

OPENING STATEMENT

BY

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AT

THE HIGH LEVEL CONSULTATIONS
ON THE OECD'S
HARMFUL TAX COMPETITION INITIATIVE

SHERBOURNE CONFERENCE CENTRE
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Secretary General of the Commonwealth, the Rt. Hon. Don McKinnon; Deputy Secretary General of the Organisation of Economic Cooperation for Development, Mr. Seiiki Kondo; Secretary General of the Caribbean Community, Dr. Edwin Carrington; fellow Heads of Government and Ministers; representatives of the South Pacific Forum, the World Bank, the International Monetary Fund, and the Inter-American Centre for Tax Administrators; distinguished delegates, ladies and gentlemen:

A wide assembly of decision-makers from the North and the South will come together over the next two days to discuss, and, I hope, to reach a meeting of minds on a framework for international cooperation in what is one of the most complex and controversial matters ever invented by man, the matter of taxation.

Those of us who pay attention to the lessons of history know only too well the role that taxation - or more precisely the right to tax and the acceptance to be taxed - has played in shaping the destiny of man.

As far back as 1628, the United Kingdom House of Commons, by the Petition of Right, sought to convince Charles I that there must be no taxation without representation.

Charles' intellect did not accommodate that wisdom and his fate was the literal loss of his head. A modern democratic Britain was a pleasant by-product.

It is perhaps also timely to remind ourselves that the spark that ignited the war of independence and led ultimately to American nationhood was the refrain of "no taxation without representation", a rejection of the notion that an absentee colonizer across the ocean had the automatic right to impose a system of taxation on those who had no say in its construction and derived no significant benefit from the deployment of its proceeds.

Centuries later, when the first serious attempt at Caribbean self determination, the West Indies Federation, foundered and fell apart, a major contributing factor was, once again, taxation, or more precisely disagreement over federal or state control of the process.

The matter of taxes therefore is clearly no stranger to controversy and has served frequently as the catalyst for revolutionary change. Our modern revolution, however, is no longer a war of independence. Rather it is a struggle to clarify the parameters of our growing interdependence in a globalised economic and technological age, in which the uncertainties of the transition and the daunting pace of the change have to be managed. All of this has profound implications for all societies and all governments, for no country or group of countries has a monopoly on defining the way forward. Indeed, it is only through consensus building and cooperative action among states that we will arrive at norms and practices that are universally accepted and applied, and can eradicate activities that are patently illegal, corrupt, and inimical to the interest of the entire international community.

It is in this context that the action taken by the OECD in its Harmful Tax Competition initiative must be viewed.

The area of services, and financial services in particular, is at the core of the new global economy. In this new economic environment, the competition to attract mobile capital is fierce, and the product offering in the financial services field adapts itself constantly to keep pace in a business arena where today's cutting edge is tomorrow's blunted blade. In such a contest, three important factors need to be taken into account. The first is that the services sector is the fastest growing in the new knowledge-based global economy. The second is that liberalisation implies that all countries can and should be free to aspire to a share of the sector's very large pie. And the third is that the principles of the free market dictate that the most competitive product will attract the largest market share.

Those who gain market share call it exploiting the competitive advantage. Those who lost market share, call it harmful. No matter what your perspective the fact remains that international tax planning is now a recognised and legitimate activity and tax planners, like any other business professionals, will always seek for their clients the best return on their investment. Similarly, countries will seek constantly to improve the international competitiveness of their

product.

We have no quarrel with the notion that the international financial services sector must be carefully regulated to ensure against illegal activity, tax evasion, tax crime and money laundering. And while we insist that countries have the sovereign right to determine their own tax policies and to establish tax rates to satisfy their national revenue requirements, we also agree that they have a clear responsibility to adhere to internationally accepted standards of regulation and supervision of the financial services transacted in their jurisdiction. Indeed, it is important to recognise that much has already been done by countries, both individually and collectively, to enhance their regulatory capacity, and a considerable amount of experience and expertise has been exchanged among high level officials charged with the responsibility. In this region, the work of the Caribbean Financial Action Task Force is a case in point.

Let it be clearly understood that we do not condone rogue state behaviour, nor illegal, unethical or corrupt practices on the part of those who hold influence over, decide upon and implement national policy in the financial services sector. But at the same time, no state should be expected to compromise on its right to compete aggressively, within the law, for a share in the financial services market.

It is also not accidental that International Tax Law is one of the areas least codified, since it is an area where the difference in national systems are such as to make complete harmonisation an unrealistic objective. This does not mean, however, that international standards of regulation and operation and best practices cannot be agreed upon progressively, and cooperative systems put in place to guard against tax crime, and to guarantee the integrity of the international financial system. However, such an approach can only be achieved if it is pursued through dialogue and agreement among all interested governments, and implemented by common consent in a manner that is fair, transparent and reciprocal.

Against this background, the OECD Harmful Tax Initiative has attracted great attention from the international public, and has provoked fierce debate and harsh reaction from the leadership of the affected countries. I confess to having added my share of caustic commentary on the issue, as would the leader of any state whose economic livelihood appears to be threatened by the

unilateral action of a powerful organisation in which it has no voice or vote. The language was necessarily muscular, given what was at stake, but was intended to be a plea for due process, and for more careful thought, greater objectivity and wider consultation and dialogue to be brought to bear on an issue of fundamental economic consequence to many. For as every politician well knows, the most successful policies are those which are formulated, approved and implemented with the fullest possible participation of all the stakeholders.

