

NARRATIVE REPORT ON PANAMA



PART 1: NARRATIVE REPORT

Panama ranks 15th in the 2020 Financial Secrecy Index, with a high secrecy score of 72 but a small global scale weighting (0.22 per cent). Coming within the top twenty ranking, Panama remains a jurisdiction of particular concern.

Overview and background

Long the recipient of drugs money from Latin America and with ample other sources of dirty money from the US and elsewhere, Panama is one of the oldest and best-known tax havens in the Americas. In recent years it has adopted a hard-line position as a jurisdiction that refuses to cooperate with international transparency initiatives.

In April 2016, in the biggest leak ever, 11.5 million documents from the Panama law firm Mossack Fonseca revealed the extent of Panama’s involvement in the secrecy business. [The Panama Papers](#) showed the world what a few observers had long been saying: that the secrecy available in Panama makes it one of the world’s top money-laundering locations.¹

In *The Sink*, a book about tax havens, a US customs official is quoted [as saying](#):

“The country is filled with dishonest lawyers, dishonest bankers, dishonest company formation agents and dishonest companies registered there by those dishonest lawyers so that they can deposit dirty money into their dishonest banks. The Free Trade Zone is the black hole through which Panama has become one of the filthiest money laundering sinks in the world.”²

Panama has over 350,000 secretive International Business Companies (IBCs) registered: the third largest number in the world after [Hong Kong](#)³ and the [British Virgin Islands \(BVI\)](#).⁴ Alongside incorporation of IBCs, Panama is active in forming tax-evading foundations and trusts, insurance, and boat and shipping registration. Violating financial secrecy is [punishable by prison](#).⁵

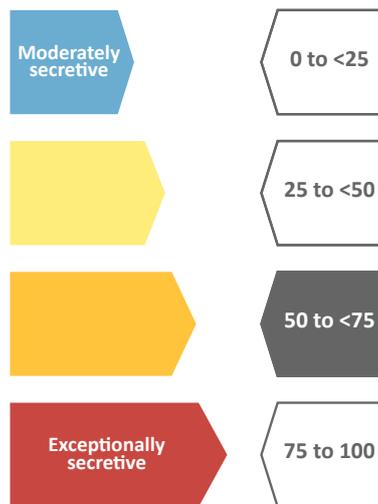
A 2012 [report](#) by Panama’s banking supervisor highlights the country’s heavy focus on the Americas,⁶ particularly South America:



Rank: 15 of 133

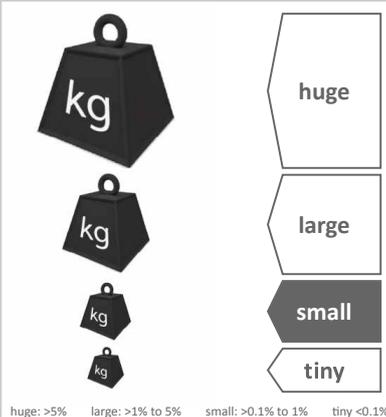
How Secretive?

72



How big?

0.22%



Panama accounts for 0.22 per cent of the global market for offshore financial services. This makes it a small player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit

<http://www.financialsecrecyindex.com>.

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Panama's offshore sector is intimately tied to the Panama Canal, which, thanks to the country's strategic position between North and South America, has made it a gateway and entrepôt for international trade. There are strong similarities between Panama and other leading tax havens like Hong Kong, Singapore and Dubai. On paper at least, Panama has the largest shipping fleet in the world, greater than those of the US and China combined.

