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## OFFSHORE PILOT QUARTERLY

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### ***Trembling Leaves and Great Happiness***

In this quarter's newsletter I am going to address subjects which are much closer to home than usual. In the March issue I wrote about the potter's wheel in the context of tax information exchange with the United States of America; this was because the potter's wheel, in that instance, was still spinning; his hands were still moulding the clay, and so just like the twists and turns common to international tax issues, we still do not yet know what the final product will look like. This is not the case, however, as far as the economic fortunes of the Republic of Panama are concerned, where we have a much better idea of the shape of things to come.

Besides the amazing growth of the economy, Panama is also growing (albeit less amazingly) as an important financial services centre. It is on its way, I believe, to becoming an international one and which will be recognised as a viable alternative to those both near and far from the Isthmus, spurred on by the continuing, and increasing, flow of international investors lured by the opportunities the country has to offer.

The International Monetary Fund recently published a report which suggested to me that Panama has come out of the world's tunnel of recession like an express train, kept on the rails in part by a well-capitalised banking system; sadly, as I write, the United Kingdom has slipped back into recession (not since the 1970s has the country had such a double-dip experience) and any light at the end of its tunnel has been, alas, an express train hurtling down the tracks but towards those seeking light. The IMF has referred to the robustness and resilience of Panama's banking system, with healthy levels of liquidity, and has recognised an overall strong

and effective supervisory regime. The country's competitiveness, the report goes on to say, compares favourably with the largest economies in the region and the foundation of Panama's progress, in its view, can be attributed to its maturing democracy, solid infrastructure and financial development.

This year's anticipated economic growth is expected to be around 7 per cent (10.6 per cent in 2011) and many liken this current prosperity to the "Brazilian miracle" in the 1970s. Irregardless of the fate of Brazil's miracle, being by instinct cautious, I do appreciate Charles-Augustin Sainte-Beuve, the nineteenth century French literary historian who, like Niccolò Machiavelli, understood the uncertainty of the future and told us that in life "only a trembling leaf separates great happiness from extreme despair". Even so, the expansion of the country's shipping canal is a reality and a major reason for the economy's success; cargo transits represent 4 per cent of world trade and this is expected to double once the current expansion work is completed in 2014.

One of the container ships that will be able to use the widened canal is the Emma Maersk, part of the mighty Maersk Line which is the largest container-shipping company in the world. To appreciate how the distance-cutting canal combines volume of goods with speed of delivery, to produce an unrivalled cost advantage, consider this: the Emma Maersk (not the largest ship in the fleet) can carry 11,000 20-foot containers in its 397-metre hull. A train carrying that load would be 44 miles in length (incidentally, the canal itself is only 48 miles long). The ship's diesel engine has the estimated power of 1200 cars and its anchor alone weighs some 30 tonnes (equivalent, say,



to the weight of five African elephants). The canal, in fact, is evidence of the benefits of open, unrestricted trade in action and which, as the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, entered into between the US and Panama, states, it allows for the “peaceful transit by the vessels of all nations on terms of entire equality, so that there will be no discrimination against any nation, or its citizens or subjects...” provided that transiting vessels commit no acts of hostility while in the canal. Although ships from Cuba can, therefore, transit without hindrance, it would be a different matter if, for example, they attempted to use New Jersey’s Cape May Canal in the US; as you read on you will appreciate why New Jersey, especially, would see it as blasphemy. My column, Latin Letter, in this month’s Offshore Investment journal, offers a further dimension from the Latin American perspective and is published simultaneously with this issue.

### ***Caramba, What a Samba***

A report in May, 2008, from the New York-based Council on Foreign Relations prepared under the joint chairmanship of Charlene Barshefsky, the former US trade representative, and General James T. Hill, the former commander of the US Southern Command which was once based in Panama, stressed the need for a change in US policy towards the Cuban embargo. The posture of successive US administrations since the embargo came into force in 1961 has remained fundamentally unchanged. At the time President Dwight Eisenhower, a Second World War general who was present at the Cold War’s birth, was dealing with a Caribbean island firmly in the camp of the former Union of Soviet Socialist Republics. Things change. It wasn’t so long ago that Latin America was relegated to the backyard of the US. But for many, it is the US that occupies the backyard of the Americas now. It seems an Alice-in-Wonderland picture: the opposite of normal; that is so, at least for the middle class in

the US, where financial strain, inequality, and political discord are weighing heavily on their shoulders. In such times a country needs friends and none are more accessible for the US than those in Central and South America. So the sixth Summit of the Americas held this April in Cartagena, Colombia, was the ideal opportunity to improve relations. But before the Summit even started the cards were stacked against a cordial, constructive gathering of countries, all of which, like the US, could benefit from a collective strengthening of ties.

Over the objections of the other 34 governments, the US (supported by its northern neighbour, Canada) would not condone an invitation being sent to the government in Havana, which meant that before some of the Summiteers’ flights touched down in Colombia the event was already off to a bad start. Doubtless, the Summit’s host, Colombian president, Juan Manuel Santos, spoke for his compatriots when he said that “I hope this is the last Summit without Cuba”. Before the event, President Santos had flown to Havana and met Raúl Castro in order to explain the difficult position that prevailed.

The US and Canada, from the very first Summit in Miami in 1994, had seen such meetings as very important in improving diplomatic relations on the two continents; but with the passage of time, and the political clashes encountered along the way, it does seem as if enthusiasm has waned; the flow of communication over the years has replicated Brazil’s Samba, in fact, with step-close-step-close moves characterized by a dip and spring upward at each beat of the music. The US performance at this year’s Summit, however, had neither dip nor spring in its step.

