“The Public Eye Awards”

Nominations form

Nominated company (name):

The *Vodafone Group Plc* and its German branch *Vodafone D2 GmbH* try to avoid paying the huge sum of EUR20 billion taxes by using a tax loophole and manipulating data related to the *Mannesmann* takeover.

Short description of the company:

Vodafone is the largest mobile telecommunications network company in the world. It provides services as mobile voice, paging and mobile data and internet services. The group has equity interests in 26 countries and partner networks in 13 countries. Headed by Arun Sarin, the company’s Chief Executive, the firm's head office is based in Newbury in Great Britain. The business in Northern Europe is directed by Juergen von Kuczkowski from the company‘s German subsidiary in Duesseldorf, the town highly concerned by the company's tax tricks.
In March 2004, Vodafone valued £86 billion (based on market capitalisation); in 2003/2004, the company made an operating profit of £10.75 billion.

Nominated for the following award categories:
O environment
O human rights
O labour rights
X taxes
O special prize ________________________________
(name a award category in the style of the above)

More than one category can be chosen, if a company has acted irresponsibly in all these areas or if it cannot be assigned to just one category. In this case the organising committee will decide the final category.

Reasons for nomination:

Under this heading there should be presented as much information as possible on the irresponsible behaviour of the nominated company – ideally covering each of the points below, including references or sources. Please use a separate page for each case example of the company. Additional supporting material such as reports or newspaper articles, and also film material, is welcomed.

General information on the case and date or time period

In June 2004, it became public that Vodafone intends to write off EUR50 billion in taxes. According to the company, this equals the book loss caused by the takeover of the German telecommunication company Mannesmann. As a result of this virtual loss, Vodafone wants to avoid paying EUR20 billion in taxes, even though the company is creating a high operating profit (in Germany EUR2.61 billion in 2003). Hence, the firm wants to shift the huge costs of the takeover deal onto the public.

Before Vodafone took over Mannesmann in the beginning of 2000, the takeover became a major public issue due to media reports and advertising campaigns. The price of the Mannesmann share rose very high. Instead of paying in cash, Vodafone bought its rival for EUR190 billion by exchanging it's own (overvalued) shares against the (overvalued) Mannesmann's shares for the price of EUR353 per piece, once the deal was decided. The shareholders made very high profits[1] and the managers of Mannesmann received payoffs of more than EUR100 million for increasing the company's value.
In December 2000, the recently founded German Vodafone D2 GmbH took over the share package from a Luxembourg-based Vodafone subsidiary for the sum of EUR146.9 billion[2]. Refering to a firm's own expert opinion, Vodafone declared that the value of the share packet had depreciated to EUR100 billions € within one year.[3] Vodafone then tried to write off the difference of EUR50 billion as a book loss and not pay taxes on its profits until 2003. As a consequence of this, the company would pay no or very low taxes for years. The sum of EUR20 billion will be lost, according to experts.
This is not the only example in which Vodafone avoids paying taxes, indeed it is evident that the corporation systematically makes use of tax loopholes. Following a report of the Financial Times, Vodafone is resisting efforts by UK Customs and Excise to recover millions of pounds in value-added tax payable on the sale of prepaid phone cards into the UK. This tax avoidance system would cause a damage of half a billion pounds of UK government revenue.

Characteristics of the company's irresponsible behaviour

Vodafone does not only cause a financial disaster for public treasuries, the company also manipulates data and misinforms the public. When the regular tax base is eroded and substituted by sponsoring, politicians and the public becomes dependent on the good will of the company.

Manipulation:
It seems evident that Vodafone manipulated the price of the Mannesmann share several times. First, the corporation shifted the price during the takeover to inhibit other competitors from buying Mannesmann and to make shareholders

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[1] As there is no way to control the revenue made by trading with shares, most profits effected by the shareholders have probably not been declared, so the taxes have not been payed.
[2] This corresponds to the price of EUR309 per share.
[3] The Mannesmann share, which is not anymore sold at the stock market, is estimated at EUR200 by Vodafone.

sell their parts. Second, the Luxembourg-based Vodafone subsidiary sold the package to the German Vodafone D2 GmbH for a price considered too high in comparison to comparable share prices. Third, the depreciation from EUR309 to EUR200 of a share within one year is fixed by the company's own expert opinion. Fourth, for Vodafone, it makes sense to put this loss completely into this time period: Due to a change in tax legislation it is only possible to set off losses against wins from selling shares until the financial year of 2001. Furthermore, value adjustments are only allowed under the condition the price is reasonable and the value depreciation is lasting. Both aspects can be doubted with good reason.

