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## The activities of the Organisation for Economic Co-operation and Development (OECD) in 2012-2013

### Committee Opinion<sup>1</sup>

Committee on Social Affairs, Health and Sustainable Development

Rapporteur: Mr Valeriu GHILETCHI, Republic of Moldova, Group of the European People's Party

### A. Conclusions of the committee

1. The Committee on Social Affairs, Health and Sustainable Development supports the report prepared by Mr Dirk Van der Maelen on behalf of the Committee on Political Affairs and Democracy. It notes the continuity of Mr Van der Maelen's work in analysing economic and taxation challenges, building on his earlier report on "Promoting an appropriate policy on tax havens", independent research studies and the new initiatives developed by the Organisation for Economic Co-operation and Development (OECD).

2. It is evident that the global community's quest for solutions to repair economic and democratic systems demands a thorough modernisation of macroeconomic policies to put human well-being, sustainable development and tax justice at the heart of strategies for the future. The OECD, as a prominent think-tank and forum bringing together various stakeholders, can help forge a broad consensus for innovative policies and action. In this context, our committee believes that the OECD could sharpen its definition of a tax haven, step up pressure on uncooperative jurisdictions through multilateral legal frameworks and pave the way for enhanced tax compliance based on more transparency and greater commitment of the corporate sector.

3. The Committee on Social Affairs, Health and Sustainable Development accordingly proposes a few amendments to the draft resolution with a view to strengthening the Assembly's political message to the OECD.

### B. Proposed amendments

#### *Amendment A (to the draft resolution)*

In the draft resolution, at the end of paragraph 11, add the following sentence:

*"The enlarged Assembly also invites the OECD to use its NAEC process to address the risks posed by shadow banking and to propose measures for better oversight and regulation, as recommended by the G20 Summit in Saint Petersburg on 5 and 6 September 2013."*

#### *Amendment B (to the draft resolution)*

In the draft resolution, paragraph 16, first sentence, replace words "has taken" with the words "should take".

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1. Reference to committee: Reference 3920 of 24 June 2013. Reporting committee: Committee on Political Affairs and Democracy. See [Doc.13301](#). Opinion approved by the committee on 30 September 2013.



*Amendment C (to the draft resolution)*

In the draft resolution, paragraph 17, after the words “To ensure fair taxation of global profits” insert the words “and enhanced tax compliance”.

*Amendment D (to the draft resolution)*

In the draft resolution, at the end of paragraph 18, add the following sentence:

*“The enlarged Assembly believes that the OECD should strengthen its definition of a tax haven and clarify which tax regimes can be categorised as harmful tax practices.”*

**C. Explanatory memorandum by Mr Ghiletschi, rapporteur for opinion**

1. This year’s report on OECD activities in 2012-2013 centres on the organisation’s initiative called New Approaches to Economic Challenges (NAEC) and problems relating to taxation, in particular as reflected in the new project of [tax] Base Erosion and Profit Shifting (BEPS). The rapporteur of the Committee on Political Affairs and Democracy, Mr Dirk Van der Maelen, puts the two strands together in analysing governmental and institutional failures to redress the economic and employment situation, as well as eroding public finances and services. This reflects a widespread distress among the population about the functioning of not only economic, but also democratic systems which the people perceive as sclerotic and no longer able to adequately serve all members of society.

2. Indeed, the gap between the business and ruling elites and the population at large has dangerously widened, as have inequalities. The onset of digital economy that has driven globalisation, liberalisation and interdependencies between countries in all domains has been faster than most institutions’ ability to embrace the change. The power of States, too, has weakened with their gradual disengagement to the benefit of the business sector and allegedly perfect markets. Yet the test of time over the past decade has shown that certain policy choices were ill-adapted to the reality on the ground or were simply wrong bets, notably as the financial realm has spun out of control and imploded. The fall-out is instability, social wreckage, economic mess and human suffering. And in the end – a question: Is the economy serving the people, or are the people overwhelmed by it?

3. Mr Van der Maelen thus comments on badly needed macroeconomic improvements to exit the crisis. He does so from the perspective of growth and rightly puts emphasis on meaningful growth which is driven by policies aiming to promote societal well-being. The latter’s importance is now clearly stated by the OECD in its strategic papers, such as the Green Growth, the Better Life Initiative and notably the New Approaches to Economic Challenges.

4. The time now is not for small fixes, but for deep-reaching reforms in economic thinking and the way we rebuild our economy. It is indeed sobering for politicians to hear from the highly respected economic think-tank a reckoning on the “flawed assumption about the self-equilibrating character of the economy” and hence “the need to upgrade the regulatory capacities of governments”. Periods of crisis tend to test the strength of political and economic systems, whilst creating a propitious environment for governments to push ahead with numerous reforms and regulations. It is in the best interest of all stakeholders that the added benefits of reforms and additional regulations outweigh the losses that businesses may suffer as a result. Therefore, good resolutions – protecting people as well as promoting the growth of businesses – now need proper follow-up and strong political support, also from parliamentarians, including of this Assembly.

