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U.S.-Panama Tax Pact Just the Beginning of Changes Needed for U.S.-Panama Trade Deal to Gain Broad Support

Statement of Todd Tucker, Research Director, Public Citizen's Global Trade Watch

The tax information exchange agreement (TIEA) that the Obama administration signed with Panama today does not require Panama to automatically exchange information with U.S. authorities about tax dodgers, money launderers and drug traffickers. Therefore, Panama is giving itself until the end of 2011 to make a series of domestic legal changes to facilitate the non-automatic information sharing envisioned by the new TIEA – which will be made only in response to specific, case-by-case requests after U.S. authorities have already obtained and provided to Panama a great deal of information about potential wrongdoers. In other words, a lot of work remains to be done before resolution of Congress' concerns that no U.S.-Panama “free trade agreement” (FTA) be considered until Panama cleans up its financial secrecy practices.

The OECD's tax watchdogs stated that they would not give Panama the peer review seal of approval until there was sufficient time to see how well Panama's recent flurry of tax reform commitments worked in practice. And certainly – before voting on any FTA – those in the U.S. Congress who have long raised concerns about Panama's financial secrecy will want to be able to verify that newly announced changes in the country's policy are resulting in real changes in practice.

Verifying that Panama is actually making these changes will take some time. This gives the Obama administration the space to modify the terms of the FTA negotiated by the Bush administration that would make fighting tax-haven abuses difficult. For instance, the current FTA's investment provisions constrain one of the most important tools policymakers have in fighting financial crimes and wrongdoing – restrictions on transfers to and from the countries that provide financial secrecy like Panama. Moreover, the FTA gives the tax haven promoting government of Panama and the 400,000 corporations registered there new rights to challenge U.S. anti-tax haven policies for cash compensation outside of the U.S. judicial system.

President Barack Obama pledged during his campaign to reform these FTA investment provisions, and policymakers will be looking to see these changes made before casting a vote on any U.S.-Panama trade agreement.

To read Public Citizen's report about how the Panama FTA's current text would make fighting tax havens difficult, see here: <http://www.citizen.org/Page.aspx?pid=519>.

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