Jackson: So, if I'm Joe Bloggs and I want a job driving a forklift truck at the Milton Keynes warehouse, who interviews me, who processes my application form, and who ticks my diversity form to get a job with you? Is it in Europe, or is it in the UK?

Andrew Cecil: I am not familiar with the details of that, but I can certainly find out exactly how it would work. I don't know how that would be for a specific applicant.

Q370 Mr Bacon: You don't know?

Q371 Chair: If you employ someone in the UK, do you go through the recruitment process in the UK or in Luxembourg?

Andrew Cecil: If you are working for the UK company, you would clearly go through the recruitment process with the UK company.

Q372 Mr Jackson: And who pays those people in terms of their monthly salary?

Andrew Cecil: That is paid by the UK company.

Q373 Mr Jackson: Okay, so we've got recruitment, payroll, finance and HR all in the UK.

Andrew Cecil: I don't think that is a fair representation. On a Europe-wide basis, all these functions are led by people who are physically based in Luxembourg, working for the UK company.

Q374 Mr Jackson: But they don't go for the job interview in Luxembourg, do they? If you are driving a forklift truck and shifting books in Peterborough or Milton Keynes, in the warehouse-

Andrew Cecil: You would be going for the job interview with the UK limited company, because that would be who your employer would be.

Q375 Mr Jackson: Which leads one to believe that that is where, essentially, the core activity is, in generating the wealth.

Andrew Cecil: No, I disagree, again. We are operating as a pan-European business so, for example, that person working in the fulfilment centre in the UK might actually be shipping products that are purchased off our French website by a customer in Belgium. It is very important for the Committee to understand that that is how we operate as a business.

Q376 Mr Bacon: You have already said that if they are buying an English book in English in the UK, it is most likely that that will be fulfilled from a UK warehouse. Presumably the same is true for a French book in French published by a French publisher and sold in France to a French buyer, isn't it?

Andrew Cecil: There are two points I would make. When Madam Chair ordered her book on Amazon, one of the things we were obviously keen to do was to deliver it to her as quickly as possible, so for English books, we stock many of them in our fulfilment centres in the UK, exactly so that we can offer same-day delivery to our customers-

Q377 Mr Bacon: I think we all understand that if you tried to fulfil for Mrs Hodge from your fulfilment centre in Tierra del Fuego, it would take a lot longer. What we are really trying to get at, and I think what Mr Jackson is trying to get at is: where is the underlying economic activity, the components of which create what we all know as added value and which eventually creates value added tax-or would if it weren't books. It seems from your answers that the answers to those questions are, "in the UK." You said that the people who work in the UK are employed by Amazon.co.uk Ltd, and they are paid by that company, presumably with money that that company has in the UK. Is that correct?

Andrew Cecil: It is revenues that that company makes.

Q378 Mr Bacon: In the UK?

Andrew Cecil: No, let me make it clear. The revenues, for example, from Madam Chair's purchase of the book are revenues that accrue to Amazon EU Sarl, not to the UK company.

Q379 Mr Bacon: If I am Mr Jackson's forklift truck driver in Milton Keynes and I am working each month and I get paid my salary at the end of the month, that money goes into my British bank account. Where does it come from? Does it come from a British bank account, controlled by Amazon? Yes or no?

Andrew Cecil: I can confirm to the Committee, but I am almost certain it will come from Amazon.co.uk Ltd.

Q380 Mr Bacon: So does it come from a British bank account controlled by Amazon?

Andrew Cecil: Yes.

Q381 Mr Bacon: So it is not the case that the people in Luxembourg have to wire over some money each month to pay this chap's salary. It is sitting in a UK bank account controlled by Amazon and that is where the money originates-starts its journey-that ends up in the forklift trucker's bank account?

Andrew Cecil: Amazon.co.uk is a service company in the UK providing services to Amazon EU Sarl for which it receives payment.

Q382 Chair: The Comptroller and Auditor General will ask some questions now.

Amyas Morse: Just a couple of quick questions. The quite low turnover in the UK is because the way you have it set up is that the UK company provides services and its customer is the European company for those services. Is that right?

Andrew Cecil: One of the group.

Amyas Morse: Okay. They send their invoice to Luxembourg and get paid and that is where the money that goes into the bank account more or less comes from. They do not have ownership in the books?

Q383 Chair: I pay in pounds, actually.

Amyas Morse: I know. I am just trying to get bank details. So the services that this UK company is doing are essentially handling services. They don't actually own the book at any point.

Andrew Cecil: No, the UK company does not own the inventory.

Amyas Morse: I am only saying that for clarity. Now, my second point, if I may bring you back-I am sorry-because I heard the discussion, is that you know perfectly well what sales are happening everywhere in Europe, otherwise you couldn't possibly run this company, the advertising or anything else, so if you are not giving that information it is because you choose not to. That is right, isn't it?

Andrew Cecil: No. Let me stress, we are operating on a pan-European basis-

Amyas Morse: But you know the information. You cannot possibly pretend-and it is really quite annoying to listen to-that you can possibly be running a strategy in Europe and not know your territorial profitability. You are doing advertising. You are putting up warehouses on the assumption of sales volume. Come on, it is actually quite insulting to everybody's intelligence to say that you don't know what sales volumes are going to be in the territory. That is just not feasible as an argument. You cannot possibly advance that. I don't think anyone who knows anything about business would accept that line.

Andrew Cecil: As I said previously, it is not numbers that we do disclose but I am very happy to go back to the company and see whether we are willing to-

Q384 Stephen Barclay: Can I just check that you are telling the C&AG that you don't disclose country-specific data to the SEC? In your filings to the SEC you don't put, for example, what UK earnings would be?

Andrew Cecil: I am not aware that we have that in our ICC filings.

Q385 Chair: What we are getting at in these conversations is that your entire economic activity is here in the UK. I even pay in pounds-it never comes off my bank account in euros. Your entire activity is here, yet you pay no tax here, and that really riles us. It riles us.

Andrew Cecil: Can I clarify? We do pay corporation tax. Our accounts for Amazon.co.uk are-

Q386 Chair: A tiny bit in relation to-you won't tell us your sales. A tiny bit.

Andrew Cecil: The other thing I would also highlight is that we have paid in excess of £100 million in payroll taxes in the last five years. We have paid tens of millions in business rates in the past five years.

Q387 Chair: I have heard this argument before. Let me just kill this argument because it really makes me cross. On the one hand, so does every other business. The community-based bookshop that you are putting out of business also pays business rates, also pays its PAYE, and probably pays VAT in a way that you don't. You are making it uncompetitive. The other thing is that you depend on the services that come out of the tax you pay: you depend on the ability to get your goods around, so you have to get the roads in place-you depend on all those things. Probably worst of all, you and Mr Alstead employ people on, probably, minimum wage, if we are lucky, and then we, the taxpayer, pick up the tax credit bill for that too. We are putting a lot of money back into the people you employ, and you are not putting enough tax back into our economy. That is what is riling us all. Sorry, I shouldn't have done that. Austin.

Q388 Austin Mitchell: No, I thought that was quite good. I have to say, Mr Cecil, I am a satisfied customer. I love the service you provide when you write to me and say, "Having bought this biography of John Major, you may also be interested in 'Fifty Shades of Grey'." But like the Chair, I am interested in why you pay so little tax-particularly corporation tax-in this country. If you paid more, we could pay some kind of benefit to all the booksellers you have put out of business. Undoubtedly, you have put a large number of booksellers, including some local ones in my area, out of business.

I do not get from this interview why Luxembourg is so lucky-the books are here, the warehouses are here, the billing is here, the business is here and the customers are here. There are, on our figures, 134 staff in Luxembourg, and 2,266 in the UK. According to Richard Murphy of Tax Research UK, in 2010, £122.8 million of profit was generated in the UK, and £2.2 million in Luxembourg, but you pay tax in Luxembourg and not here. I put it to you that that is really because you can offset a lot more costs against tax in Luxembourg. In 2010, the figures seem to show that £7.56 billion of profits were offset against £7.4 billion of charges, so, effectively, you were escaping pretty well scot-free in Luxembourg. That is why you're there, isn't it? That is why we have all this business about favouring Luxembourg.

Andrew Cecil: May I address the various points one by one? First, I would like again to refute that we are putting booksellers out of business. What we are seeing is that the internet retail industry is bringing huge benefits to consumers across Europe in terms of price, in terms of selection and in terms of convenience, and we are very much focused on continuing to invest to make sure that consumers can benefit from internet retail.

On the figures you quoted, I really do not know where they have come from, so I cannot comment on that. As I said earlier, our accounts, both for Amazon.co.uk Ltd and Amazon EU Sarl are publicly available. I would be very happy to provide the Committee with a copy of those. I would like to confirm that we do pay corporation tax in the UK, and we also pay corporation tax on any profits we make for Amazon EU Sarl. I think that covers most of the points. I do not know whether I have missed any.

Q389 Stephen Barclay: Who owns the Luxembourg company?

Andrew Cecil: Luxembourg is owned by a holding company, which is a subsidiary of our group companies.

Q390 Stephen Barclay: Where is that located?

Andrew Cecil: The holding company is also in Luxembourg.

Q391 Stephen Barclay: It is also in Luxembourg. That seems a slightly artificial arrangement, doesn't it?

Andrew Cecil: I am not familiar with the details of the holding company, but I would be very happy to come back to the Committee.

Q392 Stephen Barclay: So what is the effective tax rate that you pay in Luxembourg?

Andrew Cecil: Worldwide-I have the figures here-

Q393 Stephen Barclay: No, in Luxembourg.

Andrew Cecil: I would need a calculator. I apologise. For 2011, our net profit after tax was €20 million, on revenues of €9.1 billion.

Q394 Stephen Barclay: Sorry, can you just say that again? In Luxembourg, your profit was €20 million.

Andrew Cecil: Our revenues across Europe for 2011 for Amazon EU Sarl were €9.1 billion. Our profit after tax was €20 million. The tax expense-

Q395 Nick Smith: Did you say that your profit after tax was €20 million?

Andrew Cecil: Maybe to that point, I would point out that we are investing very significantly not just in the UK but across Europe, which may be reflected in these numbers.

Q396 Stephen Barclay: Do you have preferred equity certificates, then, in Luxembourg?

Andrew Cecil: I wouldn't know. I am very happy to find out and come back to you. Maybe I can finish on the point that the tax we paid-and this is a tax expense recorded on our accounts for 2011-

Q397 Stephen Barclay: What I am interested in is how you are stripping out the profits in Luxembourg, because that is the impression. If it is €9.1 billion going to €20 million that suggests that you are stripping out the profit in Luxembourg. Who owns the holding company?