Hypocrisy:
If one compares the arguments used to justify the multimillion payoffs for former Mannesmann managers and the declared bookloss it becomes clear that Vodafone is cheating. Whereas the payoffs have been awarded because of the lasting increase of value of the company, the attempt to avoid taxes is accorded to the loss of value of the firm's shares.
The corporation's spokesmen usually argue that they have to use every possibility to avoid taxes the law allows. Following this, the missing tax revenues would result from a wrong tax policy. On the one hand it is questionable whether Vodafone's tax tricks are legal: The company overstretches and misreads tax laws. On the other hand the company is actively influencing politics by lobbying. Several attempts to change tax legislation have been prevented by lobby groups.[4]
Considering the high loss of revenue caused by Vodafone's tax avoidance strategy, the way in which the company presents itself to the public seems hypocritical. Vodafone likes to stress its social investment and its visions and values. Besides supporting sports events Vodafone praises its sponsoring of local activities which is "a part of its duty for a responsable growth and for an active role in local communities" according to their homepage. Vodafone's public relation strategy targets mostly adolescents, the group affected the most by the loss of public revenue. For example, the company boasts of sponsoring a school project with the sum of EUR87,000. This amount is "peanuts" in comparison with the sum Vodafone spent for advertisement related to the Mannesmann takeover (nearly EUR60 million) and ridiculous in comparison with the sum the company saves by avoiding taxes. Whereas Vodafone can afford consultants to make use of tax loopholes, even by applying non-legal methods, the public is calmed by false information and public relations strategies

Consequences

Corporations which use tax loopholes benefit from the fact that it is difficult to show the direct consequences of the missing revenue. Following the discussions about public households and taking into account empirical data it can be shown which areas will be affected by missing tax income.

[4] Incidentally Vodafone is member of the ESF.

Theoretically companies like Vodafone pay corporation tax to the federal state and trade tax to the city, which gives a part of the revenue to the state and federal government.

Last year the federal state of North Rhine-Westphalia, in which Vodafone's main subsidiary in Germany is located, was widely cutting costs.[5] Duesseldorf's mayor Mr. Erwin already complained last year about the drop in trade tax. While considering the possibilities to save costs, it is impossible to count on a fixed tax income. Taking into account the losses caused by Vodafone, the financial situation of the city will be much worse. Last year the city had to transfer several municipal facilities into private ownership, accept public private partnerships[6] and sale shares of former municipal facilities[7].

Due to the fact that Vodafone makes very high profits, it is scandalous that the firm avoids paying taxes such that it is impossible to finance basic public infrastructure in one of the richest countries in the world.
If companies like Vodafone get away with avoiding taxes, the social institutions and infrastructure cannot be maintained in the long term. Instead of deciding in a democratic matter how to spend the tax revenue, citizens and politicians are becoming dependant on a company's sponsoring

Demands made to the company

In a campaign organized by Attac Germany, more than 10.000 people sent postcards to Vodafone and demanded that it revokes its tax avoidance plan. In addition, more than 30.000 E-Mails were sent to Vodafone through the website www.attac.de/vodaklau. Moreover, many people canceled their contracts with Vodafone or announced to do so if the company didn't pay its taxes.
Until today Vodafone has not shown any critical attitude. The company still claims it has to stand for its shareholder's interests.

Sources / references

www.vodafone.com

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[5] That means concretly in programs supporting workless adolescents, projects to integrate persons living from welfare aid, programs to support women, the financial precaution of mining accidents, in the administration and in day-nursersies etc. It was discussed to minimize the costs for the precaution of Aids, refuges for women and adult education centers. The shut-down of four theaters could still be prevented.
[6] the airport
[7] Stadtwerke, RWE AG. The city is also cutting payments for the public transportation system.

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