

Tax dispute: Vodafone sends conciliatory signals

Company is now trying to initiate dialogue with the Narendra Modi-led government

Strains between Vodafone and the government over a Rs 20,000-crore tax dispute are showing signs of easing, with the telecom major sending conciliatory signals. Representatives of the British telecom company on Friday met senior finance ministry officials, in search of an amicable solution.

After sending an international arbitration notice to the previous government, the company is now trying to initiate dialogue with the Narendra Modi-led government. With the ministry officials, it also discussed its investment plans in the country.

“They came to talk to me about their plans for future investments; they are very enthused about the positive attitude of the new government. They are happy with their operations in the country,” Finance Secretary Arvind Mayaram said after the meeting.

Other than Mayaram, Matthew Kirk, Vodafone group external affairs director and former British Diplomatic Service officer, also met Revenue Secretary Rajiv Takru and Additional Secretary K P Krishnan.

“Nothing is cast in stone. They did not specifically discuss the arbitration issue but I got a sense they wanted to settle the matter,” said a ministry official, requesting anonymity.

Specifics of the case were not discussed, as it was just “a courtesy call”. It is believed the company might meet Finance Minister Arun Jaitley next. It is also said to be trying for an appointment with Prime Minister Modi.

Despite the conciliatory signals, the company hasn’t withdrawn the arbitration notice served to the government on April 17. The finance ministry was preparing a response to the notice and would appoint an arbitrator by June 15, said the official quoted earlier.

Sources said Vodafone representatives told ministry officials arbitration wasn’t a reflection of any confrontation with the government.

The meeting came three days after new law and telecom minister Ravi Shankar Prasad said retrospective changes in law should be avoided, as India needed foreign investment. “We will look into it (the Vodafone case). Our manifesto has been very specific — we want a stable regime, in which those who invest in India don’t have to face uncertainty,” he had said.

In response to Vodafone’s arbitration notice, the government will say tax issues are not covered in the India-Netherlands bilateral investment promotion agreement.

Officials said, therefore, Vodafone didn't have a strong case under the Bipa and it was in the company's interest to resolve it amicably with the government. "Vodafone wants to

expand in India and for that, it was important that the company wasn't seen as confronting the government," said an official.

If Vodafone withdraws the international arbitration, one of the options before the government will be to ask the company to pay the principal of Rs 7,900 crore; it might waive the penalty and interest in all such cases by issuing a circular.

Last year, former finance minister P Chidambaram had proposed conciliation with Vodafone. However, the proposal was withdrawn, as Vodafone reportedly said it didn't see any merit in waiting for an Income Tax Appellate Tribunal order in its transfer-pricing case. Also, the company wanted conciliation under the United Nations Commission on International Trade Law, while the government did not want it outside the Indian Arbitration and Conciliation Act.

In 2007, Vodafone, through its Netherlands-based subsidiary, had acquired 67 percent stake in Hutchison-Essar for \$11.2 billion.

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