I.T.I.O.

NEWS RELEASE

INTERNATIONAL TRADE AND INVESTMENT ORGANISATION

LITTLE DIFFERENCE BETWEEN ONSHORE AND OFFSHORE, NEW ANALYSIS OF OECD DATA REVEALS

"End stigmatisation and let us into treaty network", say small countries
Commonwealth calls for fair play

1 May 2007 For immediate release

"It's time to stop treating small countries with finance centres as different. Big countries have no moral or legal edge over small ones. This report proves it," says Malcolm Couch, Deputy Chair of the International Trade and Investment Organisation (ITIO), a grouping of small countries with international finance centres.

The report is "Assessing the Playing Field", a study undertaken for the ITIO by Camille Stoll-Davey of Oxford University and published today by the Commonwealth Secretariat.

The report disproves the contention that so-called "offshore" centres have inferior regulation or standards to "onshore" ones.

Based on an analysis of objective data compiled by the Organisation for Economic Cooperation and Development (OECD), the report finds that in crucial areas such as a willingness to exchange tax information or to identify who is behind companies or trusts, OECD member countries do not operate to a higher standard than so-called offshore centres and in important cases they operate to a lower standard.

- For example, many US states, including Delaware and Nevada, do not require companies to provide beneficial ownership information. Yet as the report states, "Delaware companies are arguably the corporate vehicles most frequently used by non-residents of the United States for so-called offshore transactions."

- The USA, UK, Canada, France, Germany, Italy, Switzerland, Austria, Luxembourg and Costa Rica still permit bearer share companies and therefore accept a reduction in transparency.

- Major players in international finance like Hong Kong and Singapore restrict exchanging tax information to domestic interests and Switzerland restricts it to cases of tax fraud and the like.

"All this should come as no surprise," adds Mr Couch, who is also the Isle of Man's Assessor of Income Tax. *"Only three years ago, a comparison by the International Monetary Fund of what were called offshore and onshore finance centres stated that compliance levels for offshore centres were on average more favourable than those onshore.*

"Large countries should stop stigmatising small and developing ones. There is no factual basis for that approach. Instead, we should all continue to work on a cooperative and fair basis and to participate in the OECD's Global Tax Forum to help each other tackle criminal and terrorist financing and tax evasion.

"The first outcome should be that small countries are fully involved in the creation of new international standards, rather than have these imposed on them by multilateral bodies that large countries control, such as the OECD and the Financial Action Task Force.

"Small countries also need to be given access to the international network of double taxation treaties. OECD members should offer us more than 'tax information exchange agreements' without mutual benefits."

In an introduction to the report, Ransford Smith, Deputy Secretary-General of the Commonwealth Secretariat, states:

"The international financial services sector must foster an environment of fair play that takes full account of the interests and vulnerabilities of small developing states.

"To reduce global inequality, international standard setting exercises need to promote a level playing field and fair competition between small developing countries and large rich nations.

"The issue of double taxation and tax information exchange agreements needs to be addressed by the development of a methodology that recognises the divergence in tax structures across jurisdictions and allows all countries to utilise the same tools."

- ENDS -

<u>Notes to Editors</u>

1. **"Assessing the Playing Field**" can be obtained from the Commonwealth Secretariat, price £10. See http://publications.thecommonwealth.org/publications/html/pub_details.asp

2. For **further information**, please contact Ben Coleman on +44 (0) 20 8743 7640, 07958 616 444, bencoleman@oceans-consulting.com or Malcolm Couch on +44 (0) 1624 685 355, malcolm.couch@gov.im.

The new ITIO study "Assessing the Playing Field"

3. "Assessing the Level Playing Field" analyses the data presented in a 2006 assessment by the OECD, entitled "Tax Co-operation: Towards a Level Playing Field – 2006 Assessment by the Global Forum on Taxation".

4. The OECD's 2006 assessment reviewed the legal and administrative frameworks in 82 OECD and non-OECD countries and jurisdictions in the areas of transparency and exchange of information for tax purposes. See http://www.oecd.org/document/60/0,2340,en_2649_33745_36791868_1_1_1_1,00.html

5. The new ITIO study sampled 25 of these countries to identify the nature and prevalence of limitations in their legal and administrative frameworks. The countries were selected to reflect geographic, population and GDP dispersion, and were divided into three groups: OECD, ITIO and other countries. The OECD's data was correlated with information from other international organisations including the World Bank, the Financial Action Task Force (FATF) and the International Monetary Fund (IMF), as well as data published by individual governments.

6. **Camille Stoll-Davey**, the author of "Assessing the Playing Field", has worked in the financial services sector on both sides of the Atlantic. She currently conducts research on financial services law and regulation at the University of Oxford and has a particular interest in hedge fund regulation.

