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FEATURED Q&A

Will the Corruption Case Against Panama's Martinelli Proceed?

Q Former Panamanian President Ricardo Martinelli was accused earlier this month by a Brazilian entrepreneur of involvement in a scheme in which immigration ministry officials allegedly sold visas from hotel rooms, with millions of dollars in proceeds going to Martinelli. The allegations were the latest against the former president, who is facing a corruption investigation amid accusations that his administration paid inflated prices for food bought for a welfare program. How will the case against Martinelli play out? Is current President Juan Carlos Varela's administration doing a good job of steering clear of corruption and conflicts of interest? Are Panama's anti-corruption laws sufficient, and if not, what more should be done?

the impeachment and imprisonment of former Supreme Court presiding magistrate Alejandro Moncada Luna, which ended Martinelli's majority on the high court. The former acting attorney general is implicated in a visa selling scam, Martinelli's electoral prosecutor is accused of looking the other way, and more charges are coming. Varela operates in a political culture with endemic corruption, but public attitudes about that have changed. When ugly situations arise in Varela's administration, he corrects them. He's conservative,

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A Eric Jackson, editor of *The Panama News*: "Ricardo Martinelli may face few direct legal consequences so long as the United States continues to harbor him in exile. The economic pattern of Martinelli's presidency was theft on a grand scale, with overpriced no-bid contracts from which part of the excess was skimmed to finance his party, the use of state funds on gifts for voters and the purchase of a private media empire financed by government advertising. There were human rights abuses including wiretapping, politically motivated tax audits and horrific televised brutality at a juvenile prison. His corruption of the justice system is now in the public eye with



Britain to Send Additional Troops to Falkland Islands

Britain is planning to send additional troops to the Falkland Islands in response to a report of an increased threat of an invasion by Argentina. British Defense Secretary Michael Fallon is expected to announce the move today to Parliament. See story on page 2.

File Photo: British Government.

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NEWS BRIEFS

At Least 36 Killed in Multi-Vehicle Crash in Peru

At least 36 people were killed when a bus drifted into oncoming traffic, causing a multi-vehicle crash on the Pan-American Highway in Peru, BBC News reported Monday. The crash happened near Huarmey, 200 miles north of Lima. The driver of the bus apparently fell asleep, the head of the rescue crew told Reuters.

Uruguay Will Stop Accepting Guantanamo Prisoners

Uruguay's government says it will not continue a policy of granting asylum to prisoners from Guantanamo Bay and that it will stop accepting Syrian refugees, BBC News reported today. Foreign Minister Rodolfo Nin Novoa said the country will put decisions on accepting new refugees from Syria on hold "just until the end of the year" because the country has faced "cultural and infrastructure problems" in resettling them. Reports have suggested that the six men given asylum from Guantanamo Bay earlier this year have struggled to adapt.

General Motors to Begin Building Chevrolet Cruze in Mexico

General Motors said Monday that it will build its next-generation Chevrolet Cruze in Mexico, Reuters reported. GM will invest \$350 million to produce the car at its plant in Coahuila, part of a \$5 billion investment in its Mexican plants that was announced last year. Automakers are looking to expand in Mexico as lower labor costs and free-trade agreements make it an attractive manufacturing location. This is the first time the Cruze will be manufactured in Mexico, and much of the production will go to the domestic market, a spokeswoman said.

Political News

Britain Planning to Send More Troops to Falkland Islands

Britain is planning to send additional troops to the Falkland Islands in response to a defense ministry report that said there is a heightened risk that Argentina will invade the South Atlantic archipelago,

“There is obviously a continuing threat even 30 years after the Falklands War...”

— Michael Fallon

go, *The Guardian* reported today. In an interview with the BBC's "Breakfast" program, British Defense Secretary Michael Fallon said "any future and possible" threats to the islands, which Argentina claims as the Malvinas, must be taken into account. "We have been reviewing our defense arrangements of the Falklands where there is obviously a continuing

threat even 30 years after the Falklands War. I'm going to be announcing in Parliament how we are going to beef up the defense of [the] Falkland Islands. Obviously I can't go into details before I tell Parliament." The announcement follows a report in Britain's *Sun* newspaper that Russia has plans to lease 12 long-range bombers to the Argentine government. Fallon told the BBC's Radio 4 that the leasing of the Russian planes had not been confirmed, but added that "the threat remains ... It is a very live threat, and I am responding to it this afternoon." More than 600 Argentine service members and more than 200 members of Britain's military were killed in the 1982 Falklands War.

