

Panama Pondering

By Derek Sambrook, FIB(SA), TEP,
Managing Director, Trust Services, S.A.,
Panama



How often do you decide to try meat at a restaurant which specialises in fish? My experience has inevitably been that even if the steak that you ordered is passable, the salmon you had last time was infinitely better. That's because the restaurant specialises in fish. Such thoughts occurred to me last month during a conversation with a lawyer who was attending the annual *Offshore Investment Conference* in Panama which I was chairing; we'll call him Richard.

He had become dissatisfied with an overseas trust company which had managed one of his clients affairs for several years but which had now diversified into new areas of business. I suggested that they were spreading themselves too wide by straying too far from their primary services. They were not, in colloquial terms, sticking to their knitting.

I reminded the lawyer that at the start of this century, to add to its multitude of sins, Enron Corporation, a former American energy company, was also guilty of not concentrating on its central business. The ensuing scandal also brought down Arthur Andersen, once included in the world's "big five" accounting firms with about 100,000 staff. Enron was a regulated utility that decided to revolutionise the energy industry, losing its prime focus and expanding into fields such as healthcare transport. Inchcape plc, on the other hand, came from a different culture, century and country, but the lesson to be learned is the same. It had started life in the 19th century in India and one of its founders, James Lyle Mackay (the first Lord Inchcape), turned his company into one of India's largest before returning to England in 1893. By then Inchcape, although its background had much more in common with tea estates and the opium trade, had been turned into a huge commercial empire.

Importantly, however, Mackay made it a golden rule never to go into a business he didn't understand. When offered the throne of Albania in 1921 (he was also a knighted colonial administrator in India), he refused because "it is not in my line". He died in 1932 and I wonder what he would have thought about Inchcape's subsequent involvement in insurance broking and Coca-Cola bottling in Chile. What had become a huge shipping business while he was at the helm, today is a multinational automotive retail and services company; from cargo to cars. In fact, when the company reviewed its spread of businesses in the 1980s, after eschewing the Albanian principle, it had interests in more than 500 companies in 44 countries. Even so, as a consequence of rationalisation, it became a shadow of its former greatness.

In an earlier, less complex, world, before everything was categorised, very often the polymath prevailed: a person of wide-ranging knowledge and learning. Adam Smith is an example: he was a classical scholar, moral philosopher and lectured on jurisprudence besides being a founding father of the discipline of economics. He was even an expert on the subject of natural science (his essay on the history of astronomy remains an invaluable contribution to the methodology of science). In today's world, however, such individual diversity would be considered near impossible.

Specialisation, admittedly, has become necessary. In fact, at the end of the Victorian era, Emile Durkheim, the French founder of sociology, was so adamant about the subject that he saw a refusal to specialise in areas of business as detrimental to the social prosperity of us all. Adam Smith propounded a division of labour (emulated by Henry Ford) which led to his classic example of the pin factory following a visit to one. Smith argued that a man working by himself and starting from scratch might possibly have made only one pin a day whereas by the development of individual, distinct skills, the factory's daily output was far greater because of the collective efforts of a team.

A narrow focus, however, does not mean one has a narrow mind, although broadening it through the art of conversation has often been replaced by hand-held cell phones where texts have replaced tongues. Added to this, we have shorthand communication through a mix of acronyms and awful phrases such as “to solutionise” or “to mindshare” and “In the go-forward scenario, we plan on doing the deal.” Fortunately there seems to be less elephants in the room these days but we are still suffering from the cringing “to reach out”. Some organisers of conferences are now advertising them by using mind curdling hype that is as corny as Kansas in August. Offshore Investment, I hasten to add, is not one of the culprits.

