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Panama Protests 'Tax Haven' Label

Tim Rogers - May 01 2009

PANAMA CITY – Whether it's gang violence, corruption or political instability, every Central American country has an international image problem it has to confront to make sure investors and tourists don't get scared away.

In Panama, the country's image problem is slightly more sophisticated, yet equally damaging to its international reputation. Panama has become known as an international tax haven – a label that threatens the ratification of the U.S.-Panamanian Free Trade Agreement and the future of the country's relations with members of the G20 group of developed nations.

"I would say with respect to Panama that there are also some important issues that need to be worked through having to do with cooperation in resisting tax evasion," White House National Economic Council Director Larry Summers said April 18 at the Summit of the Americas in Trinidad and Tobago.

Panama was recently "gray listed" by the Organization for Economic Cooperation and Development's (OECD) as a tax haven. Panama's "gray list" list status means it is a country that has committed to reforms "but has not yet substantially implemented" the internationally agreed-upon tax standard recommended by the OECD (TT, Online Daily News, April 3).

The U.S. Treasury Department has been in talks with Panama about a tax-information exchange agreement since 2002, but little progress has been made so far. In the wake of the financial crisis in the United States and amid concerns over the handling of bailout packages, the issues of tax transparency, banking regulations and secrecy laws have taken on a new importance for the administration of U.S. President Barack Obama.

Some U.S. politicians are linking ratification of the free-trade agreement to Panama's compliance with tax and bank secrecy issues, and a new bill in the U.S. Congress calls for sanctions for tax havens like Panama. Both issues will pose a potentially thorny problem for whichever candidate wins the Panamanian presidential elections on May 3 (NT, April 24).

Leaders of Panama's banking sector insist their country's reputation as a tax haven is unfair, and warn politicians that if they try to tinker with Panama's banking laws and incentives to appease the U.S. and G20, they might kill the golden goose in the process.

"In Panama we don't have oil and we don't have minerals. We have a geographical position and we have fiscal incentives to do business – that's how Panama exists and we have to continue with that type of business," said Moisés Cohen, president of Panama's Banking Association. "Every country is different and every country has to survive taking advantage of the resources that it has."

Panama's Resources Fueled by international trade from the canal and a privileged location in the center of the Americas, Panama has developed a world-class financial system of 90 banks, 70 of which are foreign controlled, with European, Latin American, U.S. and Asian ownership.

The banks have a combined \$60 billion in assets, \$30 billion of which is Panamanian and the rest is foreign held, mostly by from Latin America, Cohen said.

All the banks have a physical presence in Panama and the banking sector employs a total of 17,000 people, he said.

"Panama is a first-world banking center, with first-world regulations" Cohen told The Tico Times during a recent interview. "We don't have any paper banks here."

Cohen says that before U.S. or G20 politicians decide Panama is a tax haven, they should first come visit the country and try to open a bank account to "see how our banking and financial system works."

"Our recommendation to the G20 is that they control the tax evasion in their own countries," Cohen said. "They can't say that we are responsible for the tax evasion that is happening in their countries, because tax evasion is born there, not here."

The banker notes that it was the U.S. and European financial systems that collapsed, not Panama's.

"They don't have the moral authority to go against small countries that are trying to progress," he said.

"The system in Panama is proven, and we have shown that we don't have toxic investments," Cohen said, adding that Panama's banking system is very traditional and conservative. "Loans and mortgages are taken very seriously. Before they are given we know who the client is."

The strength of Panama's banking system has helped its economy to weather the international storm and maintain 3 to 5 percent growth projections during a time of global recession, Cohen said.

“Because the Panamanian banking system is really strong, the rest of the economy is going to do better than other economies where the banks are broken and closing,” he said. “Even though we don’t have a central bank, each bank here has very good liquidity and capitalization, exceeding the laws of other countries.”

That plus a good portfolio of loans “creates a good environment in Panama” during difficult times in other parts of the world, the banker said.

Cohen also stressed that the laws in Panama allow for the sharing of information in criminal cases, when “information goes through the correct channels.”

What banks in Panama will not do, he said, is provide anyone with general information about clients.

“There is confidentiality in the banking sector,” and that has to continue, he said. At the end of the day, Cohen said, Panama has to protect its incentives, which are no different from investment incentives in other parts of the world.

And if incentives make you a tax haven, Cohen said, then the “United States and England are the biggest tax havens in the world.”

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