Andrew Cecil: I will need to come back to the Committee on that.

Q398 Stephen Barclay: So the profit is going into a company, and is then going to a holding company. What about the title and goods from affiliates or third parties-

Q399 Ian Swales: Sorry, that is another unacceptable answer. You are telling us you don't know the corporate structure of your company. Really?

Andrew Cecil: I do know the corporate structure of the European company. I work for the European company. I would be happy to come back.

Ian Swales: All we need to know is who owns the holding company.

Q400 Mr Bacon: You are the director of public policy. It is incredible that you wouldn't know who owns the holding company. It is just not credible.

Andrew Cecil: I am very happy to come back to the Committee.

Mr Bacon: Well, you can tell that we are not happy.

Q401 Chair: Do you know who owns it?

Andrew Cecil: No. I will come back to the Committee with an answer.

Q402 Chair: Do you know who owns it?

Andrew Cecil: No, I personally do not know-

Q403 Chair: Do you know who owns it?

Andrew Cecil: No, I don't.

Q404 Stephen Barclay: But it is where the money goes, isn't it?

Q405 Chair: Isn't there someone behind you? Haven't you brought advisers with you?

Q406 Stephen Barclay: Well, we have probably got another 40 minutes or an hour to go. I am sure one of your advisers could go and make a call, and come back to us in 10 or 15 minutes, with the Chair's permission, with the answer. It can't be too difficult to phone head office and find out who owns it, can it, Mr Cecil?

Andrew Cecil: I will certainly provide that information to the Committee.

Q407 Stephen Barclay: So we can have that before we close today? That would be useful. What I am interested in, really, is where the profit is going and how it has been stripped out. Can we look at it in a different way, through title and goods from third parties and affiliates-can you talk through how that is handled?

Andrew Cecil: Again, I am not quite sure what you are specifically talking about. It is very clear what our revenues are, what our profits are and what tax expense we have accounted for across Europe. The inventory of goods that are in our fulfilment centres across Europe belongs to Amazon EU Sarl and does not belong to the local entities that we may have across Europe.

Q408 Stephen Barclay: So why is the UK not a branch?

Andrew Cecil: I am not a detailed tax expert on that question, but again I would be very happy to come back to you.

Stephen Barclay: Because it is a tax issue-it is not a business issue. It is about getting the structure of the tax bill.

Q409 Nick Smith: Let me ask this question again. Of the €9.1 billion of European sales in 2011, what were your sales in the UK in 2011?

Andrew Cecil: If I may, I will give the same reply to the Committee-I will come back to the Committee and if it is possible to disclose that figure I will disclose it.

Q410 Mr Bacon: Could you say that again?

Andrew Cecil: I will come back to the Committee. I will see whether it is possible to disclose that figure. We have not disclosed those figures, ever, publicly, either on a country basis or a website basis.

Q411 Stephen Barclay: Why is it so confidential what your earnings are by country? I might be missing something, being a generalist, but what is the secret that pertains to country-by-country data?

Andrew Cecil: This is how we have disclosed our financial data over a number of years now. We have never broken out revenues on a country basis.

Q412 Chair: What are you hiding?

Andrew Cecil: We are not hiding anything, Chair. As I said, I am very happy to come back to the Chair on a confidential basis and see whether it is possible to disclose that.

Q413 Nick Smith: That, Mr Cecil, is the most ridiculous answer I have heard in months and months on this Committee. That is just pathetic. Of the €9.1 billion sales you made in 2011, you have said that you made €20 million after tax. What did you make before tax?

Andrew Cecil: I would assume-again, I don't have the figures-that, as we had a tax expense that was around €8 million, that we made a profit of the two combined. But I would need to check.

Q414 Nick Smith: So you made a profit of €30 million on revenue of €9 billion? Is that what you are saying?

Andrew Cecil: No, what I am saying is we made an after-tax profit of €20 million on that specifically.

Q415Nick Smith: What was your profit before tax?

Andrew Cecil: Before tax-I do not have that specific number there, but I am happy to provide it to the Committee.

Q416 Chair: Mr Cecil, you don't have anything. Honestly, you have come to us with absolutely no information. What is your job?

Andrew Cecil: I am director of public policy for Amazon across Europe.

Q417 Chair: Well, I think what we are going to have to do is order somebody to come who can give us answers to the questions we ask. We will order somebody to appear before us who does that. It is just not acceptable. I don't know what you take us for, but we need proper answers to perfectly proper questions, which are trying to establish the economic activity in this country, and therefore what would be a reasonable corporation tax due. That is our job. The idea that you come here and simply do not answer the questions, and pretend ignorance, is just not on. It is awful.

Andrew Cecil: Chair, I am very happy to provide the Committee with any responses to these questions.

Q418 Chair: No. I cannot believe you have come without the information-or they have deliberately sent you. We will order somebody who can answer the questions, in public.

Q419 Stephen Barclay: What do you publish regarding the holding company? What data do you publish?

Andrew Cecil: Again, I would have to come back.

Q420 Stephen Barclay: That is where the money is going. The money is going from one Luxembourg company into the holding company, and what we want to try to get visibility on is the flow of money from that company into the holding company. It does seem remarkable you do not know who owns it, or how much money it is getting.

Andrew Cecil: I don't have it in front of me, but I will make sure that we provide those to you.

Chair: Dear, dear. Well, we will have to come back to this. I am just going to go through colleagues, quickly, and then we will go to Google, and then we have got some general questions. Fiona and Ian, you can have a chance.

Q421 Fiona Mactaggart: Mr Cecil, one of the things I am struck by, here, is that you have a lot of satisfied customers, who are not trying to do Amazon down. It is in my constituency-what I thought was the headquarters of the company, which allegedly is in Luxembourg, but nevertheless; when I have been taken round by Brian McBride, and his successor, Christopher North, I was not told that this is a Luxembourg-based company. I was told, "Here we are, developing lots of products." It did not sound to me like an operation which ran fulfilment centres-i.e. warehouses-all round Britain. It sounded to me like a company which was kind of being grown here, which got its ideas here, which made the bulk of its sales here. Are you saying that they misled me?

Andrew Cecil: I was not with Mr McBride. I am sure Brian would never have misled you. As I said, we are operating on a single European company basis. We do have Amazon.co.uk Ltd, which operates the fulfilment centres, and obviously in your constituency we have our corporate headquarters for the UK. We are delighted to be there, and employ hundreds of people.

Q422 Fiona Mactaggart: Do you understand why we think, particularly when we are not able to get detailed answers from you, that a company which has 30 times as many employees in the UK as in the place where it is allegedly headquartered, which developed itself in the UK-I remember when the first picking centre was in Slough-and which developed a growth in the UK which has outstripped, I think I am right in saying, other European markets: do you understand why we think that there is a deliberate structuring of the company to pretend that the UK is just an operation which is warehousing and sending, and not in any way an engine of this company? Do you understand why we are suspicious? Because we are-although we are happy customers.

Andrew Cecil: Again, let me make it very clear. The fact that we are running a pan-European business actually has huge benefits to customers, to sellers and to our suppliers. Let me give you a couple of examples. With a supplier, we will list their product; we will source from a pan-European basis. Rather than just list on the UK website we will list on all our websites-the UK website, the French website, the German website, the Italian website and the Spanish website. That is the way we are driving greater reach, greater sales-

Q423 Fiona Mactaggart: But you have just said to us that you cannot tell us how much sales each of those websites generate.

Andrew Cecil: Because customers can shop off any of those websites. They don't need to shop off the UK website.

Q424 Fiona Mactaggart: Absolutely. I understand that; and when I am buying Christmas presents for my relatives in America I shop off the American website. I completely understand that; but each website must know what profits it returns, or what sales it returns, because frankly we think that you manipulate your profits, and that they are a separate thing to your sales. You do not seem to be able to tell us either what sales each website returns or what profits each website returns. Those are two questions that, had I been coming before this Committee, I would have known the answer to.

Q425 Chair: Mr Cecil, I think you are not serious-they have sent you up as a sort of I don't know what. You are not serious here.

Andrew Cecil: Not at all.

Mr Bacon: That's right, not at all.

Andrew Cecil: I mean, I disagree with you, Chair.

Q426 Chair: It is outrageous. We are a very busy Committee but we will ensure that you answer. First, we want an answer to the question-

Andrew Cecil: I will provide answers to all the questions.

Chair: No, we want an answer this afternoon to the question about the holding company. Secondly, we will expect a serious person to appear before us. We will order them, and do that as soon as we can after recess, probably on a Thursday morning. Right, now Google. Sorry, did you want a go, Ian? I just do not think you will get anything out of it.

Q427 Ian Swales: I might not, but it will be interesting to hear. One area we have not touched on at all so far is VAT. There is no VAT on books, but Amazon sells plenty of other things and it is killing lots of retailers in other fields-we have just seen Comet go under-so can you tell me what VAT I pay if I buy an electrical item from Amazon? What rate of VAT?

Andrew Cecil: Let me address the point about our competitors. We strongly believe that internet retail is highly beneficial to consumers.

Q428 Ian Swales: I am not against internet retail, by the way, it is whether it is a level playing field.

Andrew Cecil: On consumer electronics products, which was your question, for a sale to a customer in the UK we apply the standard UK VAT rate, and that would be collected on behalf of the UK Government.

Q429 Ian Swales: Even though I am buying from a Luxembourg company. So how was it that two weeks ago you were pulled up for selling online books and only charging 3% VAT? Even though you were charging British publishers 20% VAT, you were then only charging 3% VAT-you were using the Luxembourg tax rate to sell those. Is that something you do across other product lines, or was this a one-off?

Andrew Cecil: I think you are referring to consumer electronics versus e-books. For e-books-

Q430 Ian Swales: I am talking about VAT.

Andrew Cecil: Yes, the VAT applicable to consumer electronics versus e-books. For e-books, by law we are required to apply the Luxembourg VAT rate on e-books, because we are a Luxembourg-based company-which we do, which is 3% VAT.

Q431 Ian Swales: So anyone in the UK selling e-books who has to charge 20% has a massive disadvantage against yourselves.

Andrew Cecil: We think e-books is a very nascent, growing market segment-it is highly, highly competitive. There are many providers, both of devices and of content, out there-

Q432 Ian Swales: How did you feel about the EU ruling that said you had to increase it, that Luxembourg was not allowed to do this any more? It has been given 30 days to increase the rate to 15%. How do you feel about that?

