



Hannes H.  
Gissurarson

## No wrongdoing – the first casualty of the Panama Papers

**T**he Eleventh Commandment, and the First Law of Politics, is: Thou Shalt Not Get Caught. Icelandic Prime Minister Sigmundur David Gunnlaugsson certainly broke this Law in a television documentary, broadcast Sunday, April 3, 2016 in Iceland and several European countries. Obtaining the interview on the false pretense that they wanted to discuss Iceland's recovery from the 2008 bank collapse, two journalists suddenly began asking him what he knew about the offshore company Wintris. Stunned, Gunnlaugsson grasped for words, brusquely ending the interview and striding out. The reporters told the viewers that the Prime Minister had owned Wintris jointly with his wife and sold his 50 per cent share to her for one US dollar at the end of 2009 after starting his political career. In the documentary and subsequently in the international press Gunnlaugsson was portrayed as a key player in an international exposé of Panama law firm Mossack Fonseca which helps wealthy people setting up offshore companies.

Even if Gunnlaugsson's wife had informed the public some weeks earlier that she owned a company in the British Virgin Islands, after the broadcast a storm broke out in Iceland. Many felt that Gunnlaugsson had not been telling the full truth about his wife's offshore company. The Icelanders were also unhappy about seeing their prime minister put in the company of certain unsavory characters in other countries. While support for Gunnlaugsson in his own rural-based Progressive Party waned, the leader of the other party in the coalition government, the center-right Independence Party, cautiously expressed concern about the case. When Gunnlaugsson then, to gain leverage, threatened to dissolve parliament and hold new elections, Iceland's president refused to grant him permission to do so, stating at a press conference that he would not be party to a power struggle. Now cornered, on April 6, Gunnlaugsson was forced to resign, becoming the first political casualty of the Panama documents. The government parties however decided to continue in a coalition, with the deputy leader of the Progressive Party taking over as prime minister.

The Swedish journalist Sven Bergman who interviewed Prime Minister Gunnlaugsson has since triumphantly described how he laid the trap with which the hapless Icelandic politician was caught. He had not given Gunnlaugsson any opportunity to prepare for the question about the offshore company. Instead, in the midst of the interview, he abruptly started asking about it, while an Icelandic journalist working with him suddenly entered the room and also started asking about the company, creating a carefully prepared scene. Flustered, Gunnlaugsson pointed out before he walked out that the company belonged to his wife and that the couple had always declared it on their tax returns. He added that he had not registered the company with the



Icelandic Parliament because it belonged to his wife and not to him.

The facts of the matter are undisputed. Gunnlaugsson's wife, Anna Sigurlaug Palsdottir, is daughter of the former Toyota dealer in Iceland. When her father sold his company, she received a sizeable share of the proceeds of about \$10 million. She was then living with Gunnlaugsson in England, and they had not decided whether they would settle there or in Iceland. On the advice of their asset managers, they decided to form a company in the British Virgin Islands, each of them nominally holding one half of the company. After the banking collapse in the autumn of 2008, Gunnlaugsson decided to abandon his studies in England, return to Iceland and enter politics. Within a few months he was elected leader of the Progressive Party. He and his partner formally married, and at the end of 2009, he transferred his nominal share in the offshore company to his wife. Nothing illegal or abnormal had taken place, as the Guardian which reported on the issue observed: "The Guardian has seen no evidence to suggest tax avoidance, evasion or any dishonest financial gain on the part of Gunnlaugsson, Pálsdóttir or Wintris."

While it is also uncontested that members of the Icelandic Parliament do not have to declare assets of their partners, many felt that Gunnlaugsson should have provided fuller information about his wife's ownership of the offshore company, especially since it held some bonds in the failed Icelandic banks and could therefore technically be regarded as one of the banks' creditors. It was indeed the main task of Gunnlaugsson as prime minister to reach an agreement with the banks' creditors on how to resolve the debt in





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foreign currency left from the collapse without too much peril for the domestic currency, the krona. As Gunnlaugsson however said in his own defense, he was widely seen as having been very firm in the negotiations with foreign creditors, much more so than the 2009–13 leftwing government. Thus, according to him, he had sacrificed the interests of his wife's company to the national interest.

Gunnlaugsson had also made many enemies within and outside Iceland with his tough stance in the Icesave dispute between Iceland on the one hand and the United Kingdom and the Netherlands on the other hand. This dispute was caused by the British and Dutch governments unilaterally compensating depositors in one of the failed Icelandic banks, and then presenting the bill to the Icelandic government instead of waiting for proceeds from the sale of the bank's assets to go towards paying off its debts. While the previous leftwing government had implicitly accepted the demands of the British and Dutch governments by making two deals with them, both eventually rejected by Icelandic voters, Gunnlaugsson had strongly opposed the deals. He was vindicated when the EFTA Court finally in early 2013 decided that the Icelandic government was under no obligation to reimburse the British and the Dutch governments for their outlays. This decision contributed much to the resounding victory of Gunnlaugsson's party in the 2013 parliamentary elections.

While Gunnlaugsson was not guilty of any wrongdoing in a legal sense,



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he certainly broke the First Law of Politics: He was caught. He fell into two traps, first in the television interview, then in his meeting with the Icelandic president who denied him permission to dissolve parliament and thus deprived him of any possible leverage. He did not have the cunning of the fox which, according to Machiavelli, a skillful politician has to combine with the courage of the lion. It is however ironic that apparently the only violation of law in this case was committed by those who stole the original Panama Documents and by those who then used those stolen goods to their own personal and financial advantage. It also seems immoral to obtain an interview under false pretenses, as the two journalists did, instead of giving the prime minister opportunity to explain his case – or rather that of his wife – under reasonable circumstances.

In the heated discussion in Iceland after the debacle people tend to overlook that a law firm like Mossack Fonseca can hardly be held responsible for possible misbehavior by its clients. Offshore companies and accounts are perfectly legal. An Icelandic wit once said that alcohol should not be blamed for the drunkard. Similarly, those who take measures to avoid paying more taxes than they are obliged to do should not be blamed for tax cheaters, mafia types, drug lords or corrupt politicians from rogue countries. In all the clamor, "tax havens" have been generally condemned in the Icelandic – and, indeed, the international – press. But sometimes offshore accounts serve as provisions by unpopular minority groups like the Jews in Nazi Germany or by beleaguered opposition politicians in countries controlled by populist bullies, such as Venezuela and, until recently, Argentina.

It has to be stressed that tax competition is not a zero sum game, whereby tax collectors in Western countries lose revenue simply because wealthy people move assets to low-tax countries. Firstly, the interests of tax collectors and taxpayers do not always coincide; they may sometimes clash. Secondly, tax competition can act as a necessary constraint on the otherwise uncontrollable growth of government. Thirdly, if capital is moved from a less to a more efficient use, then everybody gains in the long run. But certainly the Icelandic prime minister was guilty of one sin, unforgivable in the eyes of many: He had married a rich woman.