

## 2008/2009 BUDGET DEBATE CLOSING SPEECH

### **“DEVELOPMENT WITH EQUITY - THE PEOPLE AT THE CENTRE OF OUR CONCERN”**

#### **INTRODUCTION**

Mr. Speaker, Honourable Members,

Mr. Speaker, William Shakespeare, who had an unmatched sense of drama and history, was born on this day, April 23, 1564 and died on this day in 1616. Shakespeare, in all his works, is excellent training for the realities of life we face today. And even as we face the many pitfalls and adversities of the time, what did Shakespeare had to say about adversity:

*“Sweet are the uses of adversity  
Which like the toad, ugly and venomous,  
Wears yet a precious jewel in his head;  
And this our life, exempt from public haunt,  
Finds tongues in trees, books in the running brooks,  
Sermons in stones, and good in everything.”*

Mr. Speaker, the Parliamentary procedural aspects of the Budgetary process commenced when I laid on the table of Parliament what the Government considered to be the estimated sums to be expended to cover the obligation of the Government for the Fiscal Year 08/09.

It is customary that we use this period to review Government’s performance and to set the framework for the achievement of Government policy and programmes. It is in this context that we laid the framework for the Budget Presentation: **“Development with Equity – The People at the Centre of our Concern”**.

Our objective in this year was cut short by the amount of money that was required to commence the tidying up process of past administrative indiscretions.

## **FRAMEWORK OF BUDGET PRESENTATION**

It was hoped that during the period of this Debate participants would have used this opportunity to either explain the identified shortcomings of the past so those mistakes would not happen again or to address in an objective way the proposals laid down by this administration.

In this regard, and regrettably Mr. Speaker, the contributions from the Opposition failed to meet the mark. In closing this debate, my duty is to reply to some of those issues not dealt with by my colleagues and to amplify areas that have been brought to my attention by the public, even as I answer some of the issues raised by the Opposition members.

And so in today's Budget Presentation I will begin by responding to the Leader of the Opposition, then the Opposition Spokesman on Finance and the member from Central Manchester.

I will then conclude with a few remarks on returning credibility to the budgetary process.

### **A. Response to the Leader of the Opposition**

The Leader of the Opposition failed to appreciate that the non-debt Capital Expenditure in this year's budget represents a significant increase over previous years.

This is money for roads, bridges, water supply systems, agriculture, Schools, Constituency Development Fund, etc. It represents an unprecedented amount set aside for this fiscal year.

This year, Mr. Speaker, with the non-debt capital expenditure set at \$44.648 billion, and no deferred financing obligations – **pure new expenditure**, this represents a whopping additional \$20.02 billion or an 80% increase over the actual expenditure last year.

Mr. Speaker, the Budget allocation show our priority to achieve “**Development with Equity – the People at the centre of our concern.**”

These are not mere buzz words. It is reflected throughout the construction of the Budget, that there is a material difference to the quantity and quality of services to be delivered to the people and this is but the first step.

Mr. Speaker, this Budget charts a new course and lays the foundation for a new kind of governance, where no matter the challenge, no matter the obstacles, we are committed to finding a way to constantly keep the people at the Centre. This represents our fundamental philosophical point of departure.

Indeed, this was the common philosophical thread running through the presentations of the Government members.

## **B. Response to the Opposition Spokesman on Finance**

The Opposition Spokesman on Finance tells us that the Budget is not credible. Let me respond to this.

It is quite ironic that a Minister whose stewardship has been characterized by so many years of failed targets, missed opportunities and episodes of fiscal mismanagement and profligacy too numerous to mention, he now seeks to suggest that the budget lacks credibility.

### **MOU**

He says that the \$14.5 billion set aside for MOU III settlement is not credible and the figure will be closer to \$20 billion – “It is the first time since 2004 the Ministry has no clear notion as to what the wage bill will be”.

Mr. Speaker, the projections are credible. I put it to the House today that it is the Opposition Spokesman on Finance who is confused. It is he who, in 2006, had no notion of what the wage bill would be. He set aside \$8.8 billion in contingency, and the bill ended up at \$14.0 billion. He is obviously judging me by his standards of either setting targets without credibility or misleading the Jamaican people with budget estimates that he knew would be exceeded.