Andrew Cecil: I cannot comment on a ruling of the Commission. I think that what we would say is that, from our perspective, we firmly-

Q433 Chair: By November you have to decide whether you are going to challenge it. Are you challenging that ruling?

Andrew Cecil: Sorry, Chair, I do not think that we are challenging the ruling, Amazon is not a party to these proceedings. What I would say is that we firmly believe that a book is a book, regardless of-

Q434 Ian Swales: The one thing you are in charge of-it is obviously not finance-is public policy, but you do not know whether you are going to challenge an EU ruling. Is that not a public policy matter?

Andrew Cecil: I do not think that you can challenge such an EU ruling-I am not aware that that is actually possible.

Q435 Chair: Are you being investigated, by the way? Is Amazon being investigated in a number of jurisdictions, as we speak? Your tax affairs?

Andrew Cecil: We are audited-very standard practice-in a whole range of jurisdictions-

Q436 Chair: Are you being investigated in the USA?

Andrew Cecil: No, I cannot comment on specifics.

Q437 Chair: You cannot comment, or you are or you are not?

Andrew Cecil: As I said, we are regularly audited in a number of jurisdictions-

Q438 Chair: Are you being investigated-that is my question-in the USA?

Andrew Cecil: I cannot comment on any specific investigations.

Chair: You do not know-

Andrew Cecil: No, I cannot comment-

Q439 Chair: Are you being investigated in China?

Andrew Cecil: I cannot comment. I am sorry, Chair, I am not very familiar with-

Q440 Chair: You are public policy, you might know this: are you being investigated in China?

Andrew Cecil: I am not aware of any investigations against us in China.

Q441 Chair: Are you sure that is the truth?

Andrew Cecil: Personally, I am not aware-

Q442 Chair: Are you being investigated in Germany?

Andrew Cecil: I am not aware of any investigations in Germany.

Q443 Chair: Are you being investigated in France?

Andrew Cecil: We have publicly declared in our most recent findings that we have received an assessment from the French tax authorities and we dispute that assessment.

Q444 Chair: You are. In Japan?

Andrew Cecil: I am not aware of whether that is so, personally.

Q445 Chair: In Luxembourg?

Andrew Cecil: No, not as far as I am aware.

Q446 Chair: Okay. Let's move on to Google. Mr Brittin, what is your job?

Matt Brittin: I am vice-president for Google in northern and central Europe, which comprises the wetter countries of Europe.

Q447 Chair: That includes the UK?

Matt Brittin: Yes, most definitely.

Q448 Chair: I have found the Google situation most difficult. I have had to create drawings for myself to understand how the Google intra-company system works. As I understand it, 92% of all sales outside the USA are billed in Ireland. Is that right?

Matt Brittin: I am not sure if is 92% but the vast majority of sales outside the US will be billed in Google in Ireland. That is correct.

Q449 Chair: Why?

Matt Brittin: First, let me say that we pay the tax we are required to pay in every country in which we operate, including the UK.

Q450 Chair: Well, it depends where you choose to put the business, doesn't it? That is what this afternoon is all about. It depends where you choose to put the business.

Matt Brittin: Given that we are talking here not about a business that makes money from its consumers but about ones that makes money from business-to-business advertising, perhaps I can quickly talk about how Google is set up.

Q451 Chair: People do that to avoid the questions actually.

Matt Brittin: Certainly not.

Q452 Chair: It seems to me that we have Google UK, which acts as an agent to Google Ireland Ltd, if you look at my little picture.

Matt Brittin: I can't see your drawing.

Q453 Chair: It doesn't matter but it is about that. Google UK acts as an agent for Google Ireland Ltd. Corporation tax in Ireland is 12.5%. Is that right; am I correct?

Matt Brittin: I will try to answer your first question first. When Google became popular outside the US, we set up in Ireland to serve the whole of the European Union under the single European market.

Q454 Chair: Why Ireland?

Matt Brittin: We chose Ireland for a range of reasons, one being that it has a competitive rate of corporation tax. We pay 12.5% there. Other reasons include a skilled labour force in technology; Microsoft, Oracle and others were there. Property and other costs for our staff are also lower than, for example, in central London. Ireland is the base of our operations for Europe. It has data centres and we have invested tens of millions of euros in space, equipment and people in Ireland. Everybody who buys advertising from Google-because that is how we make our money-buys advertising from Google in Ireland. That is in just the same way as any company can set up to trade within Europe.

Q455 Chair: Okay, I understand that; thank you for that clear answer. Google Ireland Ltd pays a fee to Google Netherlands Holdings BV.

Matt Brittin: Shall I talk about Google UK, which was your second question, and then I can come to the rest of it? In the UK, Google has a business, Google Ltd. It had a revenue last year of £396 million and we paid corporation tax of £6 million on that business. It made an accounting profit of £31 million. So we pay corporation tax in the UK. Over the past three years that business has grown significantly as we are a relatively young business, so we have grown. What the people in the UK do is provide services that are charged to Google Ireland. Those services are principally around promoting our products and making sure they work in the UK for UK consumers. What is different about Google versus the other businesses you have been talking about, is that we are not selling books or making coffee.

Q456 Chair: You're selling advertising space.

Matt Brittin: For the services we provide, the consumers are based on the computer science that drives search and other technology such as Google Maps and so on. That is all done in California: clearly, innovations that have never been seen in the world before, in terms of computer science that allows you to search the internet.

Q457 Mr Jackson: But the UK adverts are specific to UK search engines, aren't they?

Matt Brittin: Yes. Perhaps I can explain briefly how it works. If you are a consumer in the UK-a mother in Merseyside looking for a birthday present for a daughter-you search for cool bags on Google UK site. It is a UK site in that the content you see is more focused on the UK than if you were searching on the global site. You might find an advertisement in there, one of the blue links that says ads from the Cambridge Satchel Company. That would be one of our customers and that customer would pay only if you were to click on the link and go through to the site that, in that case, is trying to sell you a satchel.

That allows people on the business side to target people who are searching on google.co.uk or Google France or Google US or any other geography against particular words. The advertiser pays only when a consumer clicks on what they have chosen to do. One reason for operating in Ireland is that many of our customers in the UK want to reach consumers all around the world, and in Ireland we have more than 3,000 people speaking 50 different languages, and helping businesses in Europe to connect with consumers in Europe and across the world. That is why we are organised in that way.

Q458 Chair: But the ad that you see in the UK-this is an important point because it is back to trying to see the economic activity in the UK-is different from the ad you would see in the Netherlands.

Matt Brittin: If you were the Cambridge Satchel Company, selling satchels, and you chose to target someone who types in "satchels" in the Netherlands, they would see an ad for those satchels in the Netherlands.

Q459 Chair: But you sell UK-specific advertising space, which will be seen by all of us.

Matt Brittin: Yes, it is possible for any company, anywhere in the world to advertise to a UK user-

Q460 Chair: Do you have people in the UK selling your advertising space?

Matt Brittin: Anybody who buys advertising from us in Europe buys from Google in Ireland from our expert team-

Q461 Chair: Where are they based? Do they go door to door, knocking? Presumably there is a marketing sales team that goes round trying to sell advertising. Where is it based-in Ireland?

Matt Brittin: It is an internet-based business, so most of our customers transact online or on the telephone with experts in Ireland. We have people in the UK. For the accounting year I mentioned-the last year we filed-we had 1,300 people in the UK, and that is now up to about 1,500.

Q462 Chair: Who sell advertising space in the UK.

Matt Brittin: They do a range of things promoting our products. Some of them work with businesses, because businesses want to be educated by Google about the internet and its opportunities. Businesses can use a range of things from Google, including free tools. Google Analytics is one that helps people to understand how their website works. If they want to buy advertising from us-they are encouraged to do so by our people in the UK-they will buy it from our expert team in Dublin.

Q463 Chair: Can you answer this? Of your 1,200 people, was it, in the UK-

Matt Brittin: There were 1,300 last year, and more now.

Chair: How many are in the sales force, and marketing?

Matt Brittin: Nobody is selling or promoting the products, but they are definitely encouraging people to spend money on Google. No one is buying from them.

Q464 Chair: Who is selling into the UK market? Who is doing the selling? Who is trying to encourage people to advertise on your search engine?

Matt Brittin: There are people in the UK-

Q465 Chair: Doing that. How many?

Matt Brittin: Of the 1,300 last year, I think about 700 were marketing and digital consultancy people, and some of those, but only some, were working with customers.

Q466 Chair: How many are selling from Ireland into the UK? How much money?

Matt Brittin: We have 3,000 people in Ireland. They do a range of different things.

Q467 Chair: How many are selling from Ireland into the UK?

Matt Brittin: A couple of hundred-something of that order.

Q468 Chair: So 700 in the UK and a couple of hundred in Ireland.

Matt Brittin: But the 700 in the UK include people who do things like make all the consumer products work-maps and everything else that has to work in the UK market.

Q469 Chair: So there is economic activity.

Matt Brittin: But the bigger thing here is that all the technology that creates the economic value, and all the innovation that powers Google search, comes out of California.

Q470 Chair: This is your loyalty stuff. I am coming to that.

Matt Brittin: No, it is not loyalty, Madam Chairman.

Q471 Chair: I am trying to get where the economic activity is.

Matt Brittin: I am just trying to explain that.

Q472 Chair: You very helpfully told us that about 700 people sell into the UK-marketing people-compared with 200 in Ireland. What I do not understand is that the Irish guys pay a fee to Google Netherlands Holdings BV. Is that to save withholding tax?

Matt Brittin: There was an arrangement in place to do that, but I understand that it is no longer necessary.

Q473 Chair: But was it put in place to save withholding tax?

Matt Brittin: That is my understanding.

Q474 Chair: It was. Thank you. That is a very direct answer, and the first we have had today. But it is no longer necessary. Does it therefore go to Google Ireland Holdings?

Matt Brittin: That is correct.

Q475 Chair: Which is registered in Ireland but administered from Bermuda.

Matt Brittin: That is correct.

Q476 Chair: So if that happens, your profits go to Bermuda. How much is sitting in Bermuda?

Matt Brittin: I do not know the number, but it is true that Bermuda is part of our operations, and the reason is that when an international company sets up operations outside your domestic market, which in our case is the US, you look for where to locate your operations. Within the European Union, we chose to locate in Ireland, for the reasons I have explained, but you also need to protect your intellectual property, and to set up operations in countries around the world to do that. We have an entity in Bermuda to do that.

