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## **Halloween Start for Panama FTA Means Tricks, No Treats for 99% as Panama Makes Top Tax Haven List and Job-Killing FTA Deficits Rise**

### ***Despite Talk of Closing Budget Deficit, Obama and Romney Support Deal That Limits U.S. Tools to Counter Tax Dodging by U.S. Firms and Wealthy Individuals***

WASHINGTON, D.C. – The biggest scare of Halloween 2012 is the implementation of the Panama Free Trade Agreement (FTA), which weakens the U.S. government’s ability to stop U.S. corporations and wealthy individuals from dodging taxes in Panama, one of the world’s most notorious tax havens. Passed in October 2011, the FTA is scheduled to go into effect on Wednesday.

Panama’s tiny \$30 billion economy—smaller than that of Columbia, S.C.—offers few U.S. export opportunities. And many of the prospective U.S. business opportunities associated with the Panama Canal widening project were carved out of the agreement’s coverage. But the downsides of the deal are huge: As the U.S. government struggles to close its budget deficit, the pact restricts U.S. policies now available to counter tax evasion by U.S. firms and wealthy individuals who move their money to Panama. The pact also empowers firms incorporated in Panama, including offshored U.S. corporations, to use international tribunals to demand U.S. taxpayer compensation over U.S. policies, such as anti-tax-evasion measures, that the firms claim undermine their “reasonable expectations.”

“The presidential candidates are sparring over who would best crack down on offshore tax evasion and reduce our budget deficit, so it’s a sorry statement about the power of corporate campaign money that both candidates support a pact with the hemisphere’s leading tax haven,” said Lori Wallach, director of Public Citizen’s Global Trade Watch. “Deficit-cutting promises run completely contrary to this deal, which will limit the incoming administration’s ability to make U.S. corporations and wealthy individuals pay their taxes.”

In June 2012, the Organization for Economic Cooperation and Development (OECD), which tracks countries’ tax haven statuses, reported that Panama remains one of a handful of countries in the world that has not passed a first-stage review of its tax transparency measures. The OECD noted Panama’s nearly unparalleled nonconformity on six of nine regulatory checks against tax evasion. Even the Cayman Islands did not earn that dubious distinction.

A 2010 U.S. Tax Information Exchange Agreement with Panama, touted by the Obama administration as significantly improving Panamanian tax evasion problems, has failed to deter banking secrecy on the ground in Panama, as the recent OECD report highlighted. A large loophole in the tax treaty allows Panama to deny tax information requests about U.S. firms and citizens if revealing the information is “contrary to the public policy” of Panama, a country that earns much of its revenue by providing tax haven services.

Congress passed the Panama FTA despite opposition from two out of three House Democrats and despite U.S. public opinion polling that revealed FTA opposition as the dominant position of Democrats and Republicans alike. Since then, the U.S. government has pressured Panama to provide large U.S. pharmaceutical firms with new monopoly patent protections that increase medicine prices. Panama, however, was not required to alter its banking secrecy practices or to change its two-track tax system, which provides tax-free status to foreign corporations, nor to eliminate tax-evasion tools such as bearer share corporations, which are owned by whomever physically controls paper shares with no recording of ownership transfers required.

Panama is home to more than 400,000 corporations, many of them U.S. subsidiaries, which amounts to one corporation for every nine Panamanians. The FTA’s extreme investment and financial services provisions bar the U.S. government from limiting U.S. corporations’ transactions with Panama-based subsidiaries, while granting the subsidiaries the right to directly challenge the U.S. government in foreign tribunals for U.S. regulations to rein in tax evasion.

FTAs with Korea and Colombia were passed on the same day as the Panama pact in 2011. Since those deals went into effect, U.S. exports to Korea have declined and imports from both Korea and Colombia have surged, increasing the job-killing U.S. trade deficit.

The Obama administration’s claim that the Panama FTA “supports the President’s goal of doubling of U.S. exports to support well-paying jobs at home” repeats an identical claim made during the launch of the Korea FTA. Under that parallel deal, U.S. goods exports to Korea have fallen by more than \$1.2 billion while imports have risen in comparison to 2011 levels for the same period. As a result, the U.S.-Korea trade deficit has soared by 34 percent, costing thousands of U.S. jobs. Both the Korea and Panama FTAs include provisions, borrowed from the North American Free Trade Agreement (NAFTA), that incentivize offshoring of investment. In addition to limiting how U.S. officials may combat tax dodging by U.S. firms in Panama, the FTA grants special benefits to U.S. corporations that incorporate in Panama. These offshoring incentives include a guaranteed minimum standard of treatment, compensation for regulatory costs and the ability to sue the Panamanian government in foreign tribunals if it enacts policies that undermine foreign firms’ expected future profits.

For more information about the Panama FTA, visit <http://citizen.org/panama-fta>.

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