Economic News

Ecuador Expecting \$4 Billion in Chinese Loans This Year

Ecuador's government is expecting to receive Chinese loans worth \$4 billion this year, the South American country's finance minister, Fausto Herrera, said Monday, *The Wall Street Journal* reported. Approximately a quarter of that amount is related to loan disbursements that were

Featured Q&A

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and although he did not run as a religious rightist, his Catholicism appears to be a big part of what makes his politics tick. His Opus Dei affiliation doesn't spare others in that organization: one former minister who shared that with Varela is in jail, and another is under criminal investigation. Panama's laws and Constitution contain structural incentives toward corruption. Those should change, but more important is a cultural change that is underway."

A Tom Brymer, principal of Panama Advisory International Group: "While corruption has plagued Panama in the past and it has always

been common knowledge here, never in our history, even under Noriega's not-so-benevolent dictatorship, has Panama experienced corruption of the magnitude seen during Martinelli's term as president. I believe we are going to see more cases like the one involving the National Assistance Program (PAN) and the wiretapping case brought against Martinelli. It will involve most of the top members of the Democratic Change party. Many will be sent to prison, and Martinelli may never return to Panama. I believe that President Juan Carlos Varela will weed out corruption here in Panama, and it is refreshing to see that we may be on the edge of turning Panama into a country where all of its

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approved last year, he added. The recent fall in oil prices led to delays in loan disbursements from various Chinese sources, but funds will start arriving in Ecuador starting in April, said Herrera. From 2009 to 2014, China agreed to loan Ecuador more than \$12 billion. Most of the Chinese loans to the country are connected to oil sales. [Editor's note: See [Q&A](#) on Chinese lending to Latin America in the March 17 issue of the *Advisor*.]

Company News

Banamex Has Restarted Lending to Pemex Contractors: CEO

The Mexican unit of **Citigroup** has overhauled its practices for lending to Mexican oil services companies after the unit, known as **Banamex**, was involved in an alleged \$400 million loan fraud with contractor **Oceanografia** last year, Bloomberg News reported Monday. Banamex CEO Ernesto Torres Cantu said the bank made the changes about six weeks ago and has begun to lend "very small" amounts to contractors of state oil company **Pemex** after suspending loans following the fraud allegations. The investigation led to fines for faulty controls, and at least a dozen people were dismissed. "We learned a significant lesson last year," Torres said last week. After shrinking by 0.3 percent last year, Banamex will probably increase total loans by a little more than 10 percent this year, the executive said. A "complete review" has addressed any flaws in the lending process, he added. While the drop in oil prices, down almost half since June of last year, has reduced spending on energy projects and reduced the appeal of some loans, there are still many areas that will require financing, Torres said. "There are certain investments coming from the energy reform that have to be made one way or another," Torres said, noting that they include construction of natural gas pipelines and shallow-water exploration. Last year, Mexico passed an energy reform to open the sector to private companies for the first time in decades.

In Focus

Cuba Thaw Presents Opportunities Despite Slow Pace: Experts

By Gene Kuleta

WASHINGTON—The process of normalizing diplomatic relations and expanding trade between the United States and Cuba is proceeding slowly, but holds great promise for U.S. businesses, a group of experts said Monday.

In the panel discussion, organized by the Inter-American Dialogue and held at the Washington office of law firm **Holland & Knight**, experts expressed optimism that the historic thaw between the Cold War foes will continue and will present opportunities for U.S.-based companies in areas such as agriculture and travel.

"The moral imperative is there, and the business imperative is there, and the political imperative is there," said Devry Boughner Vorwerk, vice president of corporate affairs at international food conglomerate **Cargill** and chair of the U.S. Agriculture Coalition for Cuba.

The United States should continue relaxing restrictions on exports to Cuba in order to allow U.S. agricultural producers to sell more to the island nation, said Vorwerk. "It's quite a shame that U.S. farmers have their hands tied behind their backs when [Cuba] is such a natural market for us."

Wayzata, Minn.-based Cargill has been exporting food products to Cuba for several years under humanitarian export rules, but Cuba holds even greater potential for it and other food producers, said Vorwerk, who added that the relatively small size of Cuba's population would not make it an insignificant trade partner. "Eleven million people is certainly a market," she said.

