

Private Client HUB

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The Stiglitz Factor



Now we have the unfortunate resignation in August of Messrs. Stiglitz and Pieth from the Panama Papers committee, an embarrassment to the Panamanian government and which has been widely covered by television, blogs and newspapers. Quoted hereunder are comments made by Mr. Stiglitz and reported, in this instance, by Reuters as follows:

"I think that the official Panamanians were in a state of denial. They were basically saying 'well, what we've been seeing in the Panama Papers is something that you observe everywhere in the world.'"

Mr Stiglitz also told Reuters news agency he was concerned that the panel's final report would not be published.

"We can only infer that the government is facing pressure from those who are making profits from the current non-transparent financial system in Panama," he said.

These particular comments compel me to share my own thoughts on this development and which will be expressed at Oxford University next month during my speech at a symposium, and also as a member of the separate panel later in the day which will discuss the subject in detail.

Whilst public enquiries dictate general publication of the findings, any government has the right to decide whether the findings of this type of commission which it has funded should be released in full, in part, or at all to the public. The number of precedents supporting this are countless.

But what really does strike me, with my appreciation of irony, is this: Mr Stiglitz thinks Panama feels that "what we've been seeing in the Panama Papers is something that you observe everywhere in the world". I wouldn't say everywhere in the world, but certainly it can be observed less than 130 miles away (by car) from New York City, where I understand that the crucial committee meeting was held in June. That place is Wilmington in Delaware, America's epicentre for anonymity, but not the only state offering it. Allow me to quote an extract from my September's Latin Letter:

Walmart-style sales of corporations is not exclusively an offshore phenomenon, and I quote: "With every threat that we track, be it foreign terrorists, narcotics cartels, sanctioned regimes or cyber hackers, our investigators encounter... shell companies used to hide and move money. Consider the notorious arms dealer Viktor Bout, the alleged model for the movie "Lord of War", who sold weapons to butchers and terrorists from Africa to the Balkans. Bout didn't move his arms here, but his Soviet arms merchant moved his blood money through companies established in A loophole in our financial system allowed for this secrecy, and it took years to uncover the full money trail". That was a direct quote from Mr. Adam Szubin, acting undersecretary for terrorism and financial intelligence at the US Department of the Treasury. What was the country and the places in it that I excluded from the quote's text? America and the states of Florida, Texas and Delaware, respectively.

Mr. Szubin went on to say: "Delaware is well-known for its incorporation businesses, but it's no worse than any other state in this regard. With about \$100 and 20 minutes, you can go to a U.S. state's website and form a company without disclosing the name of the person who will own or control it. Professional incorporation agents set up hundreds or even thousands of these companies and then sell them, in some cases to those looking to move money surreptitiously. Criminals have learned that American companies have an easier time obtaining bank accounts, and so they incorporate here in large numbers. The result is that our financial investigators often come across U.S. shell companies in their money hunts – and that may be where the trail ends. Anonymity isn't sold by a back-alley check casher or hawaladar in these cases; it's provided in the open by state incorporation offices. This gives U.S. shell companies the dubious distinction of being the only money laundering method where secrecy is provided by a government entity."

Is there such a thing as Panamax hypocrisy, when brazenness seems to reach a new dimension? Panamax is a reference to the size of ship which can now transit Panama's new, larger locks. If ever salt was poured on a wound, holding any Panama Papers committee meetings at the expense of the Panamanian government in the US, whether in New York City or not, on the subject of transparency must surely qualify.

"We can only infer that the government is facing pressure from those who are making profits from the current non-transparent financial system in Panama," states Mr. Stiglitz. Non-transparent? Ask Mr. Szubin who can identify American states making profits from non-transparent services; and any pressure facing the Panamanian government, if it exists, is nothing like that encountered in Washington from lobbyists employed by those US states to ensure that the gravy train producing revenues from corporate services continues to roll along, despite Mr. Szubin saying: "But there is a money laundering method that is less exotic yet every bit as dangerous: shell companies incorporated in the United States". Perhaps Messrs. Stiglitz and Pieth could offer some assistance. Offshore Investment, the magazine in which my monthly Latin Letter column appears, has some 10,000 readers in over 100 countries. This is a message, however, that more than 10,000 people need to read in defence of both Panama and – what this is all about – for the sake of transparency.

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