5. Such a quantum leap is all the more urgent in the light of the rapporteur’s emphasis on the long-term consequences of short-term policy measures – and mistakes. Past decisions, especially at the European level, often proved to be “too little and too late”. At the same time, the deep scarring effects of dogmatic austerity are now becoming visible not only on young people, but also across all society. Current under-investment – in productive capacity, public services and human capital – will only lengthen the path of recovery by curtailing the economic and social potential of our countries.

6. Another message we can learn from this analysis is that “one size fits all” policies rarely work in real life. Even conventional economic wisdom might apply very differently to specific national circumstances: what is feasible in Estonia may not work in Poland and be totally unrealistic for Greece. The responsibility of national politicians is hence to discern how to best adapt the international community’s advice domestically and win

the local population's minds, if not their hearts. The responsibility of international organisations such as the OECD, the International Monetary Fund (IMF) or the World Bank lies in crafting more carefully nuanced policy advice.

7. Mr Van der Maelen then puts the finger on the complex and sore issue of optimising taxation. In theory, the cause of fair taxation transcends political differences and misconceptions, just as an independent judiciary is universally seen as a cornerstone of a modern State. In practice, it does not, and our States continue to grapple with tax evasion, as well as aggressive tax avoidance practices, despite some welcome, but modest progress in stepping up pressure on tax havens.

8. I appreciate Mr Van der Maelen's perseverance in advocating for bolder measures in this area at the international level and in particular via the OECD. The recommendations – voted by this Assembly a year ago on the basis of the report by Mr Van der Maelen on "Promoting an appropriate policy on tax havens"<sup>2</sup> – set out a path to follow. I recall a lively debate that preceded the adoption of this text in the Assembly, not least on the weakness of the current OECD definition of a tax haven as based on four criteria. Whilst there is nothing wrong with these criteria as such, we know that even one or two of them suffice to qualify a financial centre as a tax haven or as a non-cooperative jurisdiction. Moreover, certain tax regimes of otherwise well-behaved countries can be considered as harmful tax practices that infringe other States' interests. The OECD should therefore use its BEPS process to strengthen its definition of a tax haven.

9. Moreover, I have doubts about the effectiveness of the OECD Global Forum's<sup>3</sup> current approach as regards bilateral agreements on the exchange of tax information. 850 such agreements so far worldwide may sound like an impressive record, but is not a rational way to proceed if compared to a multilateral approach such as via a protocol to the joint OECD-Council of Europe Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127). When a tax haven signs a minimum of twelve bilateral agreements (often with similar secrecy jurisdictions), another 180 deals with the remaining countries still need to be agreed. In fact, in order to have a truly global coverage, about 37 000 such agreements are needed.

10. Moreover, in order to achieve a genuine breakthrough, States need to mainstream the requirement for an automatic exchange of information (rather than "upon request") via the various instruments for international tax co-operation. Otherwise, tax evaders exploit gaps in the information exchange systems and, if need be, simply move their funds from one hideout to another. The rapporteur therefore rightly pleads for enhanced transparency in this area, also as regards the disclosure of ultimate beneficiary ownership in complex structures such as trusts and foundations, be they corporate or private. Moreover, I believe that the OECD could, through its NAEC process, address the risks posed by shadow banking and propose measures for better oversight and regulation, as recommended by the G20 Summit in Saint Petersburg on 5 and 6 September 2013.

11. In this context, I commend the OECD's resolve to help States tackle tax avoidance more efficiently by getting to grips with abusive accounting techniques used by multinational enterprises and structural flaws in the international tax system. I believe this Assembly can contribute to the BEPS process by urging the OECD to champion the obligation for multinational companies to report comprehensively on their real costs, profits and taxes paid in each country where they operate. This could steer transition to a more just global system for allocating corporate taxes on profits generated in each country. This collective effort is central to pursuing greater transparency and social justice, as well as shared prosperity and lower inequalities. Another significant way tax avoidance can be tackled is by simplifying the tax laws in each country. In many cases, complex fiscal policies leave loopholes that can be exploited, mainly by the wealthier class of society, thus leading to even more inequality.

12. As we are approaching the 2015 deadline for meeting the Millennium Development Goals (MDGs), it is important to note that, although it seems that inequalities – between business and ruling elites and the population at large – have expanded lately, technological advances, development aid and structural reforms have also helped to lift millions of people out of poverty. Discussions have already begun on the post-2015 framework for MDGs. Considering that this has been the most effective poverty reduction campaign in the history of humanity, it is crucial that we continue our intense efforts in that direction in order to give as many people as possible the chance for a better future. Moreover, we need to make a particular effort not to neglect the poorest of the poor just because it is easier to help those just below the poverty line.

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2. See [Resolution 1881 \(2012\)](#).

3. The full title is the Global Forum on Transparency and Exchange of Information for Tax Purposes.

13. In conclusion, I propose that the Committee on Social Affairs, Health and Sustainable Development supports the report on the OECD activities in 2012-2013 and submits amendments to the draft resolution. The two recent OECD initiatives (NAEC and BEPS) are worthy of strong support from this Assembly and should be followed also in future. In order to broaden the impact of its work in these areas and reach a larger circle of countries, the OECD ought to deepen synergies with institutional partners such as the IMF and the Bank for International Settlements.