

To: [REDACTED]  
From: [REDACTED]  
Subject: [REDACTED].REST:CAYMAN ISLANDS: 2002 ANNUAL REVIEW:GRCA/FCOLN  
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SUBJECT: CAYMAN ISLANDS: 2002 ANNUAL REVIEW

#### SUMMARY

1. EU Taxation of Savings Directive and Iraq cast shadows over financial services and tourism as Cayman enters Quincentennial year. Increased threat from drugs and terrorism. Bush Government performing well. Constitutional Review will need careful handling if emerging package is to stick.

#### DETAIL

2002

2. Despite 11 September, the uncertain US and international economy, and continuing shortage of overnight tourists, 2002 turned out better than many feared.

3. Constitution. In March the Constitutional Commissioners recommended Ministerial government, with a Chief Minister and Finance Minister, and addition of a Human Rights Chapter. In July the opposition PPM boycotted the parliamentary debate on the draft new Constitution when the ruling UDP refused to consider a referendum. The meeting in London in December confirmed that the two sides are close on substance. The FCO will circulate early in 2003 a revised draft Constitution and a draft Order-in-Council for establishing a Boundaries Commission.

4. Other Politics. Following McKeeva Bush's successful vote of no confidence against the previous government in November 2001 and the foundation of the United Democratic Party, the party system took firmer root with establishment in May of the opposition People's Progressive Movement under Kurt Tibbetts, the previous Leader of Government Business. Both parties are already focussed on the next elections due in November 2004.

5. Economy. A period of consolidation for the banking sector. Other parts of the financial services industry prospered, especially captive insurance, mutual funds, companies, the stock exchange and the shipping registry. The drop in stayover tourists (approx 300,000, 10% down on 2001) was partly offset by a sharp rise in cruiseship visitors (1.75m, 40% up on 2001). The CIG took a firm grip on the budget. Negotiations started with the FCO on guidelines for new borrowing. Draft legislation was prepared on the independence of the Cayman Islands Monetary Authority. The CIG remained adamantly opposed to the EU Taxation of Savings Directive. Rebuffed by the Treasury, the CIG asked the European Commission to establish a tripartite working party to examine the prospective harm to Cayman's economy.

6. Money Laundering. The long-awaited trial of four former employees of Euro Bank started in June. After six months the Prosecution is having technical difficulty in making its case. Whatever the outcome, this expensive trial has reaffirmed Cayman's determination to expunge its reputation as a money-laundering haven.

7. Drugs. In October the National Security Commission identified the greatest threats to Cayman as drugs and drugs trafficking. Between July and September 10 young Britons were arrested for trying to smuggle marijuana on BA flights to London. There were some much bigger hauls of hard drugs destined for the US. Local abuse is growing, especially among the young, and there was an increase (from a low base) in serious crime.

8. Public Sector Reform. Partly in preparation for the new Constitution, a range of reforms took shape, including a more devolved personnel management system, and a Chief Minister's Office to improve inter-departmental coordination and the working of ExCo.

9. Human Rights. Social Development Direct's report identified shortcomings which the CIG will need to address as it also prepares to implement the Human Rights Chapter in the new Constitution.

#### Challenges/Prospects in 2003

10. Political. Will the Constitutional reform package hold together, if the UDP presses for early implementation and the PPM maintains there is no mandate for it, without a referendum, before the 2004 elections? The UDP fear they might lose a referendum, especially if one-time Leader of Government Business Truman Bodden spearheads a 'no' campaign as he did in 1992. If the Boundaries Commission finishes its work by mid-year there may be a case for early elections, but Bush may decline to risk them. Can Baroness Amos's visit in February help the process along? Can she also offer any reassurance on the EU Directive?

11. Quincentennial. The Earl and Countess of Wessex attend in May the 500th anniversary of Christopher Columbus's first sighting of the Cayman Islands. This will be the highpoint of a year of celebrations and events designed to strengthen awareness of Cayman's history and culture. Cayman will also seek to show the world how it is protecting its traditional standards and natural

environment while remaining a leading innovator in international financial services.

12. Economy. How will the banking industry fare under the growing shadow of the EU Directive? There are fears of capital flight to other offshore jurisdictions. Meanwhile the prospect of an Iraq war worries the US-dependent tourist industry, still recovering from the swingeing after-effects of 11 September. Public finance should continue to improve, with the new output-based budgetary system. But revenue will sink rapidly if banks move away and tourists stay at home.

13. Immigration. Controls are generally good. But the CIG is at last addressing the growing imbalance between Caymanians (about 22,000) and expatriates (perhaps 20,000 including 7,000 Jamaicans). The rights of long-term expatriates cannot be ignored; but with jobs now scarce for Caymanian school-leavers, the CIG needs to reassess the high proportions of non-Caymanians among the workforce.

14. Security. There are two main issues:

(i) The Drugs threat will not go away. The CIG's twin policy is to deter transit traffic and fight local abuse, particularly among the young.

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