

## **Patrick Caragata introduction for Brisbane Rotary:**

### **A Humorous Look at How I Got Here**

December 2010

My father was a member of Rotary in Toronto for many years. Doing things for others is an important building block in society. I am looking forward to being in Rotary and to getting to know each of you. Let me tell you a bit about myself so that you can get to know me better.

I am the author of 5 books and the editor of several books. My best known book is *Business Early Warnings Systems* published in 1999 by Butterworths. The book examined the great industrial and commercial disasters of the 20<sup>th</sup> Century and demonstrated that there were early warning signs which could have been used to prevent the disaster. I am an economist and a financial analyst. And I founded a global corporate rating agency now based in New York City called *Rapid Ratings International Inc* and designed the company's rating models and software. I first developed the models and software in New Zealand in 1998-1999 and then moved the company to Australia in 2001 to develop the business. We compete with Standard & Poor's, Moody's, Fitch, and Dunn & Bradstreet among others. Our production facilities remain in New Zealand, R&D is in Australia and quality assurance is in India.

The software I designed has identified the financial distress of many companies including Enron, HIH Insurance, Parmalat, General Motors years ahead of their failure. Our services are used in debt markets, equity markets and most importantly in counterparty risk assessments. Our clients include Microsoft, Hess Petroleum, Marathon Oil, Citigroup, Motorola, Rolls Royce, Metlife, New York State Pension Fund, NASDAQ, the world's largest advertising agency (WPP), among many others.

But let me backtrack a bit to give you a humorous look at what led me to move to Australia. I will start by asking one simple question.

Is there a link between the Bruce Highway in Queensland, the Bruce Trail in Canada, Monty Python, David & Goliath and Patrick Caragata? I am afraid to tell you that such a connection exists.

It all started with the Bruce Trail in Canada, which is on the Bruce Peninsula in Bruce County, which was named after James Bruce, the 8<sup>th</sup> Earl of Elgin who was the Governor

General of the Province of Canada from 1847 to 1854. Little did I know how popular the name Bruce was in Australia. At least that is what my friend Monty Python said.

In the early 1970s I started cross-country skiing on the Bruce Trail in Canada in winter. It is a magnificent experience gliding through coniferous forests on snow. **But I met an Australian who told me you have not lived until you have cross-country skied the Bruce Highway in Australia in winter.** When I first heard how long the Bruce Highway was, the thought of skiing it was very appealing. As a naive Canadian, how was I to know the Bruce Highway runs through the tropics? At least he did not offer to sell me the Bruce Highway.

Back in 1973-74 I spent 6 months in Tahiti, Fiji, Queensland, New South Wales, Victoria, Tasmania and New Zealand. It was a memorable journey that left me with a strong interest in staying. But I thought if I stay now, I would always wonder what I would have become. So I went back to Canada to find out. ***I would call that a Canadian neurosis.***

My wife's name is Wendy. Her background is Swiss-German and German. Her ancestors moved to Canada about 150 years ago. We have three children. Eric is starting his third year in the PhD program in genetics at the University of Queensland. He and his team are funded by the Gates Foundation and are working on a solution to dengue fever. Michael has been teaching math and science at a large high school in Townsville. He graduated from both UQ and QUT. My daughter, Rebecca, just finished third year medical school at the University of Queensland.

My mother was born in London, England. Her mother was born in Ireland. Her father was a British soldier who fought in the Boer War and WW I. I was born in Canada. My father was born in Canada of Romanian parents. He was a navigator on a Mosquito in the famous Pathfinder Squadron during WW II. I am a Canadian citizen, a New Zealand citizen and an Australian citizen. And the company I founded is based in New York. ***All of this gives me license to tell jokes without penalty.***

- **Americans** think that poverty and failure are morally suspect.
- **Canadians** believe that wealth and success are morally suspect but are always flattered by being in the company of wealthy Americans.
- **The Brits** believe that wealth, poverty, success, and failure are inherited and hence deserved.
- **The Irish** believe the British and the Catholic Church stole their wealth, but German subsidies in the EU are taking away the pain.
- **Kiwis** wish they had enough money to be wealthy like Australians, and
- **Aussies** think that none of this matters after several beers.