In the panel discussion, Phil Peters of the Alexandria, Va.-based Cuba Research Center said he sees hope for a further relaxation of trade restrictions with Cuba despite opposition from Republicans who now control both chambers of the U.S. Congress. Exporters are increasingly seeing opportunities to sell products to Cuba and are likely to put increasing pressure on lawmakers to ease restrictions, said Peters.

"I choose to be optimistic," he said. Congressional Republicans, particularly those from Florida such as Sen. Marco Rubio, have vowed to fight the Obama administration's push to ease restrictions on Cuba, saying Cuba's leaders violate human rights and that easing restrictions will only strengthen the country's communist government.

Also on Monday's panel was Jonathan Epstein, a partner at Holland & Knight, who said the law firm has seen swelling interest in doing business with Cuba from companies in industries including travel and technology. "The floodgates have opened," since the Dec. 17 announcements from U.S. President Barack Obama and Cuban President Raúl Castro that the countries would move to normalize diplomatic relations for the first time in more than five decades, said Epstein.

The nearly \$7 billion in outstanding claims against Cuba from U.S. citizens and businesses relating to property seized following the Cuban Revolution is a "hurdle," said Epstein. He added that a lack of clarity about the types of financial activities in which U.S. companies will be allowed to engage with Cuba and regulations they would have to follow have been "vexing" for U.S. banks and has kept them from moving toward doing business with the country, said Epstein.



Vorwerk

File Photo: U.S. Chamber of Commerce.

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people are proud to call it their own. So far, under his presidency, we have seen some high-profile cases against Giacomo Tamburelli, Lucy Molinar, Gustavo Pérez, Alejandro Moncada Luna, Alejandro Garuz and Luis Cucalón. President Varela will continue the purge, and many more will join them in La Nueva Joya jail. I believe that there is a serious underlying problem that involves Panama's political and justice systems where we will need to see an essential change in the way that this country is run. I only hope that this happens under President Varela's watch."

A **Marco A. Gandásegui, Jr., professor at the University of Panama and research associate at the Center of Latin American Studies (CELA):** "During his five-year administration, President Ricardo Martinelli managed a \$90 billion budget. GDP in 2014 was very close to \$50 billion. Compared to previous years, these sums were astronomical. The economic boom Panama experienced in the first years of the 21st century was mainly due to the many activities associated with the Panama Canal's growing income and the service economy. When Martinelli left office last July, the new president, Juan Carlos Varela, promised he would take action to investigate the alleged wrongdoing of his predecessor. However, he was hindered by the fact he had to deal with the old attorney general and comptroller, both of whom were appointed by Martinelli. Once Varela was able to control these key positions, a nonstop parade of injunctions started to jail Supreme Court magistrates, former ministers and high-ranking government officials. Martinelli himself decided to leave Panama City in late January and set up residence in Miami. Martinelli has yet to be prosecuted, but accusations have already been filed against him. According to these accusations, Martinelli paid inflated prices for food bought for a national welfare program. He also was involved in the purchase of military

equipment whose whereabouts are unknown. He is also under suspicion that close to \$5 billion invested in highways, health programs, schools and houses disappeared in the many loopholes offered by bank accounts both in Panama and in foreign hideaways. Martinelli can be brought to justice for misuse of public funds. He can also be charged with income tax evasion. The bottom line is that Martinelli and his associates will probably have to account for their actions in court."

A **Ebrahim Asvat K., founding partner at Patton, Moreno & Asvat in Panama City:** "The judicial procedure to indict Mr. Martinelli is subject to the same rules relating to congressmen. Mr. Martinelli is presently a member of the Central American Parliament (Parlacen), and its members have the same privileges as legislators of their respective countries. Also, as the president of a political party, Mr. Martinelli enjoys the protection of the electoral board with respect to criminal actions. Relief should be obtained from the electoral board for a criminal investigation. So in the case of Mr. Martinelli, the electoral board and the Supreme Court will need to participate in order for a proper investigation and a criminal charge to be filed against him. The procedure is cumbersome and limits the possibility of filing criminal claims against legislators and members of Parlacen. The anti-corruption law will definitely need to be changed, and more administrative supervision will need to be in place for those who enter the civil service. Generally there are no internal affairs offices in governmental institutions that can track or detect misbehavior of public officials."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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