Brazil would be ready to scupper the Summits and replace them with meetings of the developing Union of South American Nations (with no prizes for guessing which country would be at the steering wheel). If the US’s intransigence over Cuba persists, it could be playing into the hands of Brazil, a country with a



1 trillion US dollar economy and yet it doesn't have a double-taxation treaty with the US. If this seems surprising it only underlines the fact that relationships between the two countries may, on the whole, be friendly, yet they are still shallow; as Brazil continues to become more powerful it is unlikely that those relations will become more comfortable for either country.

President Dwight Eisenhower may have been the one who first made Cuba a political outcast, but it was his successor, John Kennedy (in the mould of Dwight Eisenhower and Harry Truman, two Cold War warriors determined to crush communism), who turned the isolation of Cuba into a US cause célèbre. John Kennedy and his brother, Robert, the US attorney general, despised Fidel Castro and deposing him became an obsession, one which was perhaps spurred on by hubris and humiliation following the failed Bay of Pigs invasion of Cuba in 1961.

Long before we heard references to the Castro brothers there was the Kennedy brothers who, in turn, were influenced by the Dulles brothers, Allen (Director of the Central Intelligence Agency) and John (Secretary of State) who served during the Eisenhower years and both of whom were committed to the administration's Cold War policy known at that time as the "New Look". The Dulles brothers, either jointly or individually, were central to the downfall of governments in Iran and Guatemala; success in Cuba eluded them, however, which heaped derision on the CIA in particular. Allen Dulles, still in his post, was sacked by John Kennedy following a covert plan code-named Operation Northwoods which intended to muster support for a war against Cuba after framing it for staging real or simulated attacks on American citizens.

### ***Merlin's Sword***

When the fabled era of America's synthetic Camelot period ended with President Kennedy's assassination the aura of mystique and wonderment, not dissimilar to King Arthur's legend from where Camelot came, persisted. It

would seem that Cuba is a sword, much like Merlin's, set in stone waiting for someone like King Arthur to be able to withdraw it. Merlin's magic, however, did not have to contend with the influential number of votes and political clout ageing Cuban exiles living in the US have. Three of the four congressional districts in Miami are held by Cuban-American Republicans, not to mention one of Florida's Senate seats, and Robert Menendez, a Democrat, sits in the Senate for New Jersey where around 85,000 Cuban-Americans live.

The US has got its Caribbean policy wrong before. When President Eisenhower's Vice President, Richard Nixon, visited Cuba in 1955 he drew comparisons between Abraham Lincoln and Fulgencio Batista, Castro's predecessor, who ruled from 1934 to 1959 through an alliance with the Cuban Communist Party and the army. Lincoln died from a bullet whereas Batista survived by using them, but in the end his repression and corruption was such that the US suspended its supply of arms to him. When Nixon, on the same trip, then went to the Dominican Republic, he embraced Rafael Trujillo, a murderous dictator who ruled for 31 years and employed torture and blackmail while gaining popularity for public-works programmes. John Dulles at the time counselled: "do nothing to offend the dictators; they are the only people we can depend on". For this same reason, the US tolerated Haiti's Francois Duvalier who, for 14 years, ruled with voodoo-inspired terror and memorably drew these words from the late British writer, Graham Greene: "Impossible to deepen that night".

It is daylight that needs to be shone on Cuba's isolation. Hugo Chávez replaced the Soviet Union and remains Cuba's benefactor to this day, although for how long? Will the cancer he is being treated for be cured and if not, will his successor prove as amenable? The solution may lie further away. Just as China has swayed relations between the US and Latin America in its favour, its closer engagement with Cuba



would be a balm for the region's governments and an antidote for Washington's 20<sup>th</sup>-century Cold-War tactics.

While George Bush junior may have tried to castrate the Castros, in economic terms that is, Barack Obama has adopted a few of the moderate policies implemented by Presidents Carter and Clinton inasmuch as some travel and remittance restrictions have been lifted. On a cash-only basis, the US has sold food to Cuba over the last few years worth about US\$960 million annually. Whether relations, however, in the current climate can go any further is very questionable.

Presently port facilities at Mariel in Cuba are being improved and it is where a container terminal for use by huge ships like the Emma Maersk (that will use Panama's widened canal in 2014) is also being built. The port complex will be operated by Singapore Ports, no stranger to Panama, and investors in the project include Brazil, China, Spain and Canada, the latter

apparently showing its support for US Cuban policy mainly when the guest list at Summits of the Americas is being reviewed. Be that as it may, the lessons to be learned from Panama's canal, as I wrote at the beginning, are for everyone to see, literally, as ships of all nations ply their trade through it, and which will include, eventually, the ships using Mariel's new port facilities.

During April's Summit, Silvio Carrasquilla, former mayor of Turbaco, wanted to give President Obama the gift of a donkey called Demo. The president didn't visit Turbaco but he did send a thank you note. The symbol of the US Democratic party, of course, is the donkey; I suspect most delegates at the Summit, with Cuba in mind, would have felt that the gift of a mule would have been more symbolic. Someone needs to get the message across that the Cold War's "New Look" policy is now looking very, very old; obstinacy is not the answer.

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*Offshore Pilot Quarterly has been published since 1997 by Trust Services, S. A. which is the British face of trust business in Panama where it is licensed under the fiduciary laws. It is written by Derek Sambrook, our Managing Director, who is a former member of the Latin America and Caribbean Banking Commission as well as a former offshore banking, trust company and insurance regulator. He has over 45 years private and public sector experience in the financial services industry about which he has written extensively and our website provides a broad range of related essays including his Latin Letter column which appears in every issue of Offshore Investment.com, a British professional journal published since 1986.*

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