

*Treasurer seeks tax-shelter blacklist*  
**Angelides would block state funds  
from going to companies that shift  
assets overseas but do business here**

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Stepping up a campaign to use state investments as a force for corporate reform, California Treasurer Philip Angelides is moving to block state purchases of stocks and bonds from U.S. companies that hide their assets in foreign tax havens.

Angelides' initiative, scheduled to be announced today in Sacramento, creates a blacklist of 23 companies that avoid paying taxes by claiming their headquarters in places such as Bermuda and the Cayman Islands while remaining effectively based in the United States.

Angelides will also propose that CalPERS and CalSTRS, the two state pension funds on whose boards he sits, divest the \$752 million in stocks the funds own in the blacklisted firms.

Foreign tax shelters "are just another way to game the system, and this trend is accelerating as we speak," said Angelides.

In recent years, the treasurer has spearheaded many changes at the \$149 billion California Public Employees' Retirement System and the \$100 billion California State Teachers' Retirement System. Both funds are thought likely to approve his proposal within the next two months.

The new policy would bar purchases of bonds from the blacklisted firms from the \$45 billion in state, county and city savings accounts managed by the treasurer's office. Those accounts do not currently hold any of these firms' bonds, though.

Angelides said the initiative is necessary to protect the state from questionable corporate accounting. "The company that relocates to

Bermuda or the Cayman Islands is often the same kind of company that cheats shareholders and bends the rules, all for short-term benefit," he said.

Angelides' action could set a trend, say financial analysts. "Any time CalPERS, CalSTRS and the State Treasurer's Office speak, it's heard" among financial institutions nationwide, said Richard Koppes, a Sacramento lawyer who advises major companies on corporate governance issues.

#### "QUICK-BUCK" RELOCATIONS

Koppes called the foreign headquarters relocations "quick-buck, short-term moves" that hurt shareholders. "It not only causes a loss of tax money, but shareholders lose a lot of the protections that they need -- a long history of case law, a good court system," he said.

The blacklist includes such scandal-tarred firms as Tyco International Ltd.,

which created an offshore headquarters in Bermuda in 1997 and whose CEO, Dennis Kozlowski, was indicted last month on tax-evasion charges.

The one Bay Area firm on the list says its inclusion is unfair.

"We think we're in letter and spirit of the law," said Peter Davis, spokesman for Xoma Ltd., a Berkeley biotech firm that created a shell headquarters in Bermuda in 1999. "We're not trying to funnel profits abroad. We know there's a lot of controversy, and we expect to pay U.S. taxes. I understand there's a lot of concern and emotionalism, but we think we're being a good corporate citizen."

Xoma posted a net loss of \$28 million last year on revenue of \$17 million.

Angelides' actions are part of a movement by state officials nationwide to use treasury assets and public pension funds as weapons for corporate reform.

Earlier this month, Angelides teamed with his counterparts in New York state and North Carolina to impose strict conflict-of-interest rules on investment houses that buy and sell bonds to the states.

## TAX SHELTERS RAISE TRADE ISSUES

The issue of foreign tax havens also is at the heart of a brewing trade war between the United States and Europe.

The World Trade Organization has ruled that a separate foreign tax shelter — the so-called Extraterritorial Income clause — used by many U.S. corporations is an illegal export subsidy. This month, the WTO is expected to authorize the European Union to levy \$4 billion in punitive tariffs against the United States.

In Congress, Republicans and Democrats are fighting over how to change the complex tangle of foreign tax shelters to conform with the WTO mandate and eliminate fraud.

The battle centers on a bill sponsored by House Ways and Means Committee Chairman Bill Thomas, R-Bakersfield, that would cause some corporations to pay much more while giving huge reductions to others.

Republicans have refused to allow a floor vote on a Democratic alternative sponsored by Reps. Richard Neal of Massachusetts and Jim Maloney of Connecticut.

Rep. Nancy Pelosi of San Francisco, the House Democratic whip, says Angelides' initiative could help break the logjam in Congress.

"The leadership that Phil is providing is tangible, it's real," Pelosi said.

"What he's doing is creating a drumbeat, and when the American people learn what is possible to do, when they learn what the transgressions are, it will have an impact on federal policy."

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