



TRUST SERVICES, S.A.

*Fiduciary and Corporate Services to
Professional Firms, Institutions and Individuals since 1981*

Number 4

OFFSHORE PILOT QUARTERLY

From Suitcases to Bar Stools

Al Capone, the Chicago gangster, established a chain of laundries in order to recycle the money that he had illegally earned. This gave birth to the term "money laundering" which is constantly on the lips of international regulators today. Traditionally, money laundering has been closely associated with banks. Offshore banks in poorly regulated jurisdictions have been especially pinpointed, but as supervision has improved globally and even jurisdictions with strong confidentiality laws have incorporated tight controls into their banking systems, the money launderers are returning to their roots and passing the funds once again through commercial activities unrelated to banks. There's clear evidence that bank's are getting better at detection and the glory days for launderers when suitcases full of money could be delivered to banks in offshore locations such as the Channel Islands and the Cayman Islands are over. Britain's National Criminal Intelligence Service has supported the view that banks are no longer a soft target for the laundry merchants by reporting that of the 14,000 tip-offs it received about money laundering in 1997, 10,000 came from the banking community. Lawyers only provided 236 tip-offs and accountants only 44.

The dirty money is finding its way into the leisure industries in particular, according to the International Chamber of Commerce's Commercial Crime Bureau. Apparently night clubs, bars and restaurants are popular. Often people in the leisure business are looking for finance far more eagerly than

banks are for deposits and they don't have compliance officers like banks do. Bureaux de change and money transfer services are increasingly being used by the launderers so the introduction of the euro could unintentionally provide them with new opportunities. The euro is expected (unlike most existing European currencies) to circulate widely outside the countries which use it. China plans to include the euro in its \$141 billion currency reserves. There's even talk of the U.S. Dollar being adopted by Mexico. Banamex, the largest Mexican bank, is one of the voices in support of dumping the ailing peso and seeking monetary union with America. Could the new euro and an exported U.S. Dollar translate into narco-nirvana for some money launderers?

The Colon Free Trade Zone Turns 50

It hasn't just been commodity prices that have fallen during the economic turmoil of the last 18 months which has spread from Asia to Latin America. Trade barriers have been falling also which impacts directly on the benefits of free trade zones. Tariffs in Chile, for example, will drop from 11 per cent to 6 per cent in two years time. Panama has the world's second largest free trade zone and so is acutely aware of any threats to its business. In the six months to last March, Panama's canal earned \$278 million, an increase of 7.5% on the same period a year before. However, trade in the Colon Free Trade Zone (which accounts for about 12% of Panama's GDP) rose by 15.4% - over double the Canal figure. The shuttle flights



from Panama City, 80 km away on the Pacific side of the isthmus, are packed with passengers. When they reach Colon, a Caribbean port, there are no attractive facilities laid on. No taxis or restaurants inside the walled compound of the Free Trade Zone. But the shops and warehouses of the 1,600 businesses operating last year traded \$5.5 billion of imports and \$6.2 billion of re-exports, figures only bettered by Hong Kong. The Colon Zone opened in 1948 and has been the half-way house where goods from Asia and the United States of America have been sold to Latin American merchants. Whilst the new trade liberalisation presents a challenge, the Colon Zone is looking to its other strengths in this changing environment. There are three things that the Colon Zone can count on: location, distribution and experience. It is located at the Atlantic entrance to the Panama Canal, at the point where two continents meet. Its capacity for distribution is considerable: new container ports have been built and a concession has been awarded to build the railway linking Colon with more ports on the Pacific Ocean. Lower volumes of goods can be distributed at competitive prices which is especially attractive to traders whose only alternative may be to buy in bulk from a factory. A well-located free trade zone, used as a warehousing centre for “just-in-time” delivery, can be very advantageous. Factory orders might mean delays of a month whereas goods can be received within a matter of days after being shipped from the Colon Zone. Experience has been gained during 50 years of operation: this is a commodity which never drops in value. The Colon Zone’s know-how, when it comes to moving goods, gives it a pivotal role as a logistics nerve-centre that extends beyond Central America and will ensure that it continues to be a significant symbol of financial stability in Panama in the 21st century.

Panama also continues to improve its reputation for political stability. The international press noted that the recent referendum to decide whether or not the

constitution should be changed to allow an incumbent President to serve a second 5-year term was conducted in an organised and orderly fashion. When President Balladares learned that 64% of the vote had denied him a second term, he accepted defeat calmly and in a dignified manner.

Giving People Labels

“Private labelling”, “White labelling” and “re-badging”. On our website we call it “Private label management”, but however it is described, it identifies the business of managing, from an offshore base, cubicle entities for clients. Offshore professionals, especially trust companies, provide the facilities and staff to manage the client’s business. Re-invoicing (see our article on the subject by visiting our website) is the most common private label service and one which assimilates perfectly here because of Panama’s status as the largest free trade zone in the southern hemisphere.

Private label management can include the business of private trust companies, captive banks, captive insurance companies, as well as companies in niche markets. The private label service is cousin to the franchise concept and its appeal can be very attractive to those entrepreneurs who do not have the necessary technical skills or, perhaps, finance to establish stand-alone operations of their own. Besides the technical and financial advantages, the business itself can enjoy not only the lower costs of doing business in Panama – when compared with many of the leading offshore financial services centres – but the optimum degree of privacy provided by the local confidentiality laws. Confidentiality is alive and well in Panama and is showing none of the signs of erosion seen elsewhere.