History: How Panama became a secrecy jurisdiction

An [in-depth 2014 investigation](#) by US journalist Ken Silverstein in Vice Magazine – focusing on the law firm Mossack Fonseca 16 months before the Panama Papers were released – explains in colourful language how Panama itself came into being with US help:

“In 1903, the administration of Theodore Roosevelt created the country after bullying Colombia to hand over what was then the province of Panama. Roosevelt acted at the behest of various banking groups, among them J.P. Morgan & Co., which was appointed as the country's official ‘fiscal agent’.”⁷

This happened [as a result of](#) a covert operation approved by the Roosevelt administration to provoke an armed rebellion to wrest Panama away from the then politically fragile Colombia.⁸ Roosevelt achieved this goal with the help of William Cromwell, a well-connected US Republican lawyer who was legal counsel for J.P. Morgan's railroad interests. The Administration's key objective was to ‘liberate’ Panama for the purposes of securing rights over the Panama Canal. The result was the [Hay-Bunau-Varilla Treaty](#) of November 1903, which established permanent US rights to a Panama Canal Zone spanning several miles wide and stretching across the isthmus⁹. Panama became independent that same month. The US-backed project to build a canal through Panama, connecting the Atlantic and Pacific Oceans for trade, went ahead, and the canal opened in 1914.

The secrecy jurisdiction emerged shortly afterwards. As an [academic study](#) summarises:

“The history of Panama as a tax haven started... when it began to register foreign ships to help Standard Oil escape... American taxes and regulations. Offshore finance followed in 1927, when Wall Street interests helped Panama introduce lax company incorporation laws, which

let anyone start tax-free, anonymous corporations, with few questions asked. The development of Panama offshore, however, took place in the 1970s. Panama adopted the familiar tax haven model, based on the three pillars of tax havens: the tax-exempt company, bank secrecy laws, and competitive incorporation laws, adopting Swiss-style banking secrecy, abolishing currency controls and setting up tax exempt companies.”¹⁰

From the very beginning the shipping registry was designed in classic offshore style, with minimal taxes, regulations and disclosure requirements meant to attract foreign shipping owners who wanted to escape these in their home jurisdictions (a *leitmotif* of the offshore system from the outset — affording maximum privileges to the owners of capital that would allow them to trample on workers' rights, tax payments and disclosure.) The Panama registry provided offshore escape routes from the outset. [As one account](#) put it:

“The first transfer of ships to Panama's register in 1922 involved two US passenger ships wishing to serve alcohol to passengers during Prohibition. More followed as shipowners sought to avoid higher wages and improved working conditions secured through US legislation.”¹¹

Over the years, however, many Panamanians were agitated for the canal zone to come under full Panamanian control amid a long history of political instability that deterred most offshore activity. Panamanians finally got what they wanted in the 1970s. The US State Department [describes](#) how the US public was slowly persuaded to accept the loss of sovereignty with the help of Hollywood's John Wayne and warnings from Secretary of State Henry Kissinger that “If these [Canal] negotiations fail, we will be beaten to death in every international forum and there will be riots all over Latin America.” Two treaties were signed in 1977 and the US Senate ratified them in 1978:

“The first, called *The Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal*, or the *Neutrality Treaty*, stated that the United States could use its military to defend the Panama Canal against any threat to its neutrality, thus allowing perpetual US usage of the Canal. The second, called *The Panama Canal Treaty*, stated that the Panama Canal Zone would cease to exist on October 1, 1979,

and the Canal itself would be turned over to the Panamanians on December 31, 1999. These two treaties were signed on September 7, 1977.”¹²

While this was happening, a nascent offshore banking centre began to emerge along with legislation to facilitate it, with copious help from Wall Street operatives. [Silverstein’s article summarises](#):

“Laws attracted a long line of dirtbags and dictators who used Panama to hide their stolen loot, including Ferdinand Marcos, “Baby Doc” Duvalier, and Augusto Pinochet.

When Manuel Noriega, commander of the Panama Defence Forces, took power in 1983, he essentially nationalized the money-laundering business by partnering with the Medellín drug cartel and giving it free rein to operate in the country. Noriega reliably supported American foreign policy in the region —and for years the CIA had him on its payroll—but the US lost patience when he opposed American efforts to topple the leftist Sandinista government in neighbouring Nicaragua. This helped lead to the 1989 invasion of Panama that ousted Noriega and returned to power the old banking elites, heirs of the J.P. Morgan legacy.”¹³

For many years much of Panama’s activity related to shipping but from 1970 deposits in the banking sector began to surge and from almost nothing grew to around US\$50 billion in 1980. This happened amid a surge in world oil prices and huge flows of Eurodollars through the offshore system.¹⁴ Deposits in Panama banks then fell again to under US \$15 billion during the Latin American debt crisis and the political crises in Panama [in the late 1980s](#)¹⁵. Bank deposits grew steadily after that and Panamanian trusts and foundations, whose assets are generally not reflected in this data (see below), are likely to be equally if not more important.