Companies today gain competitive advantage through their own distinctive capabilities and I said to Richard that in my view when you are looking for trustees, for example, you should think of old-fashioned lace; he gave me an old-fashioned look at that point and then I explained further. There are, I believe, some 1200 Leavers lace looms (named after the 19th-century English inventor, John Leavers) left in the world. The looms are both slow and labour-intensive and none have been built since the beginning of the 20th century because the cost would be prohibitive. So how do these antiquated pieces of machinery stand their ground against today's technical wizardry? By simply making the finest lace through slow, but exacting and specialised, procedures.

Governments, as well as commerce, can also suffer from lack of focus. This led us on to another subject which had been continuously discussed during the two days of the conference: the current status of the Organisation for Economic Co-operation and Development's tax harmonisation (for individuals and companies) programme. The European Policy Forum (EPF) has been highly critical of the OECD's tax tactics in recent years; it has been supporting the quality of policy ideas for the United Kingdom and the European Union since 1992. Put better than I could, the EPF says that the desire to facilitate the interests of tax collection and reduce competition seems to have been the OECD's driving force, coupled with a wish to remove tax policy options for independent jurisdictions following a failure by the

OECD's Fiscal Affairs Committee to consult experts in economics and law; reliance on its own inadequate judgement has been counter-productive. How true. The regulators have been left to deal with the practicalities, using inadequately trained staff at every level who are attempting to understand the complexities of the Common Reporting Standard and the Base Erosion Profit Shifting initiative. In the case of Latin America such issues, besides limited resources and manpower, make the difficulties gargantuan.

At least I was able to announce at the conference that Panama was now removed from the Financial Action Task Force's grey list, which is welcome news, after it accepted that the substantial gaps which posed significant money laundering risks to the country and other jurisdictions have been addressed. Panama is now no longer subject to continuing compliance monitoring.

Walter Bagehot, the wry 19th-century journalist, banker and critic, reminds us that even a skilled bureaucracy is, nonetheless, inconsistent with the true principles of the art of business. Not just business, but regulation, calls for exercising judgement (knowledge, of course, is fundamental to the process), about which F.M. Cornford, the Cambridge classical scholar, knew all about more than a century ago. “The more rules you can invent, the less need there will be to waste time over puzzling about right or wrong. The best sets of rules are those which prohibit important, but perfectly innocent, actions”. He saw procedural rules often as a substitute for individual judgement. I would not be surprised to see this as a regulatory rubric in government manuals around the world.

Lake Poopó, an Andean lake in Bolivia, was once the country's second biggest and only two years ago it covered 400 square miles. Now it has practically dried up, as it has before during the last century, only to rebound. Scientists worry that this time the evaporation could be permanent whereas the offshore financial industry, even if government policies have caused some business to dry up, will not disappear. As for finding a solution to Richard's trust company problem, that's easy: he just has to find the right restaurant.

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European Magazine Services Ltd, 12-16 Castle Lane, Belfast BT1 5AF, United Kingdom • Tel: +44 (0) 28 9032 8777 • Web: www.offshoreinvestment.com

PUBLISHER AND CEO
Barry C Bingham
barry@offshoreinvestment.com

EDITORIAL DIRECTOR
Jenny L McDonough
editorial@offshoreinvestment.com

SALES DIRECTOR
Deborah Maclaren
advertising@offshoreinvestment.com

FINANCIAL DIRECTOR
Rosalind A Maguire
accounts@offshoreinvestment.com

MEDIA MANAGER
Gillian M Abernethy
administration@offshoreinvestment.com

CONFERENCE
Patricia Hanna
conference@offshoreinvestment.com

SUBSCRIPTIONS
Laura Simpson
subscriptions@offshoreinvestment.com

DESIGN
Dave Johnston
administration@offshoreinvestment.com

PRODUCTION
Gillian Devenney
administration@offshoreinvestment.com

THE SALES TEAM +44 (0)203 004 7201

Account Managers

Paul Robertshaw
PaulRobertshaw@offshoreinvestment.com

Anne Mead-Green
AnneMead-Green@offshoreinvestment.com

International Bureau

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