In January **1968**, when I was 19 years old and hungry for experience and excitement, I decided that in August I would hitchhike across Canada and around the United States. ***But as we all know, you should be careful what you wish for.*** How could I have known that the US was about to experience social disintegration and political turmoil?

In April 1968 Martin Luther King was assassinated. This was followed by rioting in 100 cities including Washington D.C. Then, in June 1968 Robert Kennedy was assassinated in Los Angeles. I went on the trip anyway, despite my parents grave misgivings. On August 1<sup>st</sup> I began my 7,000 mile 6-week hitchhiking journey from Toronto to Vancouver, San Francisco, Berkeley, Los Angeles, Phoenix, Houston, New Orleans, Birmingham Alabama, Detroit, and then back to Toronto. I was in Berkeley three days before their riots began in response to the riots at the Democratic Party Convention in Chicago. It would be hard to call those the good old days. But, on the other hand, I had under-estimated Canada's potential for violence, thinking it was a safe harbour.

In the spring of 1969, looking for peace and quiet, I moved to Montreal to learn how to speak French and undertake some research. But earlier that year, a Quebec terrorist group (the FLQ) stepped up their bombing campaign in Montreal which ultimately led to the kidnapping and murder of a Quebec cabinet minister, Pierre Laporte, in October 1970 and the kidnapping of the British Trade commissioner. From my flat in Montreal near McGill University I heard many of the bomb explosions. I left Quebec in September 1970, about a month before the kidnappings and before Prime Minister Trudeau declared martial law. I decided to go back to the University of Toronto where life was a little quieter. Here is a story I would like to share with you:

An **Englishman, a Canadian and an American** were captured by terrorists.

**The terrorist leader said**, "Before we shoot you, you will be allowed last words. Please let me know what you wish to talk about."

**The Englishman replied**, "I wish to speak of loyalty and service to the crown."

**The Canadian replied**, "Since you are involved in a question of national purpose, national identity, and secession, I wish to talk about the history of the constitutional process in Canada, special status, distinct society and uniqueness within diversity."

**The American replied**, "Just shoot me before the Canadian starts talking."

It was in Montreal that I read many books written by Buckminster Fuller, the creator of the geodesic dome and the advocate of synergetics, the science of design where the whole is greater than the sum of the parts and the sub-components cannot be used to predict the behaviour of the whole. This had a profound influence on my approach to designing my software.

My father's experience as an entrepreneur and manufacturer in Toronto after WW II gave me the courage to start my company in 1997 in New Zealand. After 13 years of hard work, we are a going concern. My family motto is "Caragatas are not quitters", but I prefer if the rioting and terrorist bombing is kept to a minimum.

By 1981 I finished a PhD at the University of Toronto. In 1984 my thesis was published as a commercial book by Queen's University, titled ***National Resources and International Bargaining Power***. This was an unusual achievement since most PhD theses are reduced to an article in a journal or collect dust.

I joined Toronto Dominion Bank in 1983 as Senior Economist International. For the next three years I ran the Country Risk Analysis Group which produced sovereign risk reports on 65 countries for the Board of Directors. One concern I had was that the bank had lent about \$100 million to Panama. I told the bank that General Noriega who ruled Panama was behind much of the drug trafficking in that part of the world and that we should stop lending to Panama. I was opposed by the Senior Vice President for Latin America who had lent the money. He was a tough customer with grim determination. He had served in WWII with the German army, was captured by the Russian army and spent many years in a Soviet concentration camp. But he lost his battle with me because I was prepared to stand up for what is right.

A few years later, in 1986, I was asked by the Canadian government to move to Ottawa to lead a small team assessing the investment risks of the Canada US Free Trade Agreement. This was the first Free Trade Agreement in history to contain investment provisions. I was the only economist brought in from the banking sector to work on the agreement. This was quite an honour. After my risk analysis was completed, I briefed my Minister, as well as the Canadian Trade Negotiations Office in Ottawa and then presented my findings in New York City.