Q477 Chair: What I appreciate is that you have openly told us that you chose Ireland and then Bermuda because they are both low-tax, if not no-tax.

Matt Brittin: That is right. As a multi-national company, we have a duty-

Q478 Chair: What really gets the UK ordinary punter out there who uses Google day in, day out is that they contribute to your business. There is economic activity-I use Google, and all of us round the table use Google. They contribute to your profits but see no proper, fair contribution from you to corporation tax. That is the thing that bugs us all.

Matt Brittin: I understand, but I think it is a misunderstanding. We pay corporation tax here-

Chair: A tiny bit.

Matt Brittin: May I try to answer? We pay corporation tax here on the activity that our people here do. But, if you think about Google, it is technology. The 17,000 engineers in California who build and continue to invest in developing the technology create the economic value for Google.

Q479 Chair: What does Bermuda create?

Matt Brittin: Let me explain. What creates economic value for Google is the technology and the computer science. Hopefully, people understand that, because it is pretty magical to be able to search the entire web in seconds and get answers fast. That is what we continue to invest in.

Q480 Chair: So, what does Bermuda create?

Matt Brittin: Let me just explain. So, that is how we create the economic value. Tax law suggests that you need to pay tax where the economic value is created, and we believe that that is there. In the case of the economic activity in the UK, which is about helping people to understand how to use the internet and products and services, we have looked at how best to establish what we should pay for the services that are provided by people in the UK. The way we come to a conclusion on that is, if we went outside and hired other firms to do those kinds of things, what would we pay there? That is how we have set up our cost structure.

Q481 Chair: What does Bermuda create?

Matt Brittin: In Bermuda, we have an entity that holds the rights to our intellectual property, and you can tell it is a very intellectual property business-

Q482 Chair: But I thought you just told us that the intellectual property is all in California?

Matt Brittin: I was trying to finish the sentence, which is, the intellectual property rights for outside of the US, for the licence-

Q483 Chair: But the research and development is all in California.

Matt Brittin: That is right, but we, like any company, are required to do two things. One is to play by the rules, and when you set up internationally, you need to make decisions about how to protect your intellectual property and how to organise. Secondly, we are required to manage our costs efficiently in order to satisfy our shareholders. And our goal as a company is to-

Q484 Chair: So you are minimising your tax even though it is unfair to British taxpayers.

Matt Brittin: It is not unfair to British taxpayers. We pay all the tax you require us to pay in the UK. We paid £6 million of tax last year-

Q485 Chair: We are not accusing you of being illegal; we are accusing you of being immoral.

Matt Brittin: It is not a matter of personal choice.

Q486 Stephen Barclay: In terms of your US filings, do you do what tax accountants refer to as check the box?

Matt Brittin: I am afraid that I am not a tax accountant. My job is to run the business in Europe-

Q487 Stephen Barclay: But it goes to the heart of how passive income is dealt with, doesn't it? Because the Bermuda operation is dealing with your intellectual property rights outside the US-that is correct, isn't it?

Matt Brittin: Yes.

Q488 Stephen Barclay: And, as you also said, this is a US company.

Matt Brittin: Google Inc. is a US company, that is correct.

Q489 Stephen Barclay: And, like you, I am not an expert in tax affairs-far from it-but as I understand it, there are rules in the US in terms of the treatment of income earned by a US group outside of the US, are there not?

Matt Brittin: I am sure there are. I am not an expert. I focus on the UK and Europe-

Q490 Stephen Barclay: Again, like with Mr Cecil, it goes to the heart of the issue, because, if I understand it correctly, what we have is a choice of location in Ireland because there is a low corporation rate-the Chair alluded to a debate about to what extent business is done in Ireland and to what extent it is done in the UK-but then there is the more interesting question about what happens to the money from Ireland. As I understand it, that is going to Bermuda, and the question in my mind is why is that not being captured from a US tax perspective? The phrase that was suggested to me is that there is a way, in terms of US filings, that one can get around this, which is referred to as "checking the box", hence my question.

Matt Brittin: I am not familiar with the phrase you mention. I can assure the Committee that the tax that we pay in the UK, and how we operate in Europe, has nothing to do with those arrangements outside. The tax we pay in the UK is a function of the activity that people do in the UK that is in line with UK law, and the way we operate around the world is in line with the law in every jurisdiction in which Google operates.

Q491 Stephen Barclay: No one is suggesting that you do not operate in-the CAG has expertise on this, so he may want to come in. Amyas?

Amyas Morse: Thank you. I only wanted to say that I have some familiarity with Bermuda, and I am sure that it is a good place to protect intellectual property rights, but the primary reason that people locate companies in Bermuda is because it is a low-tax area-that is right, isn't it? So what you are doing is rolling up royalties in Bermuda, a protected tax zone. That is not illegal, but the fact is, if I compare this to the discussion we had with Starbucks, they said that, in their tax policy, they do not use offshore tax havens but you do; that is part of your strategy. I am just pointing out that it is somewhat different. That is fine. So you are rolling up money in Bermuda. Do you remit that by dividend to the UK or are you just piling it up in Bermuda?

Matt Brittin: No. The tax we pay in the UK is a function of the activity that we do in the UK and our accounts are published-

Amyas Morse: I know, but I am asking about Bermuda.

Matt Brittin: Absolutely. All I can say is that the tax that we pay in the UK is nothing to do with affairs of Bermuda or anything else. It is entirely influenced by the way we set up in Europe, with one centre in Ireland to serve everybody. The activities that we do in the UK-similar to other countries in Europe that are not Ireland-are similarly compensated and structured, so the people on the ground are helping people make the most of the web and the people in Ireland are helping to operate the systems and sell advertising to the businesses that want to work with us. That is how operations are set up, and that is personally what I focus on.

Q492 Chair: Mr Brittin, you have been really helpful and I appreciate that, but this session was about tax. I think you knew that before you came, so it is slightly odd-again-that we have got a witness who does not understand tax. Have you got people behind you who do?

Matt Brittin: I was personally requested, by name, to come to the Committee.

Q493 Chair: Were you? Not by us.

Matt Brittin: You did. You asked for me personally and I actually had to reschedule, because I was in Germany and so I came especially for this.

Q494 Chair: Okay. Can we just get an answer to this question that I think Stephen asked: are there any check-the-box elections made below Bermuda for IRS purposes?

Matt Brittin: For the third time, I don't know what that phrase means. I'm sorry; I'm not a tax expert and I don't focus on the US. What I can do is find out and share with you afterwards. That's all I can do.

Q495 Stephen Barclay: In essence, it's the revenue that's coming in to Bermuda and how that is being treated from a tax perspective.

Matt Brittin: I will happily answer, but I will have to have someone else do it for me.

Q496 Ian Swales: I was quite amused, actually, that the first briefing that I looked at for this meeting had an ad by Google and it was, "Take home 90% of your pay", which turned out to be a complicated tax avoidance scheme for IT contractors. But you've only made money advertising a tax avoidance scheme there.

Matt Brittin: Only if you click it.

Q497 Ian Swales: My real question is that we think of Google a lot when we think about search engines, but I know-because I have been personally lobbied a few times by Google-about it trying to get more into public sector provision of computing. I know that you have already set a toe in the water with-is it Hertfordshire county council, or one of the councils in that area? Can you talk us through that process? If a public sector organisation in the UK actually contracted with Google for the provision of computing services, how would the revenue be booked, what cost would be booked against it and therefore what tax would be payable?

Matt Brittin: The vast majority of our revenue globally comes from advertising rather than from the kind of computing services that you talked about; in excess of 90% of our revenue, I believe, comes from advertising. However, we have a small but growing business providing things like e-mail, document production and collaboration software. That is small. It is similar to the Gmail service, and so on, that consumers have.

Q498 Ian Swales: In the lobbying, I am told that the whole of Los Angeles and I think the whole of San Francisco run their IT on your platforms, and the sales pitch is that they would like lots of the UK public sector to do the same thing. So clearly this is a drive for you.

Matt Brittin: It is a small but growing business, and lots of companies and some local authorities are using those services. It is not an entire IT solution; it is the Gmail that you are used to as a consumer.

Q499 Ian Swales: What I am really interested in is this: suppose that a public sector organisation contracts with you for a certain amount of revenue. What cost will be put against that revenue before a profit is struck on which tax is payable?

Matt Brittin: That is not a core part of our UK business, but I imagine-

Q500 Ian Swales: Is it a part of it? Have I been lobbied by some ghosts? Is it a part of your UK business or not?

Matt Brittin: It is part of what our teams in the UK would do, and it is a relatively small part. There would be a handful of people in the UK who would be focusing on encouraging customers to use-

Q501 Ian Swales: I have met this "handful" and I am asking, "What happens if I do business with them?"

Matt Brittin: When you do business with those guys, I think the revenue and costs would be similar to the way that the advertising business is structured in the UK. I will confirm if that is incorrect, because it is a small part of the business. The innovation that drives the economic value of that business comes from our teams in California in the US, who are building and developing products-in this case, Gmail and other associated products-for use by millions of consumers and, increasingly, millions of businesses. So that would work in a similar way.

Our view would be that the economic activity-the innovation, the computer science that drives that-is in the US and therefore, rightly, the majority of the profit and the tax should be in the US.

Q502 Ian Swales: So would it be a good approximation to say that whatever profit is made on that service would effectively end up in Bermuda and, possibly, the US? Therefore, should the UK public sector factor that in when it is thinking about who to do business with-whether it is going to get tax back or not? Would that be a thing that we ought to think about?

Matt Brittin: The UK public sector benefits from competition, including Google, and can select whatever products and services it wants to use. We think that ours are good and that they work well, and they are chosen by a range of people, but anybody buying software and services should make their own choices on these things. But it is the case that the people we have in the UK, the UK Ltd business we have in the UK, pay tax, and it pays all other taxes that it is required to do. We look at whether that is an appropriate amount based on what we would pay if we did not have that business but had to outsource to third parties-that is how we arrive at the numbers that we pay in the UK.

Q503 Ian Swales: One last question from me. You are the UK chief executive, are you?

Matt Brittin: No, as I said at the beginning, my job is vice-president for operations across northern Europe.

Q504 Ian Swales: Yes, the wetter countries, I remember now. Where are you based?

Matt Brittin: I live in London, but I spend my time around all of those countries.

Q505 Ian Swales: Where are you paid?

