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COMPANIES INTERNATIONAL: Swatch denies tax law claims

By Haig Simonian in Zurich and Adrian Michaels in New York, Financial Times
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Swatch Group yesterday said it was the victim of a campaign by former employees and denied their claims that it had pursued illegal tax practices.

The response followed an investigation in yesterday's Financial Times revealing that some financial executives at the Swiss watches group feared its global "transfer pricing" policies could be challenged by regulators if they became known.

Swatch also claimed that the two former employees behind the allegations only submitted their case to the US authorities after an attempt by at least one of them to secure higher severance payments was rejected by the company.

The revelations sent the group's share price tumbling as investors feared a new corporate accounting crisis after recent scandals.

Swatch's bearer shares came back to close 3.6 per cent lower, while its registered shares were almost 2.6 per cent down. Both classes of shares had fallen by more than 10 per cent earlier.

The revelations came as some of the company's top executives assembled in Athens yesterday, embarrassing the company at the opening of this year's summer Olympic Games. Swatch signed an agreement with the International Olympic Committee in January 2001 covering timing, scoring and venue results services for the next two summer and winter Olympics.

Swatch said the tax issue was a "pure employment dispute" and stressed it did not violate any laws. "Nevertheless, it is normal practice for every company to structure the business in a way for paying all due taxes without exception but not more than required by the law, and always within the rules given by existing laws and regulations," it added.

"None of the Swatch Group's companies is calculating transfer prices just for tax purposes, but with a view to harmonise the international price structure for the consumer."

Swatch did not comment specifically on the e-mails published by the FT showing executives' concerns about transfer pricing practices and recommending details not be put in writing.

"We would be surprised if the Swatch Group had broken the law," noted ***James Amoroso***, analyst at Pictet, the Swiss private bank.