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Alice is Not Alone

March is upon us, and in this current tide in the affairs of man, with waves of protectionism and populism reaching the shore, it is still too early to know whether it will lead to fortune or failure. To paraphrase Shakespeare's Roman soothsayer, beware the tides of March – and in any other month for that matter.

This sense of foreboding was woven into the talk which I gave in Panama at the beginning of this month at the annual Offshore Investment Panama Conference which I have chaired for the last 6 years. This quarter's newsletter includes extracts from my talk.

As a resident of Panama for more than 20 years, I have seen a complete transformation of the offshore financial services industry here. The laissez-faire regulatory approach of the past, not distinct to Panama, has given way to a regulated and supervised environment that reflects the realisation on government's part that everything has changed in the 21st century. The same can be said of other countries in the region from an economic and political standpoint. Unlike Panama, some have not enjoyed the steady hand of democracy, nor healthy economic growth. Many today look enviously at Panama's economic progress; the World Bank expects the tiny republic to be the star economic performer in the region in 2017.

In the West, however, we are living in a topsy-turvy environment that Lewis Carroll, author of *Alice's Adventures in Wonderland*, would readily understand if he were alive today. As one commentator put it, Carroll's book is about survival

and adapting to sudden change. Well, Alice is not alone there and certainly the offshore world can identify with her; but the changes onshore are more profound where values (certainly in politics and business) have been turned on their head. In 2017 people are beginning to look for safe havens as opposed to tax havens.

Duplicity has been around forever. Plato wrote of the noble lie and Machiavelli was right to say that "Those princes who do great things have considered keeping their word of little account, and have known how to beguile men's minds by shrewdness and cunning". But with the aid of technology we have gone beyond speech, pamphlets and books to inform ourselves. To read history is to get a clearer picture of today and to realise that only man's clothes, not his character, has changed through the centuries. Mark Twain said that history might not repeat itself but that like poetry it rhymes; poets through the ages have been commentators of their times, and in that context consider today's political and social environment with these three quotes:

"Our earth in 1969 is not the planet I call mine". What was true almost 50 years ago when W. H. Auden wrote that, is most certainly appropriate today, especially when viewing planet Trump that has joined our solar system.

*"Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world";*

The condition described is as relevant now as it was when W. B. Yeats penned those words at the beginning of the last century and which, for me,



draws worrying parallels to our own. The poet died in the little French Riviera town of Roquebrune in January 1939 by which time I am sure that he anticipated the anarchy to be unleashed 8 months later.

Speaking of topsy-turvy, no one puts his finger on it better than the 19th-century's Lord Tennyson, as we watch developments in the West:

*"The old order changeth yielding place to new
And God fulfils himself in many ways,
Lest one good custom should corrupt the world".*

For some western commentators today's good custom is democracy which they say has slowly mutated into something which is not for the better. The Economist Intelligence Unit, part of the Economist newspaper, has downgraded US democracy to "flawed" from "full". Latin American populism has been exported to Europe and America whereas much of the subcontinent has imported orthodoxy, once the norm in the West.

A Dickens of a Time

In Dickensian terms, like the tale of two cities, it is the best of times and the worst of times for Panama. The country is being praised on the one hand in 2017 for its economy and, on the other, pummelled for the offshore financial services transgressions of the few, not the many who apply proper controls. Adverse publicity alone, however, is not the reason that some business is moving out of Panama. Other locations are seen as real competitors, providing either privacy or less regulation, or both, serving as a shield against America's tax reporting edicts and Europe's Common Reporting Standard. Did you know that only in 2017 Hong Kong is proposing to introduce a licensing regime for trustees? I wonder how some of them would have fared under Panama's strict supervisory controls for trustees?

Joseph Stiglitz and Mark Pieth, both briefly members in 2016 of a Panama Papers panel formed by the Panama government, and about whom I have frequently written, have since produced a report

entitled "Overcoming the Shadow Economy" in which they assert that the US and the European Union "have an obligation to force financial centres to comply with global transparency standards". They say in the report's introduction that "if there is any pocket of secrecy, funds will flow through that pocket". Their declared ambition is to see every responsible country "serve as a model, setting standards that others will eventually be forced to emulate". I couldn't agree more.

Last December the Financial Action Task Force issued its first evaluation report on the US in 10 years. The US scored very well on effective controls for countering terrorism financing but received a failing score for its efforts to prevent the laundering of criminal proceeds. Not enough has been done, the report said, to rein in corporate secrecy and there were "serious gaps", leaving the financial system "vulnerable" to dirty money. The FATF deemed the US "non-compliant", which is the lowest possible score, on its ability to determine the owners of companies. A Washington-based anti-money laundering attorney commenting on the FATF report said that because the US did not measure up to international standards it "opens the doors to Panama papers-type transactions and schemes to hide money". That door, open for years, is unlikely to be closed soon, despite recent efforts in Washington, and contributes to that outward flow of business from Panama.

Angel Gurría, the OECD's Secretary-General, was delighted when Panama agreed to join the drive for, as he put it "global tax transparency standards". Panama's ambassador in France, however, who co-signed the supporting Convention together with Mr. Gurría, did so only after certain provisions had been included at the insistence of her government. Assistance in some matters and flexibility in others that "will be determined by Panama" was the outcome; a far cry from an outright blanket agreement.