Matt Brittin: I am paid in my bank account in the UK.

Q506 Ian Swales: And are you an employee of Google UK, or what?

Matt Brittin: I think I am, because I live here and, until a year ago, I was running our business in the UK.

Q507 Ian Swales: Do you get any compensation from any other part of the world?

Matt Brittin: My compensation comes through my payroll and so on, which comes from here, but I am paid-my bonus and so forth-as an executive of Google Inc. globally, so my compensation is based on the company's overall performance as a-

Q508 Ian Swales: Via the UK PAYE system.

Matt Brittin: We pay it however it is paid-yes.

Q509 Mr Jackson: Mr Brittin, can I just ask you about if you had a more orthodox structure between the UK company and Ireland, with a proper disaggregated business model, and a different pricing structure. To an extent, from what I see in the last two years, on a turnover of £600 million you have made losses in both financial years, which suggests that your pricing structure is wrong at the very least. But if you had to pay tax on profits, would that persuade you to leave the UK?

Matt Brittin: First, can I correct what you said? In the last two years we have paid tax because we have earned an accounting profit-

Q510 Chair: Tiny. Tiny in relation to your turnover and tiny in relation to the UK business. What is the UK business?

Matt Brittin: I will tell you the numbers again, if I may. In 2011-

Q511 Mr Jackson: You have paid £8 million in corporation tax in six years on a £6,000 million turnover in revenues-in the six years to 2010. That is not exactly pushing the boat out for the taxpayer, is it?

Matt Brittin: I do not quite recognise the figures you have said there. Last year, the revenues in the UK were £396 million, we made an accounting profit of £31 million and we paid tax at 26% on that accounting profit, which is £6 million in tax.

Chair: Mr Brittin, we are not naive. The revenues in the UK are those that you choose to put through the UK. What we are interested in is the actual revenues you earned in the UK.

Q512 Mr Jackson: For the avoidance of doubt, the figures that I have-you are of course free to challenge them if you wish-are a loss of £6.1 million in 2011 and, for corporation tax purposes, a loss of £0.9 million for 2010.

Matt Brittin: No, those are not the figures I have. I will happily give you a written submission on the figures. There is an issue in that we pay tax on an accounting profit; we are then required to deduct stock-based compensation, so the statutory number that goes into Companies House would be a loss, but actually we paid tax on £31 million-worth of profit, which is £6 million on a tax rate of 26%. That is on a revenue of £396 million which, as I explained, we think is appropriate because that is about the amount we would have had to pay if we had gone to third parties and asked them to do the same services. The people in the UK are not doing the innovation, they are not doing the computer science, they are not doing the product development-

Q513 Mr Jackson: What are they doing?

Matt Brittin: As I explained, they are working to help consumers and businesses to get the most out of the internet. The point here is not about sales-

Q514 Mr Jackson: No, come back to my specific question, if we may, because we can meander along different paths-

Matt Brittin: I am trying not to meander, I apologise.

Mr Jackson: Were you to adopt a more robust business model in which, God forbid, you are making a profit-

Matt Brittin: We are making a profit, and we are paying tax.

Q515 Mr Jackson: In the UK-a real profit, rather than just part of a tax avoidance scheme, which it clearly is.

Matt Brittin: No, I have to say, we are paying the tax that we are required to under law, and we are not avoiding tax.

Chair: You are avoiding tax-within the law.

Q516 Mr Jackson: I think you are avoiding tax. My question is: would you leave? If you had to pay a higher rate of tax on a decent profit-which this is not-and you left, where would you go?

Matt Brittin: I think that the issue of your understanding here is this: if Google was a British business-if it had been founded in Cambridge by Larry and Sergey-I think we would be in a very different place here, because the profitability rightly would sit with where all the technology and innovation happened. But Google is not a British business. Google is a US business. With any activity that happens in the UK, even if you were to describe it as sales activity, which is not exactly what the people do, we could still go and get that activity from the open market at the kind of costs that we are paying to the UK Ltd business.

Q517 Chair: But the profits from your UK activity end up in the Cayman Islands-in Bermuda, sorry.

Matt Brittin: Regardless of where any profits end up, the business in the UK-

Chair: But that's where they end up. That is what is so irritating.

Q518 Mr Jackson: So the shareholders in Google UK cannot access that cash. What is the market capitalisation of the company in Bermuda? Do you know?

Matt Brittin: We do not have a market caps on our traded company. Google has a market caps, and that is Google Inc., which is an American company, as you know.

Q519 Mr Jackson: My point is that if you buy shares in the UK company you are not necessarily going to be able to easily access-

Matt Brittin: You can't buy shares in the UK company because it is a wholly owned company. You can buy shares in Google Inc., which is an American company.

Mr Jackson: Okay, an American company.

Matt Brittin: Yes, you can buy shares in Google Inc. and participate as a shareholder.

Q520 Mr Jackson: Can you just finish answering the question about where you would go? Are you basically saying that if the tax take was higher it would not be viable for you to continue to operate in the UK?

Matt Brittin: No. What I am saying is that we pay the tax required in every company in every country in which we operate. Every country-every Government, just as you-has the right to set the tax rates they want to set, and every company has to decide how to organise. I hope I have tried to explain to you that the way we are set up reflects how our operations occur. I cannot comment on the hypothetical proposal. We run the business in a robust way. We think we do it in a way that is appropriate. It is certainly legal. We pay all the tax we are required to. We also have an obligation to shareholders, which is to ensure that we do that cost-effectively. We make choices, such as I have described, in order to make those two balances.

Q521 Fiona Mactaggart: Let's think about the interests of those shareholders. I am interested in what happens to the money that ends up in Bermuda, and how the shareholders can get any benefit from that. It seems to me that were that money to be transmitted to your shareholders you would have to pay tax on it, would you not?

Matt Brittin: Yes. As I say, the amount of tax we pay globally is a matter of public record and it is in the billions of dollars. The amount of tax we pay in the UK is a matter of public record and it was £6 million last year.

Chair: You are repeating yourself.

Matt Brittin: I am not clear about the question.

Q522 Fiona Mactaggart: What I am interested in is that it seems to me that you are developing a bank in Bermuda-a cash pile that adds to the capital gain in terms of your shareholders but which cannot be remitted to your shareholders without their paying further tax on it.

Matt Brittin: I think that's a matter for our US organisation and the parent company. That is not something I am party to.

Q523 Fiona Mactaggart: Am I right in thinking that your tag line is "Do no evil"?

Matt Brittin: That is a phrase that is used to crystallise the values of Google and how we try to operate. Correct.

Q524 Fiona Mactaggart: It seems to me that, if I can just put it very gently, you are not matching up to that. If you rack up cash in Bermuda, that means that, I don't know if you, but senior executives at Google will have lovely bonuses, which will be based on the surpluses made before tax, and yet your shareholders, whose interests you claim you are trying to protect by operating in low-tax regimes, can get no benefit from it.

Matt Brittin: I am not sure I understand fully the question. What I will say is, first, on "Do no evil," we are proud to try to operate to a high standard. We might not always get it right, but what that means for us is offering an amazing service that allows you to search a trillion URLs on the web in a second on any device around the world, and that helps-

Q525 Chair: Not on tax, Mr Brittin. We are here to talk about tax.

Matt Brittin: As I have said, we pay all the tax required in every country in which we operate.

Chair: I understand that, but we don't think you pay a tax that is just.

Q526 Fiona Mactaggart: What we think you are is cleverer than the taxmen and taxwomen around the country, which is very good if you are saying, "We do no evil." Okay, so you say, "It's in our interests to reduce our tax liability; that helps our shareholders." I am trying to get you to answer what your shareholders get out of the money that you remit to Bermuda. It sounds to me like nothing.

Matt Brittin: As I say, I am not an expert on the way that operates, but what I would say is that we are required to pay tax on the basis of where the economic activity that is carried out that generates profit, and that is where our customers are-That is the guidance from the HMRC. What the HMRC says is that is not tax avoidance, but simply the way that corporation tax works, so we follow the way that corporation tax works internationally. I wish, as I said, that Google was a British business-we would then be having a different conversation-but the activity and innovation is in the US, which is appropriate.

Q527 Fiona Mactaggart: Could you perhaps provide the Committee with a note about how your shareholders benefit from the Bermuda holdings?

Matt Brittin: I am happy to do so if there is a specific question.

Q528 Chair: Before I bring in Meg, can I ask if you use other tax havens? Do you use the Channel Islands?

Matt Brittin: Not that I am aware of, but we do operate in a lot of countries around the world.

Q529 Chair: Bahamas?

Matt Brittin: What I will have to do is come back to you and let you know. If you have a list of places you want to check-

Q530 Chair: Cayman Islands?

Matt Brittin: My understanding is no, but I do not know for certain. Let me come back with a list. If you give me a list, we will tell you exactly where we operate.

Q531 Chair: Netherlands Antilles?

Matt Brittin: We have a business in the Netherlands, but not in Netherlands Antilles, as far as I know.

Meg Hillier: I think it is worth highlighting, and Fiona Mactaggart just touched on it about HMRC, that we are here to guard and follow the public pound-the tax pound-in the UK. I have to declare an interest in that I had a sandwich and a cup of coffee at the Google Campus only last week with the technology APPG group hosted there. Google does a lot of work to help and incubate new technology businesses, and that is really partly where we are driving. You have a structure that is set up in a way, as a modern internet business, quite differently from particularly the Starbucks business of selling a physical commodity; and one of our concerns is that our tax authorities are unable to pursue the money made in our tax jurisdiction in the UK for the benefit of UK taxpayers. You say that you wish that Google was a British business, but you are helping to incubate British and international businesses. Do you give them advice about tax affairs?

Matt Brittin: No, we do not give any businesses any advice on tax affairs. That is an important point you raise. You mentioned Campus: we invested in a building in the tech city area of London-a seven-storey building full of start-ups-and one of the things our founders are keen to do is encourage businesses to take advantage of the internet. The Committee may not be aware of this, but the UK is one of the leading markets in the world in terms of e-commerce. Lots of small businesses-we have 200,000-

Q532 Chair: That is why you make a lot of money out of us, Mr Brittin.

Matt Brittin: The point is that this is important for UK businesses. One of the big growth opportunities for the UK is the internet economy-

Q533 Chair: Absolutely. It is important for you too.

Matt Brittin: And we are part of the way in which those businesses reach consumers around the world. A business in Scotland selling kilts now has 70% of its sales outside Scotland, because every time somebody types "kilts" into Google, they can appear and they only pay when somebody clicks on the ad. We are very much part of that success story and business support. Businesses are happy to spend their money, because it is profitable.

