



REPUBLICA DE PANAMA
MINISTERIO DE ECONOMIA Y FINANZAS

Statement of the Republic of Panama
At the Global Forum of the Organization for Economic
Cooperation and Development (OECD)
Ottawa, Canada –October 14-15, 2003

1. The Republic of Panama is a sovereign nation whose Gross Domestic Product is based primarily on a service sector that accounts for 75% of its economic activity. As you may know, Panama's economic development is conditioned by unique factors such as the limited existence of natural resources, the limited extension of its territory, the existence of an interoceanic waterway -the Panama Canal-, and the use of the U.S. currency as legal tender since 1903. These and other historical factors have made Panama's economy one oriented towards the services sector.
2. Panama's economic evolution towards the supply of various international services is the **consequence of history and not of initiatives to help evade taxes** in other parts of the world. Panama has a real economy and thus a real tax system; a system which is an instrument for fiscal and budgetary policies, and not for tax evasion elsewhere. Panama's fiscal pressure represents approximately 12% of GDP.
3. In Panama, residents and non-residents, without distinction, are applied a progressive income tax rate of 4% to 30% in the case of individuals, and 30% in the case of corporations. Moreover, our tax laws are based on the principle of territoriality, which is a perfectly well established, acceptable and recognized criterion. I must emphasize: The Republic of Panama is not a "Tax Haven."
4. In order to fulfill its own objectives, and without multilateral participation, the OECD—whose country members apply in general the principle of world taxation—created the harmful tax practices project. Without bilateral consultation, the OECD labeled Panama and other small economies as "tax havens" and initiated a process based on the threat of economic sanctions—disguised as defensive measures. It is important to remember that Panama is governed by the standards of International Law, and as a founding member of the United Nations its international relations honor the principles of self-determination and renounces the imposition of measures by coercive methods and force. Despite the unilateral, biased and coercive approach adopted by the OECD, Panama's interest to participate in the efforts of the international community has not waned. However, this should not be interpreted as Panama's resignation to its sovereign right to conduct its international economic agenda.
5. Despite the not-so transparent methods of "name, blame and shame" utilized by the OECD in this project, in April 2002 Panama signed a letter of commitment adhering to the principles of transparency and effective exchange of information, thereby demonstrating our interest and commitment to avoid the abuse of international financial services.
6. I am certain that a multilateral discussion of these issues would have been more productive and effective in reaching our common goals. Nevertheless, as in the case of other countries and jurisdictions, equity and non-discriminatory treatment ("level playing field") were the conditions established in order to develop effective commitments between the OECD and Panama, and as a protection mechanism against unfair competition from other countries, which include OECD members.
7. The Republic of Panama is prepared to fulfill its commitment; nonetheless, we have observed with deep concern, as have the rest of the committed countries, that the principles of equity and non-discrimination contained in the concept of level playing field are not being achieved for the following reasons:

- a. Unavailability of comprehensive and reliable information regarding the results of the efforts made by members of OECD towards the elimination of harmful tax practices, especially those dealing with the exchange of tax information.
 - b. The European Union “tax package”, particularly the Directive on Savings Taxation and the Code of Conduct, allocates privileges to OECD members as it allows obligations and timetables which are different from those required of non-OECD members, as has been duly recognized by the OECD leadership.
 - c. The OECD has afforded a differential treatment to members of the OECD that have not held true to the project’s objectives, *vis a vis* those that have adhered to it and to those that have signed commitment letters.
 - d. The OECD project neglects to include other countries and jurisdictions that compete in the international services market.
 - e. The OECD’s project has encouraged third countries to elaborate discriminatory lists and the imposition of sanctions, which is a disloyal act against the countries and jurisdictions that are signatories to the Letter of Commitment.
 - f. The OECD project has not contemplated compensation mechanisms for countries with territorial tax systems which would provide tax information.
 - g. The OECD harmful tax competition project ignores specific obligations under the Marrakech Agreements of the WTO on services.
 - h. The OECD applies inconsistently the concept of low or no taxation; and as a result, it challenges the principles of fiscal sovereignty and that of territorial taxation.
8. Because of all of the above, Panama expects that the lack of a level playing field should be addressed and overcome before this project continues moving forward in order to prevent irreversible harm to our small economies due to unfair competition and discriminatory practices. Panama welcomes the OECD’s recognition of this issue by our presence here in the Global Forum, and we will endeavor to contribute constructively to the satisfactory solution of this complex issue.
 9. The creation of a “level playing field” requires the total commitment of all parties, members and non-members of the OECD, in order for the principles of transparency and effective exchange of tax information to be achieved. Likewise, this commitment must include those countries and jurisdictions not currently listed by the OECD. Also, we should strive to develop the mechanisms to gauge the proper fulfillment of the commitments by members and non-members of the OECD. Only then can we hope to achieve the purpose of true international transparency and effective tax information exchange without compromising the competitive position of countries and jurisdictions that submit their financial activities to a new structured and regulated system.
 10. To conclude, my Government reiterates, as it has done throughout all meetings held with the OECD, that the Republic of Panama will be engaged in international tax cooperation discussions as long as those discussions are consistent with International Law, respect to its sovereignty, and the consensus which must arise out of the true implementation of the “level playing field” principle.