The ITIO

7. The International Trade and Investment Organisation (ITIO) works for a level playing field in the trade in services. It includes Anguilla, Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Isle of Man, Panama, St Kitts & Nevis, Samoa, St Lucia, St Vincent & the Grenadines, Turks & Caicos and Vanuatu. The Commonwealth Secretariat, CARICOM, Pacific Islands Forum, Caribbean Development Bank and Eastern Caribbean Central Bank have Observer status. See www.itio.org

Key report findings

8. The ITIO report states: "The analysis did not indicate that the legal and administrative frameworks available in OECD countries for tax information exchange were objectively superior to those in ITIO or non-OECD countries". Examples from its detailed review of selected countries are given below.

Opaque company ownership

9. Many US states, including Delaware and Nevada, do not require companies to provide beneficial ownership information. Yet Delaware companies are arguably the corporate vehicles most frequently used by non-US residents for so-called offshore transactions.

10. The UK, Austria and Singapore also do not require companies to provide beneficial ownership information. Austria and Luxembourg do not require trustees to do so. Canada limits information on trust beneficiaries where there is no Canadian tax interest.

11. The USA and UK still permit bearer share companies, as do Canada, France, Germany, Italy, Switzerland, Austria, Luxembourg, Samoa, Vanuatu and Costa Rica.

Information exchange

12. Hong Kong and Singapore limit tax information exchange to domestic interests. Switzerland limits it to cases of tax fraud and the like. Samoa and Vanuatu limit it to criminal tax matters. Austria restricts access to bank information to cases of tax evasion rather than all criminal and civil tax matters. Luxembourg restricts such access to civil tax matters.

Global Forum

13. The Level Playing Field Sub-Group of the OECD's Global Forum on Taxation is meeting in London on 29-31 May 2007.

14. The OECD's Global Forum on Taxation brings together representatives of dozens of governments, both OECD and non-OECD, to discuss the issue of a global level playing field in the area of transparency and information exchange in tax matters.

15. Although the 2004 Global Forum meeting stated, "The global level playing field... will provide for...mutual benefits through bilateral implementation", such mutual benefits are proving hard for non-OECD countries to achieve in their bilateral discussions with OECD member states.

16. When the OECD's 2006 assessment was published, Paolo Ciocca, Chair of the OECD's Committee of Fiscal Affairs and Co-Chair of the Global Forum, emphasised that the Global Forum's efforts to improve transparency and exchange of information would continue towards a level playing field. He said, *"The direction of change is clear. Onshore and offshore financial centres are prepared to work towards the implementation of mutually agreed standards. I look forward to the day when the centres that have met these standards are joined by other jurisdictions that have not yet achieved them."*

Double taxation conventions (DTCs) and tax information exchange agreements (TIEAs)

17. The ITIO report notes:
"In the overwhelming majority of cases, the international instrument made available to small and developing countries is the stand-alone tax information exchange agreement (TIEA) that does not afford these small and developing countries the same economic advantages as are offered to more geo-politically influential countries, which are able to use the conventional double taxation conventions (DTCs) as their mechanism for the exchange of information.
"The net effect of this limitation to TIEAs is the exclusion of small and developing countries from the treaty network which puts them at an economic disadvantage and creates an 'unlevel playing field' for competition in the global financial services sector….
"Absent a correction to this problem it is foreseeable that the rich will get richer and the poor will continue to be disadvantaged."

18. DTCs typically provide for reciprocal economic benefits, the limitation of double taxation and the partitioning of taxing rights and enforcement cooperation. They help to overcome tax biases in order to promote international commerce between the signatories.

19. Although DTCs are the standard for exchange of information between OECD members, the dominant countries have tried to manoeuvre small states into accepting onerous obligations through TIEAs, without the benefits of a DTC's reciprocal economic benefits. TIEAs are at the heart of the OECD's harmful tax competition initiative.

20. Dominant countries have stigmatised small states to legitimise this process. The ITIO report shows that such stigmatisation is not based on objective fact.

21. If a level playing field is to be achieved, either small countries will have to be given access to the treaty network or other means of removing discrimination will be required.

22. A unique example is the group of agreements, including a TIEA, that the Isle of Man entered into with the Netherlands in October 2005. This gave the Isle of Man other benefits, including that the information exchange should not operate in the context of discrimination and that the countries could negotiate a more conventional comprehensive taxation agreement. This served the interests of both countries and removed discrimination. However, the OECD has discouraged its members from signing further such agreements with small developing states.

International standards

23. Big countries operate through clubs and use organisations that they control (OECD, FATF, IMF, FSF, etc.) to establish and promulgate rules, standards of practice and intended norms. They call these "international standards" and impose them on weaker states. Small and developing states feel unfairly pressured to apply standards not uniformly applied by those countries which are applying the pressure or by other more powerful competitor countries.

24. In his introduction to the ITIO report, Ransford Smith, Deputy Secretary-General of the Commonwealth Secretariat, states:
"In the global arena the lack of representation and effective participation of small vulnerable economies in international standard setting bodies and processes is one of the major drawbacks. The small states have limited opportunities to make inputs into the development of measures that are critical for the efficient functioning of the sector, as well as for their development. Yet their compliance is expected within given timeframes."