In 2014, [Vice Magazine summarised](#):

“Today, Panama’s financial laws remain extraordinarily lax. Foreign firms can bring unlimited amounts of money into the country without paying taxes, and an IMF report released earlier this year said that of the 40 recommended steps countries should take to combat money laundering and terrorism financing, Panama had fully implemented only one. In September, the

New York Times reported that cronies of Russian president Vladimir Putin had funnelled money offshore through shell structures in Panama.

“When it comes to money laundering, we offer full service: rinse, wash, and dry,” said Miguel Antonio Bernal, a prominent local lawyer and political analyst. “You can go to any law firm in the city, from the smallest to the biggest, and open up a shell company with no questions asked.”¹⁶

Around the same time [The Economist observed](#), sardonically, of a particular episode when Colombia sought more information from Panama:

“In one of the most remembered scenes of the film *Casablanca*, police chief Louis Renault orders the close of Rick’s Cafe when he is “shocked, shocked” to learn that there was gambling going on in the establishment. Seconds later a waiter presents Renault with his winnings from roulette.

Panama was similarly shocked when Colombia last week included the neighbouring country on its list of tax havens, after the Central American nation failed to meet a deadline to sign a bilateral tax information exchange agreement.”¹⁷

This was almost certainly the result of Panama courting Colombian drug money (although it is also heavily used as a [tax haven by Colombia’s wealthy elite](#)). Of course, money from Mexican drugs cartels and many other sources continue to flow into this jurisdiction, with a deliberate lack of attention from Panama’s authorities, who are egged on by those in the offshore financial centre.

The shipping registry, providing a “flag of convenience,” is arguably Panama’s most important offshore offering. A [BBC article](#) describes what is effectively a “registry for sale” with a see-no-evil policy¹⁸:

“Luis Fruto, representative of the International Transport Workers’ Federation (ITF) in Panama, says the country turns a blind eye to its “responsibilities in order to acquire higher registration”

[...] International legal requirements insist that countries operating open registries inspect vessels, comply with international

regulations and investigate accidents and corruption. But critics say that Panama cuts corners in all these tasks, putting maritime workers at risk. Indeed, accidents involving Panamanian-registered ships are high.”¹⁹

A private adviser told Tax Justice Network in 2014 that Panama was taking what he called a “F*** You” approach to international co-operation:

“Panama remains a big hole, the biggest hole, and a really serious problem.”

IMF reports are littered with criticisms of Panama. For instance, the [IMF’s latest February 2014](#) report noted, in unusually blunt language:

“Panama is vulnerable to money laundering (ML) from a number of sources including drug trafficking and other predicate crimes committed abroad such as fraud, financial and tax crimes. It is a country with an open, dollarized economy and, as a regional and international financial and corporate services centre, offers a wide range of offshore financial and corporate services. It is also a transit point for drug trafficking from South American countries with some of the highest levels of production and trafficking of illegal drugs in the world. These factors put the country at high risk of being used for ML. Although the authorities have not conducted a risk assessment, they attribute the largest sources of ML to drug trafficking and other predicate crimes committed abroad.”²⁰

Panama is ranked No. 26 on Tax Justice Network’s 2019 Corporate Tax Haven Index.²¹

The Panama Papers

The [Panama Papers](#) leak, in April 2016, released 11.5 million records from the Panamanian law firm Mossack Fonseca, covering a 40-year period. It had set up 214,000 entities – many of them in other jurisdictions – for clients in more than 200 countries and territories around the world.²² Clients included 140 public officials, of whom 12 were heads of state, as well as numerous celebrities and criminals. The [president of Iceland resigned](#) within two days.²³ Fifteen months later [Nawaz Sharif resigned as prime minister of Pakistan](#) after the Supreme Court voted unanimously to disqualify him.²⁴ [A year on](#), hundreds of audits, investigations, prosecutions and arrests had occurred or were underway in 82 countries and more than \$1.2 billion in tax had been recovered.²⁵

