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High-level meeting of selected EU and OECD countries on transparency and exchange of information

Remarks by Angel Gurría,
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OECD

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Good morning,

Let me first apologise for arriving late. I was held up at an OECD press conference on an issue which I'm sure is close to all your hearts - growing inequality – a topic which is also related, I believe, to what we are going to discuss this morning: how to deal with tax havens and countries that have excessive bank secrecy regimes.

First let me congratulate Ministers Steinbrück and Woerth for taking this initiative. This meeting takes place at a time when the issue of international tax evasion is very high on the political agenda. When the G8 Heads of State met in Japan in July, they "urged all countries that have not yet fully implemented the OECD standards of transparency and effective exchange of information in tax matters to do so without further delay, and encouraged the OECD to strengthen its work on tax evasion and report back in 2010." It is also taking place during the most difficult economic times we have faced in many decades.

<u>The size of the problem</u>

What do we know about the amounts of funds held offshore? The very opaqueness of some of these jurisdictions makes it very difficult to get a reliable estimate but we are pretty confident that it is big and growing, somewhere between 5-7 trillion dollars. There are many reasons why individuals and corporations go offshore (for example, to escape from political instability in their home countries) but secrecy is also a driver.

<u>How have Governments reacted</u>?

We have seen reactions at two levels, first at the national and second at the multilateral level.

1) National Level

Many countries around this table have over the last three years reinforced their anti-abuse provisions:

- Canada has developed a carrot and stick approach to entice countries to exchange tax information .

- Australia has denied benefits to residents of countries that do not exchange information.

- Italy imposes stricter rules on transactions with countries that do not adhere to the OECD standards.

- Mexico and Spain now impose more onerous requirements on transactions involving entities in certain "listed" jurisdictions, but are prepared to remove a jurisdiction from such a list if it has a tax information exchange agreement (or double taxation conventions) in force with them.

- The Nordic Council countries have managed to negotiate a number of agreements by offering certain carrots but they have also indicated that they will consider imposing defensive measures where necessary.

More broadly there are now at least half a dozen OECD countries that have put comprehensive offshore compliance strategies in place, including strong incentives for voluntary compliance. Some of these approaches have been more successful than others, particularly in Ireland and UK. I'm sure that Minister MANSERGH and Financial Secretary TIMMS will tell us more.

2) Multilateral Approaches

We have seen multilateral action both at the level of EU (our colleagues from France will probably expand on this) and at the level of the OECD.

The OECD work was initiated by G7 Finance Ministers in 1996. The intention was to identify tax havens, list them, and apply countervailing measures quickly, but tax havens persuaded us to move to a more co-operative approach.

In 2000 we identified over 40 tax havens and between 2000 and 2005 we were able to convince 35 of these tax havens to commit to the OECD standards of transparency and exchange of information. Seven tax havens initially refused to make this political commitment and were placed on a list of uncooperative tax havens. By 2008 this list had been reduced to Andorra, Liechtenstein and Monaco.

Also in 2000 the OECD launched a parallel project to improve access to banking information for tax authorities within the OECD membership. We agreed an ideal standard of access which all 30 Members endorsed. This standard has now been widely implemented both within the OECD and beyond and has been endorsed by the G8, the G20, the EU, and we hope it will be soon by the UN. However, some countries have still not fully reached this standard.

We continue to work on both of these initiatives and are proud to say that there have been interesting achievements. For example, Belgium now has a tax treaty with the US which, for the first time, provides for exchange of bank information for all tax purposes. This is a significant breakthrough. Further, a total of 27 tax information exchange agreements have been signed since 2000 and around 40 more are under negotiation. Most of the progress, however, has been with just six offshore financial centres that are actively negotiating agreements (Aruba, Bermuda, Isle of Man, Jersey, Guernsey and Netherlands Antilles).

In October, a joint group of OECD countries and tax havens met in London, under the Co-Chairmanship of Japan. They agreed to provide a more transparent presentation of where 80 plus financial centres stand in relation to effective exchange of information standards. They also proposed that once a jurisdiction has passed a certain threshold, it could be considered as having substantially implemented the OECD standard.

We also have put in place a mechanism to monitor progress - the annual assessments of implementation of the standards we have developed, the latest being published in September (I believe you all have a copy). OECD has been undertaking exhaustive (and exhausting) studies on defensive measures. We know what works and what doesn't work and we have ideas on what new measures could be taken.

It is now for you to decide how to create the political climate that will convince the tax havens that have not implemented these standards to do so and to do so quickly. Your political leadership is called upon to make change happen.

What would this require?

1) First, as one of the outcomes from this meeting, you could give a mandate to OECD to produce a methodology that would produce more reliable data on the size of the problem, since this would provide a firmer footing for the political debate.

2) Second, a clear political recognition being given to those offshore financial centres that have made progress. The politicians in those jurisdictions have taken a high political risk. You need to show them that the choices that they made are the right ones and you may want to mention them in your concluding statement.

3) We also need to clearly identify those tax havens that are not implementing the standards, and to advance the agreement reached in October.

4) We need to intensify the exchange of experiences on what has been most effective in protecting national revenue bases from offshore non-compliance.

5) I also believe that OECD countries may need to re-examine their tax treaty policies towards countries that have refused to join the 80 plus financial centres that have endorsed the OECD standards.

We at the OECD stand ready to work with you and other OECD and non-OECD countries that are being affected by offshore non compliance. It is important to recognize that this is a problem, not just for the rich countries, but also for the poor countries of the world, as can be seen from the fact that cross-border tax evasion will figure very prominently in the debate in Doha in six weeks' time.

More generally, if we are going to find a lasting solution to the current financial crisis we need to ensure that there is debate between bank regulators and tax authorities. Tax may not have been one of the main causes of the crisis but I do believe it should be an integrated part of the long-term solution. We cannot expect tax payers to fund the bailing out of failed financial institutions and at the same time allow these institutions to facilitate offshore non- compliance by using tax havens.

Transparency and integrity – core aspects of our tax work – will be critical to rebuilding the financial architecture and sound tax policies will be essential to revitalizing the global economy. The OECD stands ready to assist you in tackling these substantial challenges.

Thank you!