Q534 Meg Hillier: Chair, the figure is dropping, but I learnt this interesting fact: 42% of people will only buy something off the internet if they can read about it in their own language. Although it is shrinking in its percentage, English is still the dominant language. Google, using English-America and the UK are, I suppose, the main English-speaking countries-is helping to drive that, and you could argue that is economic activity. There is an interesting question about what economic activity is in the internet world. Where is it based? Where is the internet based?

Matt Brittin: Absolutely. You mention language, and one of the things we have developed as a free tool for consumers and businesses is Google Translate. I am not sure if people have used this, but it is actually getting quite good. It is a free tool and it allows a business that is selling to translate its website automatically into multiple other languages, which helps a UK business to export around the world. I go back to the point-

Q535 Meg Hillier: For balance, should I mention Lingo24?

Matt Brittin: Others are available on all these things. It is a free service. The key point here, as you think about the questions you are asking us, is where does the economic value come from? It comes from the computer science. Where does the computer science come from? It comes from 17,000 engineers in California who are building these things under the leadership of our team.

Q536 Chair: Not in Bermuda, Mr Brittin.

Matt Brittin: That is the economic success story for Google. I am proud to say that we are supporting thousands of start-ups now in the UK through our activity in tech city, but also through the fact that our paid advertising works in a way that no advertising has worked in the past, to help reach consumers around the world.

Chair: We are short of time, so have a quick go, Austin, and then we will go to some general questions for everybody.

Q537 Austin Mitchell: I would like a long go. One can hardly be surprised that you are going to opt for the softest tax regime possible. Our endeavour is to ensure that profits generated here are taxed here.

Matt Brittin: And they are.

Q538 Austin Mitchell: A couple of years back, I was told by ITV that Google now had bigger advertising revenue than ITV. I do not know whether that is still the case, but it is a fairly telling statistic. However, it was not paying the taxes that ITV-its competitor for advertising revenue-was paying.

Matt Brittin: That is a really good question, Mr Mitchell, in the sense that ITV is a commercial broadcaster, which generates all of its activity in the UK, and was granted a licence by the state for the spectrum it has.

Q539 Austin Mitchell: And produces programmes here.

Matt Brittin: And produces programmes in the UK. Google is a business that was built in America and continues to be an American business. All of the activity that develops our technology is led from, and the vast majority of the engineering is done in, America. That is the contrast. As I say, if Google was a British business, you would be looking at the profits being generated here, but Google is an American business and their profits are generated there, as HMRC advises and international tax law dictates. We do not have the opportunity to do anything else.

Q540 Austin Mitchell: I accept that, of course. I would want profits generated here by any business, whether it is a multinational or British, to be making a contribution to the Treasury.

Matt Brittin: Of course, and we pay tax on the profits we make here.

Q541 Austin Mitchell: What we are trying to find out is where the money goes. Now, it goes to Ireland, it goes to Dublin. I could not make out from our Chair's somewhat incredible drawings-you couldn't see them, and I couldn't understand them, so we have got something in common to start with-whether it then goes to the Netherlands, which has lots of double tax agreements?

Matt Brittin: Any money that is spent by an advertiser in Europe-

Q542 Austin Mitchell: So it is not paying much tax in Ireland either.

Matt Brittin: Well, the tax rate in Ireland is 12.5%. There was an arrangement in the past, which I understand is no longer necessary, where there was an agreement via Google Netherlands. I understand that is no longer necessary. Think of the money being spent with Google Ireland. That money will go to pay some of the costs in Ireland-we have just opened a second data centre in Ireland.

Q543 Austin Mitchell: But it is not paying much tax, even if corporation tax is low. It is just passing through.

Matt Brittin: Correct. The corporation tax rate in Ireland is lower than it is in the UK.

Q544 Austin Mitchell: Yes, but you are still are not paying much of it.

Matt Brittin: The rate we are paying is 12.5% and the business is continuing to grow, so I expect over time we will make a bigger contribution, assuming that we will be successful.

Q545 Austin Mitchell: What cannot be fiddled through is paid at 12.5%, but the 12.5% is not paid on most of it. It then goes on to the Netherlands, and then it goes to Bermuda. Now, the interesting question is what that does for the shareholders. As Fiona said, it does not benefit them-they cannot get their hands on it because 30% tax would have to be paid for it to be repatriated to America, to the shareholders. It sits there in a cash mountain. It makes no contribution to all the research and development-the new technologies that you have been telling us about-that is carried on in California; it just sits there. It is probably lovely to visit it, walk round it, look at it, and think, "Ha ha ha," but what contribution does it actually make?

Matt Brittin: It is a matter for the board of Google, but I imagine that, if the resources are needed to be used, they can be used.

Q546 Austin Mitchell: They couldn't be used in America because you would have to pay 30% tax.

Matt Brittin: They could be used in America if that were the case. Shareholders will benefit from the profits after tax that the company generates, and the company has choices about where it locates money over time.

Q547 Austin Mitchell: If Romney had got in, you would have been able to repatriate it to America, but he didn't get in, so it can't go back there.

Matt Brittin: There is no question there.

Q548 Chair: Amyas has a question.

Amyas Morse: It is a good argument about the activity based in California, but you keep on referring to the fact that the income is actually generated from advertising.

Matt Brittin: That's correct.

Amyas Morse: That is not Californian advertising, is it? It is a slightly misleading argument, although I understand it. Of course, part of it is generated by the technology-that is the medium-but it is also generated by advertising and sales, which are specific to territory. So a significant part of the economic activity is specific to the territory; not all of it is global, that would not be fair, would it?

Matt Brittin: You are raising a fair point, and I want to be very clear on this. The economic activity that we carry out in the UK is paid for at what we believe is an appropriate rate, because we look at what we would have to pay if we went outside Google to get it. The advertising, though, just to be clear, is not the same as buying a double-page spread in *The Sunday Times*. It is a much more complicated, algorithmically-driven system that is almost as complicated as the system of search itself, because anybody can target any keyword, anywhere in the world, any phrase that is typed, across the multiple domains of Google. They can change their bids and the amount of text they say, which is complicated.

Amyas Morse: We are all users.

Matt Brittin: Okay, but it is very complicated compared with what you would traditionally view as advertising, and that is why we think it is appropriate, given that the technology that underpins the advertising, just like the technology that underpins search, is driven by engineers out of the US, where as I say we have 17,000 engineers.

Q549 Mr Bacon: Mr Brittin, you said you have £396 million of UK revenues, that is right isn't it?

Matt Brittin: That is correct.

Q550 Mr Bacon: I am trying to understand the costs of generating those revenues. The revenues are people paying for advertising, is that right?

Matt Brittin: No, the business in the UK is people providing services to Google Ireland, which is what I mentioned earlier, and they help consumers and enterprises to make the most of the web and encourage them to understand it. They run lots of sort of education on the business side-training to show them the kind of products that are available to use.

Q551 Mr Bacon: So the £396 million of revenue comes from Google Ireland.

Matt Brittin: It is paid by Google Ireland, that is correct.

Q552 Mr Bacon: All of it?

Matt Brittin: Yes.

Q553 Mr Bacon: In return for the provision of services.

Matt Brittin: Yes, and as I say, we determined that we think that is an appropriate amount based on looking at what we would have to pay to get similar people to do it in the market. So, for example, an agency or consultancy-

Q554 Mr Bacon: Actually, what you said was that it is determined on what it would cost if you went and bought the services from-

Matt Brittin: A consultancy firm or something like that.

Q555 Mr Bacon: Of course, if you have people in-house, they will generally be a lot cheaper than going out and buying it from a firm.

Matt Brittin: The reason we do it in-house is because we think this is all extremely new stuff and therefore the people in-house can understand in more detail the products we have, but it's a call: we could certainly hire a consulting firm or similar to do some of things that our people do. So that's how we try to judge that it is a fair amount.

Q556 Mr Bacon: It just strikes me as odd that the costs of generating this £396 million of revenue would be quite as high as it sounds they are.

Matt Brittin: That £396 million is the revenue earned by the UK operation, paid for by Ireland, and it is based on the costs of all the activity that we do here, plus a margin in order to reflect what we would pay in the open market.

Q557 Mr Bacon: Right, and you are selling those services to Google Ireland, which is paying for them, yes?

Matt Brittin: Correct.

Q558 Mr Bacon: Well, you said you had 1,300 employees in the UK?

Matt Brittin: Yes.

Q559 Mr Bacon: If you paid them £120,000 each, that would cost £156 million. That still leaves you with £240 million of other activity that Google Ireland would have to be paying for. I find it difficult to understand what Google Ireland is paying for that it is getting value for. I don't know if you are paying everyone £120,000 a year, but it just sounds very-

Matt Brittin: There are a bunch of other costs in there, including the cost of real estate. Our people are in two very big offices in central London and so on, so I am pretty confident that those are the costs that we pay out, because we would want to make sense of-

Q560 Mr Bacon: Sorry, what other costs?

Matt Brittin: The people and the real estate costs, and the other costs of having an operation of that size in the UK.

Q561 Mr Bacon: I am sorry, you said that you are pretty confident that those are the costs, I am asking what other costs?

Matt Brittin: On the £396 million, you've done a back of an envelope thing. I can share with you the accounts, which are published and audited every year, and the amount of revenue has gone up as the business has grown-I think the revenue line is double what it was three years ago, to give you an indication.

Q562 Mr Bacon: The revenue line from Google Ireland?

Matt Brittin: The revenue of Google UK Ltd, yes, which-

Q563 Mr Bacon: The revenue of Google UK Ltd paid from Google Ireland has tripled in the last-

Matt Brittin: It has more than doubled in the last three years.

Q564 Mr Bacon: So Google Ireland is paying you a lot more for a lot more services.

Matt Brittin: Yes, but don't forget that our business is growing pretty fast in the scheme of things as an internet business and is pretty popular.

Q565 Mr Bacon: Well if you are able to send the Committee a note detailing what those costs are we would be very grateful.

Matt Brittin: Certainly I can provide you a detail on that.

Q566 Stephen Barclay: Can I ask about the royalties you pay from Ireland, whether that is to the Netherlands or to Bermuda?

Matt Brittin: I do not have a number on royalties-I do not think we have anything we would describe as royalties. The revenue earned by Ireland will have a bunch of costs against it, including the 3,000-plus people, the property, the data centres and so on, and then, yes, some costs associated with the international business as we have talked about earlier.