Seen in this context, the consultation process upon which we are embarked today is of the utmost significance. Indeed, the mere fact that the consultation is taking place is in itself already a successful outcome. It should be viewed as the first step in a process of constructive engagement which we hope will be sustained and institutionalised in future through the creation of a mutually acceptable multilateral forum for dialogue and collective decision-making on international tax matters, and for the progressive development of a set of shared principles for global tax cooperation the Financial Services Sector.

I believe there is much common ground between the countries of the OECD and their partners in the developing world on the question of the functioning of financial service centres. I believe equally that through a process of genuine and meaningful dialogue among all interested parties, free from coercion and the threat of arbitrary deadlines, we can reach an understanding to move the process forward towards the progressive resolution of the remaining concerns to the mutual benefit of all participants.

You must however allow me to touch very briefly on a few symbolic and substantive matters which the very nature of this consultation raises for reflection.

The first is that while the international community has been busily evolving a new global economy, commensurate attention has not been paid to the creation of new forms of global governance to make the global society work in the interest of all mankind.

There are, for instance, significant areas of economic activity, many of which have effect over and across national boundaries, which are not covered by conventions, treaties or other

instruments known to the public international law.

And yet, mankind, in the last 50 years, has not lacked the ingenuity to devise and implement international conventions, to whose development individual member countries have contributed and to whose implementation member countries have subscribed.

The orderly development of the international financial industry is an area which cries out for an international convention, not dissimilar to the hundreds which have been devised in the last half of the 20th century to order human behaviour along economically and socially desirable lines.

In addition, the matter before us demonstrates that where there are no mandatory international standards in spheres of activities which lend themselves to cross border transactions, such must be developed.

Indeed, when the OECD speaks in its report on international standards in relation to tax policy and practice, it ought to be doing so from a direct point of accepted reference. It does not. And that defect robs its work of much of the value it could otherwise have possessed, because it is difficult to be legally in default of a system which does not exist in law.

Today I also submit that this apparent crisis over harmful tax practice should serve the useful purpose of reinforcing the perspective that in a global society, problems which are global in character cannot and must not be resolved by unilateral action by any one country or group of countries.

A new global society must come to accept the precepts of multilateralism as its dominant political ideology, much as the new global economy is being shaped by the universal acceptance of the legitimising ideology of liberalisation.

I submit therefore that where multilateral approaches and fora are needed to resolve problems of global scope, but have difficulty in being conceived, then strategic alliances between regional

institutions in which individual member states function under the auspices of treaties, can and should be used to help develop and implement new modalities for international cooperation.

To illustrate, a convention jointly devised and implemented by the OECD, the Commonwealth, Caricom, the Pacific Forum and other regional institutions representing states which have a vested interest in this matter before us at this consultation could help to give the solution, we are all here seeking, the multilateral complexion that we all agree to be desirable.

On a related matter, the fact that there is a need for a consultation of this kind illustrates that the international community has not succeeded in reforming the international financial architecture. This matter was put on the agenda of international concern in the aftermath of the East Asian financial crisis. Interest has ebbed and the severity of that crisis has receded. We need to refocus the issue.

In a much broader and more holistic sense, the issue which engages the attention of this consultation is representative of a nagging issue which has brought people out into the streets of Seattle, Prague, Washington and elsewhere where globalisation has been challenged.

Is it possible to create a new global economy that affords mankind the prospect of a new prosperity that lifts standards of living in all countries.

The Caribbean is pleased to participate in hemispheric and global initiatives because we feel that it is possible to achieve that goal.

And it is because we accept those principles that we feel that it would be a dangerously backward step, as has been proposed in the OECD report, to dismantle tax economic systems and structures for generating real economic activity and to replace them by aid and technical assistance.

Such a retrogression has no place in a 21st century global economy.

Barbados will not subscribe to it. It is the matter on which we will not yield.

This historic Sherbourne site where we meet today has a long history. It was the location of the very first meeting of the Regional Council of Ministers which, after the collapse of the West Indies Federation, convened as many as 19 times in Barbados between 1962 and 1966, often in highly confidential session, to seek consensus on a new and equally unsuccessful experiment in collective governance, the aborted Federation of the Little Eight of the West Indies. That detail may seem, in the present circumstances, to constitute an irresistible irony, though it should not, I submit, be viewed in too ominous a light. For this place was also the place where in 1994 the world first paid attention to the emerging coalition of Small Island Developing States, and where much seminal work was done which paved the way for new thinking on small states issues. It is also the place where in 1997 an enhanced relationship was forged and a new and positive dialogue initiated between the small Caribbean nations and the super-power to their north.

It is this symbol of Sherbourne's recent successes in bridging gaps, forging dialogue, and reinforcing the relevance of the intellectual contribution of small states that I wish to emphasise today.

As Chairman of these Consultations, I ask for your active participation in the dialogue sessions. I am eagerly looking forward to being able to report to you at the end of our proceedings that the process of constructive engagement is well underway and that there is a positive disposition on all sides and a clear mandate to structure a framework for the continuation of the multilateral dialogue among us aimed at building a genuine consensus on the way forward.

It was in that spirit that I was pleased to offer Barbados as the location for this historic Consultation.

It is with those expressed expectations that I am pleased to welcome you to this conference and to declare it officially open.