Why Panama's caution? The US presidential election showed us, at a basic level, just how information stored electronically can be compromised by



following the Hillary Clinton email scandal which blew up in her face last October, the very same time that Panama signed the transparency agreement with the OECD. Professor Jason Sharman at the Centre for Governance and Public Policy at Griffith University in Brisbane, Australia, and an avowed enemy of offshore centres could not be more passionate about tax transparency, but even he has his doubts, and I quote: “What right to financial privacy do citizens of democracies have? Should we protect citizens from undemocratic nations? What is legitimately private? For example, the state knows how much I earn, but strangers do not. Where you have states that are not bound by the rule of law, that are corrupt and commit human-rights abuses, do you want to help oppressive governments get more information about their own citizens in a way that might help those governments further oppress them? I’m not sure that’s really been thought through enough”. That last sentence is the par excellence of understatement and is a rare example of he and I being in agreement over offshore matters.

A Cathedral Bell Rung at Dawn

Countering this is the public mood in the West where part of the citizenry has been cut adrift from the riches and comforts of the privileged. John Kenneth Galbraith’s observation dovetails nicely: “The salary of the chief executive of a large corporation is not a market award for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself”.

But if (to my mind a given) the US remains on the FATF white list, despite its very recent findings, it’s not on the European Commission’s clean list. As for corporate tax advantage and transparency of the tax system, the commission puts the US squarely alongside Brazil, Singapore, Malaysia, and, yes one other country: Panama, understood by those confined to personalised information bubbles, to be the Mecca of mendacity. Daniel Kahneman, a Nobel-prizewinning psychologist, author of “Thinking, Fast and Slow”, says that humans tend to avoid facts that

force their brain to worker harder; he refers to “cognitive ease”. I have always carried a bubble - bursting pin in my pocket because we are all in danger of unwittingly finding ourselves in one of them if were not careful.

The case of the US maintaining its FATF white list rating, despite the shortcomings, exemplifies the late George Orwell’s contention in his book, *Animal Farm*, that all men are equal except that some are more equal than others; so are countries. The book was an allegorical novella reflecting the build up to the Russian Revolution in 1917, but the message remains just as fresh in 2017. He wrote copiously on the subject of language and political propaganda about which he knew a great deal. Another essential he possessed was a broad mind supplemented by travel.

George Orwell joined the Imperial Police in Burma (which was the inspiration for his first novel, “*Burmese Days*”), having been born in eastern India where his father was a British colonial civil servant. In 1936 he went to Spain and fought for the Republicans against General Franco’s Nationalists and the experience gave him a lifelong distaste for communism which laid the seeds for *Animal Farm* published in 1945. The theme of totalitarianism produced the author’s most famous book “*Nineteen Eighty-four*” and its relevance today rings loud and clear like a cathedral bell rung at dawn.

Here, after all, is the apex of the battle between truth and falsehood. The book gave us those wonderful words and phrases: “newspeak”; “doublethink”; “Big Brother is watching you”; and depicts a world in which the state (in this case, Oceania) changes daily historic records to fit its propaganda aims. So we have the book’s protagonist, Winston Smith, sitting in the Ministry of Truth falsifying (fake news) previous issues of the *Times* (Oceania’s newspaper) in accordance with the latest diktats from Big Brother (Oceania’s leader) executed by O’Brien, Big Brother’s acolyte, and the leading antagonist, who nurtures the proposition that one can believe one thing one day and one thing another (alternative truth).



His life experiences told Orwell that authoritarian regimes want the heart and soul of people and he wrote a review of Adolph Hitler's autobiography, "Mein Kampf" (My Struggle), observing that Nazism and Fascism had caught the psychological mood of the people in the early part of the last century and which was in stark contrast to the complacency of the ruling order. The Führer, importantly, like other disciples of demagoguery, had the ability to deliver stun gun speeches that electrified the people and shocked the establishment. Politics today in Germany are very different, and in the words of Timothy Garton Ash, a British Germanophile at Oxford University, "the entire German political class uses a kind of sanitised Lego language, snapping together prefabricated phrases made of hollow plastic".

Elsewhere in the West (accepting Germany has its right-wing nationalist party called Alternative for Germany) things are not so sedate and although calling your husband mota hathi, or fat elephant, is

grounds for divorce, according to Delhi's high court in India, we cannot, unfortunately, divorce ourselves from the West's current political imbalances, nor from either the verbal, vituperative outbursts of some of its politicians or the assault on truth. Well before Kellyanne Conway, President Trump's adviser, used the term "alternative facts", President George W. Bush's adviser had commented in 2002 that the new American empire was "creating [its] own reality". Later in 2004 Ralph Keyes used the term "post-truth era" in his book of the same title. The same year Eric Alterman, an American journalist, referred to a "post-truth political environment", coining the term "the post-truth presidency" after analysing the misleading statements made by the Bush administration after 9/11.

Adolph Hitler once said that "If you tell a big enough lie and tell it frequently enough, it will be believed". No wonder "post-truth" was selected by the Oxford Dictionary in 2016 as the word of the year.

Offshore Pilot Quarterly (independent writing for independent thinkers) has been published since 1997 by Trust Services, S. A. which is the British face of trust business in Panama where it is licensed under the fiduciary laws. It is written by Derek Sambrook, our Managing Director, who has been Treasurer of the British Chamber of Commerce Panama, a member of the former Latin America and Caribbean Banking Commission as well as an offshore banking, trust company and insurance regulator. He has over 45 years private and public sector experience in the financial services industry about which he has written extensively and our website provides a broad range of related essays including his Latin Letter column which appears in every issue of Offshore Investment, a British professional journal published since 1986.

Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice in the appropriate jurisdiction before making offshore commitments.

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