Ramón Fonseca and Jürgen Mossack, the firm’s founders, [denied wrongdoing](#), the firm dishing out the usual secrecy jurisdiction line that it is not its responsibility if the companies it sets up are later used for illegitimate purposes.²⁶ [They were arrested in early 2017](#) on money-laundering charges²⁷. Amid [confusion](#) about whether the charges were related to a corruption scandal in Brazil or to the Panama Papers,²⁸ they were [bailed](#) two months later.²⁹

There was some action from the government. A month after the leak, Panama – one of the last hold-outs – [agreed to join](#) the OECD’s Common Reporting Standard and to start automatic exchange of tax information in 2018.³⁰ It has also [joined the OECD’s Inclusive Framework](#) on Base Erosion and Profit Shifting, or BEPS,³¹ which commits it to implementing the [country-by-country reporting component](#) of the BEPS action plan.³² There are limitations to these standards. Countries can choose with whom they will exchange tax information under the Common Reporting Standard, and the BEPS action plan limits the provision of country-by-country information to tax authorities in a multinational company’s home jurisdiction, which is a much lower and less effective level of disclosure than full public reporting of this information.

More importantly these commitments can be seen for the cynical actions they are if placed next to some of Panama’s other ongoing activities like [offering passports for sale](#) so people with money in automatic-exchange jurisdictions have their tax information sent to authorities in their new “country” – Panama – which is extremely likely to fail to do anything with it.³³

Following the data files leak, the Nobel-winning economist Professor Joseph Stiglitz and the anti-corruption expert Professor Mark Pieth were appointed by the president of Panama to a Committee of Experts tasked with making transparency recommendations in the wake of the scandal. Within three months [they had resigned, concerned](#) that they couldn’t get a commitment from the government to make the findings public.³⁴

“I have had a close look at the so called Panama Papers and I must admit that, even as an expert on economic and organised crime, I was amazed to see so much of what we talk about in theory was confirmed in practice,” [Pieth said](#).³⁵

[Stiglitz explained](#): “It increasingly became clear that the government, with the assistance of at least some of the

Panamanian members of the commission, had a purpose other than reforming the system in a transparent way. What it really wanted was to get the positive glow of an announcement while avoiding the need to make any real changes.”³⁶

They published [their own report](#) in November 2016, calling on the US and the EU to shut down secrecy havens and recommending the same transparency measures that Tax Justice Network calls for, including public registers of beneficial ownership of companies and property, automatic exchange of tax information, as well as whistleblower protection and a freedom of information act.³⁷

Meanwhile Panama’s other secrecy problems remain. Criminal sanctions for breaching secrecy are still in place, as are [criminal sanctions for defamation](#),³⁸ which together constitute a serious restriction on whistleblowing and journalism. Panama has not done anything about making beneficial ownership of companies public, and even legal ownership information is only required to be kept by the company itself and its registered Panamanian agent. A new law in 2015 (that [got Panama taken off the Financial Action Task Force’s money laundering “grey list.”](#)³⁹ following the heavily critical 2014 IMF report quoted above) made it clear that registered agents must do due diligence on their clients and created a new supervisory agency to regulate them. But in 2016 the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes noted that some requests from abroad for ownership information remain unfulfilled (p10).⁴⁰

More disturbingly, an extraordinary 486,000 Panamanian companies (70 per cent of the total) and 17,000 foundations are, says the Global Forum, “deemed to be inactive. In these cases, the resident agent may have lost contact with the company and its owners... these SAs [companies] may continue to carry on activity outside Panama and the resident agent may have no up to date information on their owners, or any information at all”⁴¹ ([pp9-10; 41](#)). This means Panama’s supposedly updated mechanisms for accessing legal ownership information is incomplete — a gigantic ‘black’ hole in which tax evasion and other criminal behaviour in any other country can continue to take place.

