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## OFFSHORE PILOT QUARTERLY

### ***Bankers in Bunkers***

Nerves have been on edge in the Caribbean recently. After recent reassuring words from the British Government that it does not want to prevent its sun-soaked Overseas Territories from providing offshore financial services, disquieting developments have taken place in London, New York and Brussels. Baroness Elizabeth Symons, the British Minister for Overseas Territories, on a recent visit to the Cayman Islands, told bankers and government officials there that the United Kingdom had no “hidden agenda” – a phrase synonymous with the machinations of the British Foreign Office whose West Indies and Atlantic Desk monitors offshore financial services in the Caribbean territories. Hoping, no doubt, to emulate the balming effect of a Piña Colada, she went on to say that the British government “is committed to the prosperity and development of the Overseas Territories”. The commitment, I’m sure, is very genuine, but the means is where the problem lies. This ex- Regulator suggests that, whereas the Cayman finance sector sees banks, the British government sees beaches: tourism is the only industry which will, in the future, be encouraged by the United Kingdom. This split vision, unfortunately, will be repeated in the other 4 Caribbean Overseas Territories, namely, the

British Virgin Islands, the Turks & Caicos Islands, Anguilla and the resurrected Montserrat.

The same week that this edition of OPQ was being written, the government view was powerfully voiced when the British Secretary, Robin Cook, announced that a forthcoming government white paper will spell out in unequivocal terms that the necessary level of financial services regulation will be established in the Overseas Territories. He hopes that legislative changes will be voluntary, but added that the British government does reserve the right to exercise the “nuclear option” if necessary. Will bankers in offshore tax shelters need bomb shelters?

In New York, Robert Morgenthau, the Manhattan district attorney, recently attacked the Cayman Islands (and, indirectly those other Caribbean pockets of privacy) as a jurisdiction where secrecy prevails. The criticism was contained in an article featured in the New York Times and certainly caused a stir at the Cayman Islands Council Meeting of the Caribbean Financial Action Task Force, a body that was established in 1990 to address money laundering issues in the region. It is endorsed by, and gets some funding from, the United States, the United Kingdom, the Netherlands, France and other industrialised nations. The Cayman Islands Governor, John



Owen, described some of the article's content as "reckless misinformation" and his Financial Secretary, George McCarthy, defended the efforts that had been made to counter criminal activity. Mr. Morgenthau's vivid vocabulary, in which he spoke of the lack of transparency in financial activity, said that when it came to regulation "the Caymans have won the race to the bottom". The Cayman Islands have made sterling efforts in the last 20 years and this diatribe from such quarters is bound to sting, but focus should not be put on the place targeted so much as on the philosophy expressed.

#### ***Rumpus over Columbus***

In America, the business culture is as comfortable with exposure as a nudist is. Daniel Patrick Moynihan, the Democratic Senator - also from New York - has been quoted as saying "secrecy is for losers", and emphasised the point by remarking that openness is a notable American characteristic. Ironically, concealment played a large role in the discovery of America. Having failed to find a westerly route to the Indies, but anxious to placate his sponsors, Christopher Columbus conned the Spaniards into believing that the Americas which he found were, in fact, the Indies. He promptly described every native of the new world as an indian.

Mr. Morgenthau's New York is the home of the modern-day con trick. History doesn't say if William Thompson was a descendant of Christopher Columbus, but he was the first person to be described as a "confidence man" who, in 1849, would greet strangers on the streets of Broadway as old acquaintances. After a little patter, he would ask to be trusted with their watches until the next day. A timely reminder that the Cayman

Islands and the rest of the offshore world can expect little sympathy from a swindle-sensitive society.

In Brussels, Mario Monti, the European Union's single market commissioner, is concerned about the trade winds - not those that rustle the Caribbean palm fronds, but those which ruffle the feathers of European governments. Taxes are being lost from the trade conducted offshore. Mr. Monti's ire has been directed in particular towards the dependencies of member states with low tax or no tax regimes. In referring to the harmful tax practices complained of by Mr. Monti, the Financial Secretary of the Cayman Islands has said that a country's fiscal regime should not be labelled as being hostile just because it is different. He said that such a stance "offends every basic principle of sovereignty". But whatever his opinion, sovereignty of the 5 British islands in the Caribbean reposes in the hands of the United Kingdom which has, amongst other things, the concerns of the European Union to consider. Beach towels and suntan oil won't affect those trade figures.

#### ***Man, Saints and Rockets***

The European Union is already working on a tax code (the initial draft dates back to October, 1997) that is aimed at "harmful" regimes which promote unfair competition. Member states of the European Union are expected to encourage their dependencies to comply with the code which calls for all offending tax regimes to be withdrawn by 1<sup>st</sup> January, 2003. Despite the charge of being last in the regulatory race; the Cayman Islands has now legislated to co-operate with fiscal offences by amending its Proceeds of Criminal Conduct Law. It is the first British dependency to do so and it is a momentous precedent which



compromises the arguments of the other British dependencies. Perhaps it encouraged the House of Keys, the lower parliamentary house of the Isle of Man, to debate last month a motion about contingency plans for independence from the United Kingdom. Will the cry soon be heard, "Man overboard!"?