Q567 Stephen Barclay: So you do not pay any royalties from Ireland?

Matt Brittin: I don't know that I would describe it as royalties, but again, I think I promised to provide you with more of a breakdown on Ireland.

Q568 Stephen Barclay: Perhaps you could just clarify, because the SEC filings for Google say that the total amount of foreign income before tax was $7,633 million. The foreign tax charge for the year, including deferred tax, was $248 million, which is equivalent to 3.25%.

Matt Brittin: Of revenue.

Q569 Stephen Barclay: $248 million, which is equivalent to a tax rate at 3.25%.

Matt Brittin: Of revenue.

Q570 Stephen Barclay: Yes.

Matt Brittin: Well, tax is paid on profits, obviously.

Q571 Stephen Barclay: No, on the income-income before tax.

Matt Brittin: I am sorry. I struggle to hear you.

Q572 Stephen Barclay: So the total amount of foreign income before tax was $7,633 million and yet the tax charge for the year including deferred tax was 248 million, which is equivalent to 3.25%, and that is in your-Google's-SEC filings. I was just trying to establish how you got to that.

Matt Brittin: Well, in 2011 we paid $1.5 billion of corporation tax in the US, which is an effective rate of-

Q573 Stephen Barclay: No, this is on foreign income, not what you paid in the US on your US income. This is about foreign income.

Matt Brittin: I do not have the figures to hand, but again I am very happy to answer any specific questions you have.

Q574 Chair: It is your bit of the world, Mr Brittin. That is the bit you are responsible for.

Matt Brittin: I am responsible for northern Europe, which is a part of the international, but not, by any means, all of the international.

Q575 Stephen Barclay: Sure-the money from which is ending up in Bermuda. What we are trying to establish is, in your SEC filings-you yourself said this is a US company-as I understand it there are SEC rules or there are IFS rules about passive income. So one of the ways round that is to check the box and say "This isn't money coming back into the US; it is going in to be parked, possibly, in Bermuda." You are telling the US authorities that actually the foreign tax charge for the year is just $248 million. The question in my mind is: to what extent in essence are you depriving the US taxpayer? Because you are saying to the US taxpayer, "Actually, there is only $248 million of taxable income here," which works out at 3.25%. So the implication is that a lot of the profit is being stripped out somewhere.

What is unclear to me at the end of today's session is this: is it being stripped out; and, if so, where is that happening? Is it happening in Ireland, through royalty payments elsewhere, which was a discussion we had earlier around the 6% and 4.7% rates? Is it going into the Netherlands; or is it being parked in Bermuda? The implication of your SEC filings is that a very low tax rate in terms of the US is being paid on your foreign income. We have established today that you are not paying tax on the income from the UK. So it is very unclear where the tax is being paid in the chain.

Matt Brittin: We are paying tax on our UK limited business, as I have mentioned a number of times.

Q576 Stephen Barclay: Negligible.

Matt Brittin: We are paying corporation tax based on the activity that is carried out here.

Q577 Chair: Based on the activity you choose to file in Britain. It is the activity you choose to file. That is the great distinction.

Matt Brittin: But I think the distinction here between what I have been talking about and what we have been discussing earlier with consumer sales businesses is that the technology is US technology.

Q578 Stephen Barclay: It is the SEC filings that I would like you to refer your answer to.

Matt Brittin: I was just correcting, again, the fact that we pay corporation tax in the UK, as we are required to do. In the US-I haven't got the figures, but if you are quoting from the SEC filings of course they are correct-I am sure it is the case that we pay more tax on the US-earned revenues than we do on the revenues in the rest of the world; and I can answer the questions, as I promised to do, that you raised earlier on that.

What I would say is, as an international business that is a US-owned business, we make choices about where we locate and how we set up our structure, in order to ensure we can operate successfully and to minimise the costs and do the efficient things to run our business. That is what we are required to do by shareholders and by law, and that is what we do: play by the rules and manage our business efficiently.

Q579 Chair: Okay, let us go on to some general questions. Do you-all of you-accept that alongside your duties to your shareholders, which Mr Brittin has just alluded to, you have obligations to the societies in which you operate, and from which you derive huge benefits, and that those obligations include paying tax?

Q580 *All witnesses:* Yes.

Q581 Chair: And do you accept the principle that profits should be taxed in the countries in which they are made and where genuine economic activity is concerned?

Troy Alstead: Very much so.

Andrew Cecil: Yes.

Matt Brittin: Profits should be taxed in the countries where the economic activity takes place that drives those profits-so in our case where the innovation takes place. Our business is made in California-that is the fact of the matter.

Q582 Chair: This is remarkable.

Matt Brittin: We are not making cups of coffee. We are making a search.

Q583 Chair: If you accept that-I think we have been through coffee that we know we drink in the UK, to books that I know I get in the UK, to Google ads that I know are just UK search engine-specific-why on earth do you manipulate your accounts so that you get away with not paying corporation tax, which is what this afternoon is about, in the UK? Mr Alstead?

Troy Alstead: Respectfully, I would disagree with that characterisation. Chair, we do not manipulate ever anything anywhere. We work very hard to be very honest.

Q584 Chair: Oh, Mr Alstead, you can’t say that.

Troy Alstead: It is very true.

Q585 Chair: You can’t say that you don’t manipulate the royalty charge-in your case it is the royalty charge. It is manipulation of the charges for loans that you make the UK wholly owned subsidiaries take out, and the price of coffee. You charge 20% whatever the price is. That is manipulation. It takes money out of the UK that would otherwise be viewed as profit and would be taxed through corporation tax. It is manipulation.

Troy Alstead: Respectfully, those jurisdictions require us to report profit where the activity happens. We have no choice but to do that.

Q586 Chair: No, it isn’t where the activity happens. You choose to charge 20%. You choose to take 20% for your Swiss coffee. You choose the 60% royalty-you actually told us it is what you could get away with and there was not a basis for it. You choose to charge above market rates for borrowing. You choose that.

Troy Alstead: No, I completely disagree with that characterisation, Chair, respectfully. That is not at all how we approach it. All of the rates that you referred to have been heavily scrutinised by valuation experts, by independent third parties who fully agree with those rates-that they are appropriate and fair-and by the taxing authorities all around the world. We do nothing-nothing-to avoid taxes.

Andrew Cecil: We set up our business across Europe for the benefit of our tens of millions of customers and sellers across Europe. We pay all applicable taxes in all jurisdictions.

Matt Brittin: We operate compliant with the tax law in the UK. We had a discussion this afternoon about Bermuda. Let me reiterate the fact that the tax we pay in the UK is nothing to do with anything outside Europe. What we do in the UK-we love the UK; it is a successful country for e-commerce. We think we have been part of that.

Q587 Chair: We think you should put a bit more money back in.

Matt Brittin: We follow the rules that HMRC lays out when they say we should be taxed on the activity where we generate our profits. For us, that is all of the engineering work that is done in California. I wish we had invented Google in Cambridge ideally, but we didn't; it is an American business and the engineering activity continues to be led from there.

Q588 Chair: Can I just get a feel of how many sets of accounts have yet to be agreed in your business, Mr Alstead?

Troy Alstead: In the UK?

Chair: In the UK.

Troy Alstead: The years 2010 forward are under review.

Q589 Chair: You've agreed everything before that?

Troy Alstead: Yes.

Q590 Chair: And Mr Cecil? How many sets of accounts have yet to be agreed?

Andrew Cecil: As I said, we are regularly audited.

Q591 Chair: How many sets of accounts have yet to be agreed with HMRC?

Andrew Cecil: I do not have that specific figure. I will come back to you with it.

Q592 Chair: How many set of accounts have yet to be agreed?

Matt Brittin: Our accounts for 2011 are with Companies House.

Q593 Chair: No, not Companies House. With HMRC, the tax bases.

Matt Brittin: They would be available to HMRC as well. The year is closed for 2011 and I don't think there are any outstanding issues, but if there are, we will let you know. HMRC has not told me that there are.

Q594 Ian Swales: Can I ask another general question? Do any of you have any discussions internally about issues such as consumer power and the value of your brand, and how that could be influenced by the ethical behaviour or perceptions of your company? How do you factor that into the sort of discussion we have had this afternoon?

Matt Brittin: Everybody who uses any Google service has a choice. All of our services are free to consumers, so we work extremely hard to try to ensure those services work well and that those consumers feel a level of trust in us. We talked earlier about the statement, "Don't be evil." For us, that means that when we give you websearch results we try to give you the best and most neutral results we can. That is how we operate. If consumers did not like what we were doing they would go elsewhere. There is plenty of choice. If you want to buy something you can go to Amazon. If you want a job you can go to Monster. If you want the news, you can go to the BBC. That is definitely at the forefront of our minds every day.

Q595 Ian Swales: Before the others answer, my question is not just about right now; it is about the trend that seems to be occurring-I am sure we have some representatives at the back of the room. People are now starting to say, "Don't deal with this company, because they don't behave ethically." That could be to do with paying taxes.

Matt Brittin: It could be. One great benefit of the internet is that it has brought an awful lot of transparency and an ability for consumers themselves to publish information and to be heard. That is a good thing. We very much support freedom of speech on the web. We want to hold ourselves to high standards. I hope I have tried to explain as transparently as possible this afternoon how we operate. I will happily answer any follow-up questions you have. Absolutely, our business is completely built on trust of consumers. They won't come to us if they don't like the service.

Q596 Ian Swales: Can the other two quickly answer? The question is around consumer power and what your brand says, particularly in relation to ethics and taxpaying and so on.

Andrew Cecil: We are a company that is 100% focused on our customers. As I explained to the Committee, that is how we set up our business across Europe. We do listen to feedback from our customers.

Q597 Ian Swales: In your case, if I go to your website, why do you not make it clear that I am dealing with Luxembourg? Why do you have a misleading web address? Why does it look as though I am dealing with the UK when I log on to your website? That is not transparent.

Andrew Cecil: I disagree. I do not believe that it is misleading.

Q598 Ian Swales: It is absolutely misleading. You have been telling us all afternoon that we are dealing with a European company based in Luxembourg. Why does it look as though I am dealing with a UK company when I go to your website?

Andrew Cecil: I disagree. We make it very clear. You will see in all the communications that we make by e-mail and others that you are trading with a European company.

Ian Swales: I will go and look at the small print afterwards, but I bet it's very small print.

