

Cadbury's: a corrupted culture

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The [FT this morning reveals something](#) that has, to a very large degree, been known for a very long time - which is that Cadbury's in its pre and post takeover modes has been an aggressive tax avoider.

The detail is in the article, and in a sense does not bear repeating. it is a tale all too familiar now. Some quotes are, however, illustrative:

Cadbury's imaginative tax department concocted schemes designed to engineer interest charges that could be deducted from its profits to reduce UK tax. It was a game played for high stakes: just two of the schemes uncovered by the FT were designed to save Cadbury some £33m in tax between 2002 and 2008 — a period when its actual tax charge on continuing operations was only £37m.

Such schemes were commonplace, said a former executive, who observed that the tax department appeared to find the process of inventing them “intellectually quite stimulating”.

And:

One arrangement involved an inter-company loan made by one of its UK subsidiaries (named Chaffinch by a bird-loving executive) to another, whose purpose appears to have been to claim millions of pounds worth of tax-deductible interest charges in the borrowing company while not reporting the taxable interest income earned by the lender.

This was a paper-shuffling exercise that aimed to exploit discrepancies between the different accounting practices employed by the two companies, and hence to reduce the confectionery maker's tax bill by some £17m between 2006 and 2008.

Plus:

A former executive admitted the group's schemes ran counter to its public image. “Historically, Cadbury has been very aggressive on the tax side, which goes against

what you would think about the reputation of the company from its philanthropic background," he said.

I welcome the report. I am not surprised by it: Cadbury's abuse has been known for a long time. What we can now do is name what was happening: Cadbury's had a corrupted culture where the abuse of society was at the heart of its business model.

Several times the article makes reference to how far removed this practice is and was from that of the Quaker Cadbury family. They're right. I'll quote from the current edition of [Quaker Faith and Practice](#):

From its earliest days our Society has laid great stress on honesty and the payment in full of debts justly incurred. Though social conditions have undergone great changes over the years of our Society's history, so that much of the advice given in the past may seem out of date, it is well to remind ourselves that the principles underlying the advice have not changed. Since we believe that all people are the children of God, we cannot take advantage of others by any form of dishonesty, whether in buying or selling goods, in business or privately, or as employees by failing to give an honest return in labour for the pay we receive. When we have received goods or services, we shall be punctual in making payment of the price agreed on, and we shall not attempt to evade our proper obligations to the community by way of taxation.

Cadbury's has evaded its obligations even if it only avoided tax: that is the corruption to which I refer.

It is this corruption that has to be fought in the corporate culture of the UK - which I am quite sure has not yet changed.

And this too is why [country-by-country reporting](#) is so important: if this had been in place as I have suggested it then much of this activity would have been exposed because intra-group trading and financing across borders would all have to be on the record in country-by-country reporting. That's why we need it now.

Surely the time has come to stop this abuse by this straightforward change in accounting?