

State Aid – Luxembourg & Amazon

Submission from The Booksellers Association of the United Kingdom & Ireland Ltd in Response to the Invitation to submit comments pursuant to Article 108(2) of the Treaty on the Functioning of the European Union

To:

European Commission
Directorate-General for Competition
State Aid Registry
1049 Bruxelles/Brussel
BELGIQUE/BELGIË
e-mail: stateaidgreffe@ec.europa.eu

From:

The Booksellers Association, 6 Bell Yard, London WC2A 2JR
UNITED KINGDOM
Tel: 020 7421 4640
e-mail: sydney.davies@booksellers.org.uk
www.booksellers.org.uk

Introduction

The Booksellers Association welcomes the opportunity to give its views on *State aid SA.38944 (2014/C) – Luxembourg Alleged aid to Amazon by way of a tax ruling*.

The Booksellers Association

1.2 The Booksellers Association [the “BA”] is a trade association, based in London WC2, currently with 1,256 bookselling businesses in membership (of which 939 are independent bookshops), accounting in total for 4,139 outlets.

1.3 BA members cover a diverse range of different bookselling businesses - specialist bookselling chains (e.g. Waterstones and Blackwell); independents; large High Street chains with mixed businesses (e.g. W H Smith); supermarkets (e.g. Tesco, Asda and Morrisons); library and school suppliers; specialist internet booksellers; and the two national wholesalers (Bertrams and Gardners).

1.4 BA members sell to all markets (consumer – fiction/ non-fiction/ reference/ children’s; academic – academic/ professional/ school/ English Language Teaching) from retail shops and over the internet in a variety of different formats (hardback, paperback, audiobook and ebook).

1.5 The BA helps its members to sell more books; operate from a lower cost base; improve competitiveness and productivity; network with others in the ‘book world’ and further afield. Finally, and most importantly, to represent their views.

Amazon

2.1 Amazon’s market power and tax arrangements with the Luxembourg government, allows an unfair advantage that is not available to independent booksellers and bricks and mortar outlets here in the UK.

2.2 The tax reduction methods available to multinational companies have become well known by the public in recent years. They include transfer pricing, the use of lower-tax jurisdictions, over-charging entities in higher tax countries to reduce taxable profit and completing a transaction in a lower tax country, different to the country which the business relates to. In the case of Amazon, while it has a physical presence in the form of a distribution and warehouse centres in the UK, staffed by over 15,000 employees, because it is able to route all of its European sales through its Luxembourg headquarters, it benefits from a significantly lower tax burden. Amazon paid just £4.2 million in UK corporation tax in 2013 on record sales of £4.3 billion generated in the UK. In other words, it paid a nominal rate of 0.1%.¹ Indeed, from 2009 to 2011, Amazon generated sales of more than £7.6 billion in the UK without attracting any corporation tax on the profit from those sales.²

2.3 In addition, given that Luxembourg has the lowest VAT rate in the EU (15%), with most countries ranging between 20-25%, Amazon has at least a further 5% margin over its domestic UK competitors. Put another way, if in 2012 Amazon made £11 billion in sales, Amazon profited by at least £550 million by ‘trading’ through Luxembourg.

¹ Amazon UK boycott urged after retailer pays just £4.2m in tax, <http://www.theguardian.com/business/2014/may/09/margaret-hodge-urges-boycott-amazon-uk-tax-starbucks>

² Amazon makes UK publishers pay 20% VAT on ebook sales, <http://www.theguardian.com/technology/2012/oct/21/amazon-forces-publishers-pay-vat-ebook>

2.4 The competitive advantages that these financial savings create are obvious and unfair. Indeed, with regard to the sale of digital books or ebooks, Amazon's unfair financial advantage is even more evident. Until this year, Amazon's base in Luxembourg allowed it to benefit from a European tax anomaly that requires it to pay only 3% VAT on digital books sold to UK readers. Despite this, Amazon requires UK publishers to reduce the wholesale price of digital books by 20% to account for the UK VAT rate. Amazon thus profits from the difference between the UK VAT levied on publishers and the actual 3% that it pays, which amounts to an extra £1.38 of profit every time it sells a £10 ebook in the UK.³

2.5 The Booksellers Association of the UK & Ireland Ltd is pleased to learn that Luxembourg's unfair tax agreements have been recognised by the European Commission. They have managed to build an estimated market share of 90% in ebooks here in the UK. Our high street booksellers are not able to move costs and sales from country to country - as Amazon has done - to get a tax arrangement below that of the UK.

2.6 In 2013, booksellers Frances and Keith Smith from Warwick and Kenilworth Bookshops handed in a petition to 10 Downing Street. Public Accounts Committee chairman Margaret Hodge said she was "fully behind" the Smiths' campaign. "I hope the prime minister and the chancellor will listen to the 110,000 people who have signed the petition so far and take action to prevent Amazon and others from dodging the tax that they owe," she said. "Amazon shifts its profits out of this country to Luxembourg, and as a result pay little to no tax, despite their annual UK sales being in the billions. This campaign highlights the damage that corporation tax avoidance is having on small British businesses. It allows multinationals to obtain unfair advantage over small local businesses that work hard and pay the tax that they owe."

Conclusion

We therefore urge the European Commission to end these tax deals which distort fair competition.

³ Amazon makes UK publishers pay 20% VAT on ebook sales, <http://www.theguardian.com/technology/2012/oct/21/amazon-forces-publishers-pay-vat-ebook>