Q599 Stephen Barclay: Just building on Ian Swales's question, why did Amazon.com International transfer ownership of Amazon.co.uk to a company for one day, which then sold it on to Amazon EU Sarl? Could you explain that transaction for us?

Andrew Cecil: I will make a note of that and come back to the Committee.

Chair: I think somebody who can answer it will have to come back. I am just trying to look at today's thing. It does not say anything about my dealing with-all over this e-mail I received from you today, it says Amazon.co.uk. I can see it once, twice. It says "see Amazon.co.uk" and "Your Amazon.co.uk" and "Dear Amazon.co.uk customer, Shop now."

Q600 Ian Swales: See if you can find the word "Luxembourg" anywhere.

Anyway, there is obviously-justified or otherwise-a fair amount of media interest in Starbucks' activity, which is perhaps a good example of why I am asking the question, because surely, from your own corporate point of view, you have to think about the risks you run in how you structure your organisation and the taxes that you pay in terms of what your customers think about you as a result.

Troy Alstead: Yes, it matters critically what our customers think about us. We discuss it frequently and all the time. It is one of the key pillars in the company. We have huge commitments to all the communities that we operate in, including the UK. We have committed to creating 5,000 new jobs here and 1,000 apprenticeship positions-investing in the community. We are also committed to paying corporation tax as we improve the profitability of our business.

Q601 Ian Swales: You are not the most opaque this afternoon by a long way, but how do you feel about transparency? How clear should companies such as yours be in explaining what they actually do worldwide, where they operate, and what taxes they pay in the different countries where they operate? It should not just be for the sake of transparency, but to convince your customers that this is the kind of company that they want to do business with.

Troy Alstead: We believe very strongly in transparency-with the Committee, with tax authorities around the world and with consumers-recognising that one of the challenges that we often face is that the global tax structure is very complex. It is very difficult to explain it, and that is without having anything to do with avoidance. It is just a difficult challenge.

Q602 Ian Swales: But that is partly because you make it so. I do have experience in this area so I am not being entirely simplistic, but if you run a business in this country, that country, and another country, it is clear what your profit is. If you transfer money between them, you can make it clear what the basis is. It does not need to be that complicated.

Troy Alstead: The reason it is difficult to explain at times is that if we did not buy those services for the UK business, we would have to build an R and D centre in the UK.

Ian Swales: Just be transparent. You buy the services. Just tell people what you buy and what it costs. That is transparency. I am not saying that everything has to be in one country, but there should be transparency in why you do certain things. That is probably enough from me, but it is one of the themes that has come out today.

Q603 Jackie Doyle-Price: I think the difficulty, Mr Alstead, is that the British consumer feels misled. We are where we are and you are dealing with the international tax situation as you, as a company, see fit, having branded Starbucks as something that has a very high standard of ethics, but the British consumer is left thinking, "This is a bit smelly."

Troy Alstead: I appreciate that. That is very unfortunate and we feel terrible about it. We honestly feel as though we have not intended to mislead anybody. We are trying to be very transparent. I appreciate that the media attention has made it look that way, so we need to do a better job of finding a way to communicate. I assure you that our intent is to operate at the highest ethical standards.

Q604 Fiona Mactaggart: Mr Alstead, you said earlier to the Committee that you don't have any Cayman tax haven. I am looking at a listing of subsidiaries of Starbucks corporation under the SEC-the American listing rules-of 2 October 2011, which lists a company called President Coffee (Cayman) Holdings Ltd. I would be very grateful if you could tell us now, or possibly later, what that company does.

Troy Alstead: I can tell you very clearly now. President Group, which is what that structure is named after, is a Taiwanese company. They are also a joint venture partner with us in mainland China. Mainland China has not allowed, as you can imagine, Taiwanese companies to own businesses directly, but they do allow them to own them indirectly-that can be fully validated, by the way. So our Taiwanese partner established a joint venture in the Cayman Islands, which then becomes the owner of their investment on mainland China. There are zero tax implications, I assure you-zero-but it allows our Taiwanese partner to be a partner with us in mainland China.

Q605 Meg Hillier: I want to focus on Google and Amazon, and the challenge for the tax authorities in the UK and, in fact, around the world about pinning down tax from companies that are internet-based. It is a big challenge. We have raised concerns about how some of you operate. Do you think that the OECD definition of what a branch is should be updated for the internet world, first of all?

Matt Brittin: I don't have the definition in front of me. I would be very happy if you want to send it and we can comment back. I recognise the challenge of a very fast developing environment with the internet. One of the things that I spend some time doing is trying to help people understand and think through those issues. We are proud of how we operate. We try to operate transparently. We definitely operate in line with the law in every country in which we operate.

Andrew Cecil: We don't have a specific view, but we do apply the OECD principles and we would be happy-I agree with Matt here: it is a very fast moving world. I understand in fact that the OECD guidelines are currently being consulted upon.

Q606 Meg Hillier: That brings me to the other question that leads into, which is do you think that the tax affairs that you have the option of operating under are too complex, or is it that you make them complex, by having companies in Bermuda, for example?

Matt Brittin: When I first arrived at Google, I was aware of the issues of multinationals generally operating and I wanted to understand how we operated and the ways in which we complied with tax law. I found that it is a complicated system. I am not a tax expert-my job is to run the business-but I also found that we comply with the law and what we do is in common with many other companies that are intellectual property driven. The challenge for Governments like the UK Government is to think about what the right set of policies is to encourage competition, innovation and investment in your country when every country in the world can set the tax rates and regimes that they want. It is a complicated area. I am pleased with and proud of how we operate in that area. Any international company has to make those kinds of choices on how to operate, but it is complicated.

Q607 Meg Hillier: Do you know how much you spend on tax lawyers?

Matt Brittin: I don't know.

Meg Hillier: Could you perhaps write to us?

Q608 Chair: Who advises you? I was going to ask the same question. You run the company. Who advises you on tax?

Matt Brittin: We have a small internal team on finance. Ultimately our chief financial officer in Google Incorporated in California is responsible for our tax policies. We have a small team in Dublin.

Q609 Meg Hillier: You buy in as well, presumably?

Matt Brittin: I am sure they go externally for advice, as you would expect.

Q610 Meg Hillier: It would be helpful if we could write to you, or if you could come back to us.

Matt Brittin: Absolutely.

Q611 Chair: This is the very final question. The Prime Minister has said he is not happy in answer to a question from me in the House. The Business Secretary has branded you all a disgrace. The Chancellor has said that present arrangements allow you "to pay less tax" than you would otherwise owe. Can I have your response to those views expressed by the leaders in the UK?

Troy Alstead: Very disappointing, Chair. I understand it, given the confusion. I hoped that today would allow us to clear up some of the confusion. If not, we will keep working at providing the Committee with additional information and communicating with our customers more clearly. We sincerely believe that we are doing everything to an ethical standard-not just the legal standard, but exactly what we should be doing. We will continue to do our best to communicate that both here and with our customers.

Q612 Chair: I think, Mr Cecil, you probably cannot answer the question, so we might skip you.

Andrew Cecil: We will continue to operate our business on behalf of our customers and sellers across Europe. For their benefit, we will look to see how we can reduce prices for them and drive selection. If Governments decide to change these rules, we will see how we continue to comply with all corporate laws.

Q613 Chair: We hope to have a session in a week or two when somebody from Amazon can answer questions. And you finally, Mr Brittin?

Matt Brittin: I presume that those were general comments made about a range of companies rather than us specifically.

Chair: No. You were named. Certainly in the question that I asked the Prime Minister, you were named.

Matt Brittin: We comply with the law in the UK. It would be very hard for us to pay more tax here based on the way we are required to structure by the system. Tax is not a matter of personal choice, but a matter of following the law and the rules, which is what we do. It is complicated internationally, but we follow the law in every country in which we operate. The fundamental issue for us is that our economic activity, which generates the algorithms that make a lot of products work, comes from engineering that is all coming from California. That is why we pay tax where the profits are generated, which is how the tax system operates.

Chair: Thank you very much for having a dialogue with us this afternoon.

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[1] Note from witness: To clarify, the reference to " Amsterdam ," is to our Amsterdam structure. Our Amsterdam structure involves a Dutch tax ruling and includes Starbucks wholly-owned European entities. The European royalty payments flow through the structure including the payments made to Starbucks U.S. for the original intellectual property and current intellectual property development costs. The Dutch tax ruling is an agreement with the Dutch tax authorities that provides advance certainty on transfer pricing aspects embedded in the formal advance pricing agreement. The transfer pricing of the transactions within the structure are arm's length and in accordance with transfer pricing guidelines set forth by the Organisation for Economic Cooperation and Development (OECD)

[2] Note from witness: To clarify, as a responsible corporation, we strive to follow the letter of the law and have done so in the case of our tax obligations. All taxes owed to the UK have been timely and fully paid. We also acknowledge that as a profit-making company, we do avail ourselves of the benefits of the tax laws in each country in which we do business, including any favourable tax treatment of our business operations provided by the UK . We have a European regional tax structure that results in an effective tax rate of 16% on our royalties. There is much discussion of tax havens and tax avoidance. Unlike many companies and individuals, Starbucks does not use island offshore tax havens which welcome shell, not operating, companies usually run by one person with multiple entities under his or her control, and that traditionally have a tax rate of zero. Such tax havens are drastically different from Starbucks situation. Starbucks has centrally located its Europe Middle East regional headquarters and roasting plant in the Netherlands in which it employs approximately 220 persons, benefits from a multi-language work force and operates a 9,206 sq. metre coffee roasting facility, headquarters and distribution centre. Approximately 6803885 kg of coffee are distributed to multiple countries from the Netherlands . Starbucks does engage in legal tax planning to reduce its tax liability, but only where permitted by law, and never through the use of island offshore tax havens.

[3] Note by witness: see footnote 1

[4] Note by witness: see footnote 2

[5] Note by witness: see footnote 1

[6] Note by witness: To clarify, Mr Alstead is referring to the mutual understanding of confidentiality relating to information shared with and received from the Dutch tax authorities in our confidential but arm's length negotiations with them. We do not have a formal written confidentiality agreement with the Dutch tax authorities.

[7] Note by witness: There are 220 people working in the Netherlands operation.

[8] Note by witness: There are 220 people total working at the Netherlands corporate headquarters, including 89 in the roasting plant and 40 in the supply chain and distribution operations.

[9] Note by witness: There are 25 people in the buying operation and 16 people in the agronomy offices, which the buying operation oversee.

[10] Note by witness: see footnote 6