I would like to ask you a serious question. Is Monty Python's Flying Circus helpful in understanding Australian culture? I would not have thought so, but apparently I was wrong. While in Ottawa for 20 months during 1986-88 working on the Free Trade Agreement, I kept meeting New Zealanders. Surprisingly, the first four New Zealanders I met were named David. I said to my new friend David #2: "Is this naming tradition like

Bruce in Australia? Or, Mohammed, in Arabic countries?” He said “yes”. I concluded that Monty Python movies have educational value after all. You will recall the scene where someone named Michael met the 4 Bruces and he was asked to change his name to Bruce so there would be less confusion. ***In retrospect this all seems perfectly logical, but it takes some getting used to.***

So David liked my sense of humour and suggested I move to New Zealand because the country was near bankruptcy and needed more taxpayers. I took that as a compliment. What more could you expect from polite Canadians who never turn down an invitation? In comparison, New Zealanders will only turn down an invitation if the wine is not free.

In June 1988 I moved my family to New Zealand when the Ministry of Energy hired me as Chief Economist. ***Within three weeks, after practicing day and night to make all my vowels sound the same,*** I testified before the Finance and Expenditure Committee on New Zealand’s draft ***petroleum mining legislation*** which was in seconding reading.... that is to say, it was almost law. The Tax Department Official who spoke before me had a big hole on the sole of his shoe. I wondered how his salary could be so low. The city trains looked like they were from Mexico in the 1930s. There were no big department stores and all stores closed most of the weekend. I wondered if New Zealand was a Third World country.

As I was about to speak, a Treasury official passed me a note telling me that as a public servant I was not allowed to testify against government legislation. *I have saved that note because his advice is important.* **I said** “Mr Chairman, I have only been in the country three weeks, and I would like to stay longer, so I will only speak in general terms.” The room broke into laughter.

I then spoke in generalities before concluding that cost benefit analysis was an important part of the legislative process and that since the current legislation had not been subjected to cost benefit analysis, it was premature to legislate. Treasury officials gasped. I had driven a wedge into the legislation by raising serious doubts. ***Of course, they were general doubts, not specific doubts.***

The next day I was called to a meeting with the Minister of Revenue and the Minister of Energy, whose name was David. I asked my boss, the Secretary of Energy, who was named Basil (he was from England), if he would like to come with me. He said “you are on your own.” He was a man of great courage, like Basil Fawlty.

On entering the Minister’s office I saw a crowd of people staring at me in silence. I looked at the Minister of Revenue, whose name was Trevor, and said “I guess you have

called me in here to give me hell for my testimony yesterday. He said, “Hell no. I called you in here to congratulate you. You were the only person who had the courage to call a bad piece of legislation, a bad piece of legislation.” **The room broke into applause.**

“But,” he said **“we need you to tell us** what we should tell Parliament when we withdraw the legislation tonight because this withdrawal is so unusual.” I liked Trevor and thought it was good to have a name different from David and Basil. Basil later lost his job. I am innocent of that charge. I suspect that David was responsible. Of course, with so many Davids in New Zealand, it was easy to blame everything on David. Perhaps that is why **Prime Minister David Lange** resigned. But New Zealand politics is like a Shakespearean drama to a newcomer therefore I am withholding judgment.

So I said to the Minister of Revenue: **“Tell them you have instituted a new program to subject all legislation to cost benefit analysis.”** And that is exactly what they did. That moment made my reputation in government and my name was mentioned in the House of Representatives that night, which is highly unusual for a public servant. But it left me as a marked man in the eyes of Treasury. We proceeded to battle for 9 years. I had the courage to stand up for what was right. That is part of who I am. At the Ministry of Energy I designed the new resource royalty regime for energy and minerals in 1989. I had rejected the Australian RRT option for efficiency reasons.

Trevor DeCleene, the Minister of Revenue, had a great sense of humour. On radio one day he waxed eloquently about Wellington. He said: **“On a nice day** Wellington is the most beautiful city in the world. I know, I’ve been there both days.”

One of my roles was to serve on the Electricity Task Force, which was leading the effort to restructure the electricity industry. I remember the second meeting I attended was on a Sunday afternoon shortly after moving to New Zealand. I entered the Boardroom of the Electricity Corporation of New Zealand. The mood was sombre. I thought there must have been some kind of energy crisis. So I said to David: “what is wrong?” He said: “The All Blacks lost. I said, “So who are the All Blacks?” Those were the days when I thought that Wallabies were animals. **To be honest with you, learning about new plants, new trees and new animals in a new country is tough enough without trying to keep track of sports teams that are named after plants, trees and animals.** As you can imagine, restructuring the electricity regime was an exhausting and time-consuming exercise.