Perhaps one Caribbean British Overseas Territory can see more than hotels in its future. Anguilla has the opportunity of pulling off a hat trick of sorts. A Texas company wants to build a rocket launch pad on Sombrero, a small island 55 kilometres from Anguilla, and part of that British territory. The rocket site would be used for commercial satellites and could generate handsome revenues for Anguilla. An alternative source of income must be very tempting in light of the British government's plans concerning offshore banking. Apparently, Hubert Hughes, Anguilla's Chief Minister, is seeking guidance from the British government on the future of the island's banking services. Perhaps a prayer to Saint Guiseppe will help. Giuseppe Tovini, a 19<sup>th</sup> century Italian private banker who founded Banca San Paolo and Banco Ambrosiano, has been made a saint by Pope John Paul. It was Banco Ambrosiano that embroiled the Vatican Bank in its worst financial scandal after going under with \$1.3 billion of bad debt, not having a ghost of a chance – holy or otherwise – of surviving. Creditors blamed the Vatican Bank, so perhaps the Pope will seek divine intervention if his bank has any problems in the future.

#### ***Greenspan and the Greenback***

Nearer to home, Brazil has been causing tremors across the region as the Real reels from market instability. The

talk of U.S. dollarisation has now spread from Mexico to Brazil and down to Argentina as anxiety increases over Latin American currencies. The topic became hot in February when Alan Greenspan confirmed that Argentina had approached the American government in an effort to establish a more formal monetary arrangement between the two countries. Greenspan has been careful to say that allowing foreign governments to adopt the dollar will hinge on deliberations to be made by the U.S. Treasury and the Federal Reserve in Washington. He did say, however, that there were concerns about the Fed assuming the status of lender of last resort for a foreign country's banking system. Conversely, the Fed Chairman acknowledged the potential stabilising effects on a country introducing the dollar.

The dollar is already the legal tender in Panama and the country has certainly been a benefactor of that stability referred to by Greenspan. It has been suggested that this unique and historically-based circumstance is one of the country's greatest assets. Free circulation of the dollar eliminates the risk of government intervention in exchange rate and currency fluctuations and the traditionally low level of inflation means that there are no balance-of-payment issues to deal with. Without a printing press or central bank, the dollar is distributed through the state-owned Banco Nacional de Panama (which serves as a clearing house) in conjunction with the U.S. Federal Reserve Board. The Superintendent of Banks, who heads an independent regulatory body, supervises the banking system, sets reserve requirements and regulates interest rates. Currency stability has enhanced the growing image of Panama as an important regional banking



centre. Encouragingly, the American State Department in its latest certification of 22 countries battling against the scourge of drug trafficking, included Panama (4 others were in the Caribbean basin) in its list. The compliance requirements for opening bank accounts are formidable and have encouraged some of our clients to choose other centres, such as Miami, as the soft option. Our published list of requirements includes 8 items relating to documentation and information and is a far cry from Austria's Sparbuch savings accounts which have not needed even proof of identity. The European Union has set a deadline for Austria to stop the practice.

#### *On a Plate*

The millennium is everything about computers and marketing, but Panama is one country that really does have something to celebrate amidst all the millennium hype. A clue can be found in the new car number plate design which bears the image of a ship in the background. At midnight on New Year's eve the Panama Canal will become the property of Panama which will herald a new era for the country and close a chapter in its past. The milestone will be an almost anachronistic event because the flag of a colonial power will be lowered for the last time over another of the dwindling number of such territories. The occasion is especially unusual for two reasons: firstly, the territory is in Central America and, secondly, the colonial power is the United States of America. The territory in question is the narrow strip of land (about 800,000 acres) upon which the Panama Canal is built and which has been controlled by the United States since 18<sup>th</sup> November, 1903. Balboa, the small town in this enclave, is home to the Panama Canal Commission headquarters

from where the passage of more than 13,000 ships through the waterway is co-ordinated each year. It is a typical American small town. The streets are wide, lawns are manicured and a suburban calm prevails. A subsequent Canal treaty in 1977, signed with the then United States President, Jimmy Carter, determined the date for the transfer of sovereignty, but the story behind how Theodore Roosevelt at the turn of the century got the right to build and run the Canal, after the fiasco of the failed attempt by the French, is worthy of a spy novel and draws comparisons with the many escapades attributed to Cecil John Rhodes in Africa. Some people definitely lost their watches without any help from William Thompson.

But putting intrigue and chicanery to one side, the Canal and its environs promise the Panamanian economy a tremendous boost. Cruise lines have said that the Canal is the main tourist attraction in the Caribbean and, together with the near 120 million tons of cargo, around 700,000 passengers on 250 cruise ships contribute indirectly to the hundreds of millions of dollars which the Canal earns every year.

The land surrounding the Canal is being developed to attract cruise line passengers to stay a while and discover more of the country, including its 1,800 miles of beaches. Those travelling by air will soon be able to fly in one of 8 new 737-700s which have been purchased by the national airline from Boeing. It is Panama's largest ever aviation deal totalling \$516 million.

Panama's land mass makes it the largest offshore financial services centre and the diversity of its economy (in stark contrast to its main Caribbean competitors for offshore financial services) is commensurate with its size. Besides employing some 10,000 people in its banking centre, a number



equivalent to the total population of Tortola in the British Virgin Islands, Panama has around 30,000 people (the total population of the Cayman Islands) employed directly and indirectly in the

western hemisphere's largest free trade area, the Colon Free Zone. Whatever happens on the Anguillan island of Sombrero, Panama's economy is ready to take off like a rocket.

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