When selecting the offshore professional for your private label business (a process which should follow the checklist entitled “The 7 Deadly Offshore Sins” set out on the Company page of our website) it is also important to decide the image your business should convey. If your activities embrace investment or fiduciary business, appointing



a licensed trust company would be a natural choice. Its directors and compliance officers will ensure that the level of due diligence required and the necessary controls and standards will be maintained. You can also take comfort from the fact that all licensed trust companies are regulated and audited annually.

Never the Twain shall Meet

Andrew Edwards, I am sure, has never had so much publicity. If you live in the Channel Islands or the Isle of Man and earn your living from an offshore clientele you certainly know of Mr. Edwards. He is the British Treasury Official commissioned to review the laws, regulations and procedures governing financial services in those Crown Dependencies (see our March edition). I first wrote about the British Government's offshore blitz in the December 1997 Offshore Pilot Quarterly, but I had been aware of the changing tide for several years, being privy to certain official views when I was an offshore regulator for the British Government between 1989 and 1992. It was a compelling reason to seek out an offshore financial services centre that did not fall within the sphere of direct influence of the European governments.

Some of the proposals being made today would have read like science fiction to the bankers and lawyers who worked in the main offshore financial services centres 30 years ago. Who would have imagined that a proposal would have been made that all registered companies should publish their accounts? In banking terms, this would be the equivalent of publishing your account statement. Mr. Edwards seems to have ignored the fact that many other jurisdictions – including America (Delaware and Nevada states are two) – do not require all companies to file public accounts. The fires of dissent have certainly been stoked but they are no match for those sovereign powers who are in a position to impose a scorched earth policy if they wish and then, from the ashes, re-write the rules.

Bermuda, the most populous British colony and the world's third largest insurance market after London and New York, has also come under threat. There is a clear attempt by the European Union, the Organisation for Economic Co-operation and Development and the Group of Seven leading industrial countries to end the tax benefits of doing business in this North Atlantic tax haven. Britain is the sovereign power that is accountable (see the Article, "Hostile Exchange: The Pelicans and the Fishermen" on our website) for Bermuda's offshore activities in the eyes of the Europeans and Americans. Bermuda at one stage of its development was heavily involved in the salt trade. It still is, but in a different way. Today it helps others to salt away their assets. The leader of the United Bermuda Party, Pamela Gordon, has declared that the diminution of offshore financial advantages can "threaten our jobs, our banks and the economic well-being of every Bermudian. Our standard of living and our future prosperity are threatened by harmful economic regulations being proposed by the British Government, the U.S. Congress, the European Union and the OECD". Pamela Gordon could be speaking for every offshore financial services centre that does not enjoy the sovereign independence that centres such as Panama do.

Practitioners today need not concern themselves with the spectre of South American political dictators (now sharing the fate of dinosaurs and the dodo bird) when looking for a financial safe haven: their concerns should be with G7 governments becoming financial dictators whose long-term deleterious effect on the offshore industry cannot be calculated at this time. But here's a hint of things to come, from a leaked letter that was sent to the Government of Bermuda by the Foreign and Commonwealth Office in London. The letter includes the observation that the British government regards fiscal offences such as tax evasion as a serious crime "and that Bermuda should change the legislation accordingly". The British Government wants



Bermuda to make tax evasion – in whatever country it is committed – a crime on its statute books and to have the legislation relating to money laundering apply. Clearly, Bermuda and Britain have diametrically opposed views on the issue.

It was Mark Twain who observed that “the habits of all people are determined by their circumstances. The Bermudians lean upon barrels because of the scarcity of lamp posts”. Bermudians now realise that leaning on a barrel might be comfortable, but being put over one is not.

Bears and Pyramids

1998 is almost over and this edition marks the first anniversary of the Offshore Pilot Quarterly. If you have any comments or suggestions, they will be welcomed. Previous editions are also available. There will be plenty to write amount in 1999 as the

future of offshore financial services continues to be examined by the leading industrial countries. Unfortunately, a lot of the bureaucrats reaching conclusions and making decisions are not members of The Order of the Hammer (see the Articles section of our website) and are inverse pyramids: top-heavy with technical ability, but thin on the ground with experience. This can be a fatal imbalance. Two hikers come upon a huge bear. The novice Harvard graduate makes a quick mental calculation based on distance to determine what pace should be set in order to outrun the bear. He tells his seasoned companion who is hurriedly taking his boots off and putting on running shoes. “What are you doing that for?”, asks the confused graduate. “Listen,” comes the reply, “I don’t give a damn what pace you calculate. As long as I can outrun you, I’ll be safe from the bear.”



Offshore Pilot Quarterly is published by Trust Services, S. A. which is a British-owned and managed trust company licensed by the Superintendency of Banks in Panama. We shall be pleased to provide you with details of our qualifications, experience and services.

Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice before making offshore commitments.

Bankers

*HSBC Bank plc
Dresdner Bank Lateinamerika AG*

Auditors

Deloitte & Touche

Physical Address: Suite 522, Balboa Plaza, Avenida Balboa, Panama, Republic of Panama.

Mailing Address: Apartado 6-2495, Estafeta El Dorado, Panama, Republic of Panama.

Telephone: (507) 263-5252 – Telefax: (507) 269-4922

E-mail: marketing@trustserv.com Web site: www.trustserv.com