After my success at the Ministry of Energy I was asked to become Chief Tax Policy Adviser at the Inland Revenue Department by the *IRD* Commissioner, whose name was David. My first friend at the Department was also named David. I was beginning to feel I

understood the system. In New Zealand there were certain constants that lead to predictable outcomes. Treasury was Goliath and I was David, along with lots of other people. Over the next few years, with much debate, I led teams that developed the new depreciation regime and the new petroleum mining taxation regime. I also led a massive four year exercise producing a *Report on the Health of the Tax System*, the first of its kind in the world. I always made sure that one or more Davids were on the team. That was my insurance policy. This work led me to produce 3 books and my team produced many articles published in reputable journals. One of the books is called "Why are your taxes so high?" Another is called "Taxation and the Limits of Government."

When I left government in 1997 to develop my software, I joined a forensic accounting firm in Wellington whose managing partner was named Bruce. I asked him if he was Australian. He said no. I said are you sure? In a new culture you have to check everything out.

But his senior partner was named David, and his junior partner was named David so I was reassured. I asked Bruce if he had ever considered changing his name to David. He laughed and we became good friends, although I must admit I still wonder if he is Australian.

In January 2001 while I was looking for new investment capital, I flew to New York and stayed at the Marriot Hotel which was crushed when the Twin Towers collapsed after the terrorist attack on September 11th. I found investment capital in Australia and moved to Brisbane in December 2001. The Trans-Tasman planes were almost empty on September 19<sup>th</sup> when we flew to Brisbane to buy a house.

My new Australian business partner was named John. I thought that was very refreshing.

One of our first priorities in Australia was to obtain a financial services license. ***New Zealand was lightly regulated*** but Australia is much different. Regulation is treated as a perfectable art-form in Australia. Learning how to apply for a license is a major hurdle. It reminded me of Winston Churchill's 1939 description of Russian foreign policy: "It is a riddle, wrapped in a mystery, inside an enigma."

After fifteen months, 600 hours of work and \$70,000 in legal fees we got our license. None of the Australian regulators had any experience in dealing with corporate credit rating agencies. This was a square peg/ round hole situation where regulators wanted to treat us like a securities firm because that is the language they understood. I had

entered Franz Kafka's world. I can imagine that many small businesses are disadvantaged by regulatory compliance cost problems in Australia. But, we became the first software-based rating agency anywhere in the world to be recognized by a securities authority and on a regulatory basis we were treated the same as S&P and Moody's.

I spent much of 2003, 2004 and 2005 developing our business overseas, notably in New York and London. In 2004, I landed what became a five-year contract with Lehman Brothers. Luckily when they collapsed in 2008 Barclays took over the contract.

In 2007 my new American partners and I bought out our Australian partners and moved the head office of the company to New York to be close to our main market. I would be happy to make a presentation at some later date about all of this.

**In closing I recall a story about an American, an Australian and a Canadian who were sitting in a bar enjoying a few beers. The American grabbed his Budweiser beer, knocked it back in one gulp, threw the glass into the air, and shot it with his handgun. As he set the gun on the bar, he said to the Australian and the Canadian, "in the good ole USA, we have so much money, we never drink out of the same glass twice."**

**Next, displaying great imagination, the Australian drank his Fosters beer, threw the glass into the air, and shot the glass with the American's gun. As he was setting the gun back on the bar, he proclaimed, "in Australia, we have so much sand that glass is cheap, and we too never drink out of the same glass twice."**

**Finally, the Canadian drank his Labatts Blue beer, grabbed the gun off the bar, and shot the American. As he was setting the gun back on the bar, he told the Australian, "in Canada, we have so many Americans, we never have to drink with the same one twice."**

Finally I would like to make a confession. Neither of my sons is named David or Bruce and my daughter is not named Sheila. But I hope that will not be held against me. After all we are paying our taxes and in the last election I voted for Bruce while my wife voted for Basil. But she has still not given up cheering for the All Blacks. I have cautioned her that this is dangerous in a country full of wallabies, which I understand, used to be animals but are now rugby players. Unless, of course, the wallabies are arrested, and then they truly are animals. Or did I get that wrong?