In January 2019, Panama passed Bill No. 591, which criminalizes tax evasion of more than US \$300,000 for the first time and makes evasion a predicate for money laundering prosecution.⁴²

But in February 2019, the European Commission

put Panama on its blacklist of jurisdictions with poor money laundering and terrorist financing controls⁴³, though EU states blocked that list under heavy lobbying, particularly from the US and Saudi Arabia⁴⁴. And in June 2019, the Financial Action Task Force put Panama back on its “grey list” three years after it was removed from the list of countries with problems fighting money laundering and terrorist financing.⁴⁵

The three years of notoriety Panama has faced since the Panama Papers and Odebrecht scandals has resonated with the Panamanian public, which in May 2019 elected Laurentino Cortizo president on a campaign of stopping corruption, improving the country’s image, and reducing inequality⁴⁶. “We come from a lost decade of corruption and improvisation, of stealing money from Panamanians,” Cortizo said at his swearing in⁴⁷. “There will be no untouchables, even if they are ministers, deputies and big businessmen, starting with the president himself.”

Overall, Panama remains a jurisdiction of extreme concern for Tax Justice Network, and its rank of 15th in our 2020 Financial Secrecy Index probably understates the harmful nature of Panama’s offshore activity since a significant part — such as its shipping registry — is not covered by the IMF data we use to construct our ranking.

Further reading:

- The International Consortium of Investigative Journalists' Panama Papers site, with links to all the stories and the Offshore Leaks database which holds the company information, is [here](#).
- [Joseph Stiglitz and Mark Pieth's description in Vanity Fair](#) of their experience on the post-Panama Papers commission, September 2016
- [ROSC—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism](#), IMF, Feb 2014
- [Panama: detailed assessment report](#), IMF, Feb 2014
- [Panama, Free-Trade Tax Haven](#), Sept 2011
- [Ken Rijock's blog](#): Analysis and commentary on money laundering and financial crime. With endless material on Panama.
- Interview on Panama foundations: From [an interview](#) with an offshore provider of foundations.
- [The Law Firm That Works with Oligarchs, Money Launderers, and Dictators](#) – Vice Magazine, Dec 2014 (by [Ken Silverstein](#))

Endnotes

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PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

- 44 1. Banking Secrecy
- 100 2. Trust and Foundations Register
- 100 3. Recorded Company Ownership
- 100 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 100 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

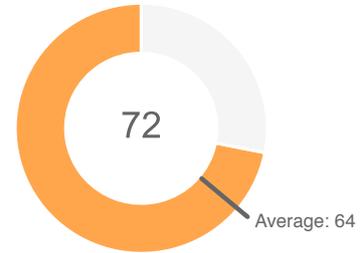
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 75 11. Tax Administration Capacity
- 75 12. Consistent Personal Income Tax
- 100 13. Avoids Promoting Tax Evasion
- 100 14. Tax Court Secrecy
- 50 15. Harmful Structures
- 40 16. Public Statistics

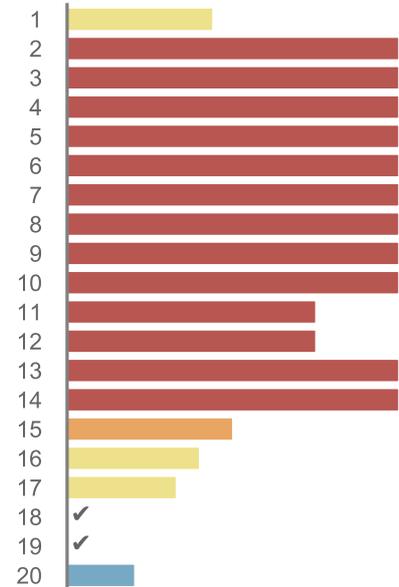
INTERNATIONAL STANDARDS AND COOPERATION

- 33 17. Anti-Money Laundering
- 0 18. Automatic Information Exchange
- 0 19. Bilateral Treaties
- 21 20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.