The truth is that the wage bill assumes all settlements within the framework of the increases under the MOU III, as well as reclassification for the Health sector to be undertaken in this fiscal year. Whilst we will continue the discussions with those groups who are not within the JCTU, the Government's ability to pay will be important. Realism must be the order of the day.

The Opposition Spokesman on Finance also lambasted me for failure to sign the MOU before my Budget Presentation.

Mr. Speaker, MOU III was signed some 72 hours after the Opposition Spokesman predicted gloom and was kept within the projected targets. While he forgets (perhaps conveniently), that MOU II was signed by him on May 30, 2006 more than a month after the completion of the Budget Debate.

I wish to congratulate Senator Dwight Nelson and the Leadership of the Trade Unions for their responsible approach to the negotiations and signing.

### **Tax Revenue**

The Opposition Spokesman on Finance tells us that the projected increase in Tax Revenue of \$44.0 billion through compliance is not credible.

I never said the \$44.0 billion increase over last year would come solely from compliance. In fact, the lion's share of this increase is expected to come from national increases in collections that are generated from economic activity (growth, inflation, and wage adjustment in the public and private sector).

In addition, the compliance programme that will be undertaken this year will be formidable and involve several major initiatives, including a revived Revenue Protection Division, reduction in discretionary waivers, administrative improvements in all tax departments and a tax amnesty programme across all tax types that will be aggressively promoted over the next few weeks in order to garner some of the over \$100.0 billion in arrears on the road.

In addition, Customs Revenue grew by 14% in 07/08, why is it that with the RPD in place, the Opposition Spokesman questions a projected 16% increase in Customs Revenue. If anything, this is conservative.

Let me examine some of Dr. Davies' statements which, on the surface, could lead us to believe that the technocrats don't know what they are saying. What do the figures say? In Fiscal years 06/07 and 07/08 total taxation revenues increased by 16% in each period. During these periods, there was no major thrust for tax reform or compliance and there was certainly no amnesty.

If during the regular course of events, the revenue increased by 16% each period, what would prevent it, in the year of a tax amnesty and major efforts towards tax reform and compliance, from increasing by a mere 4% over the average? This is a credible projection and we are already receiving an encouraging response from the tax paying public.

The Opposition Spokesman on Finance also questions revenue growth in other tax types. Overall, taxes are projected to grow by just under 20% this year with the Tax/GDP rate falling slightly to 27.4%.

Mr. Speaker, it must be noted that the Tax/GDP ratio projected for 2008/09 is inline with the average of 27% for the last 5 years. **This is credible.**

The PAYE projection is not overstated. It is not only influenced by the MOU, but it is also influenced by the annual increments of 2.5%, the reclassification in the health sector to be undertaken this fiscal year, and the Amnesty and Special Compliance efforts.

The big boost in Corporate Tax is coming from the bauxite/alumina sector based on forecasts developed by the Jamaica Bauxite Institute. Is the Opposition Spokesman saying that the JBI is no longer competent at analyzing the industry and forecasting revenue?

### **Fiscal Deficit**

The Opposition Spokesman on Finance says that I set my own low target so that I could meet it and that the 4.7% deficit outturn was the result of tricks – that only salaries were paid in the last six weeks.

Mr. Speaker I wish to repeat that given the fiscal challenges inherited from the previous administration, where \$16.0 billion of unbudgeted expenditure had to be absorbed; additional unbudgeted items for Air Jamaica, Hurricane Dean and other Deferred Financing obligations had to be accommodated.

Let me repeat – **Had we not taken strong, focused, disciplined and fiscally prudent corrective action, the deficit would have skyrocketed to over 7.0%.**

We set a revised target of 5.5% up from 4.5% set by the previous Minister, which was itself unrealistic with the budgetary overhang he knew was waiting in the wings.

We are not only pleased, we are proud that we have achieved and exceeded our first fiscal target set in seven months, that has not been achieved in 7 years by the previous Minister. (Actual 4.7%). And by the way, so well have we performed, that if the sale of Petrojam and the proceeds of the Universal Access Fund were excluded, we would still have achieved the target of 5.5%.

Mr. Speaker, I have taken the time to speak on this issue of the fiscal deficit target because the former Minister has left a legacy of often times demonstrating flagrant disregard for targets set. This has left a credibility problem for Jamaica among our stakeholder at home and abroad. After seven years of missed targets, the last full year of the former Minister's stewardship, he missed his deficit target, moved from 2.5% to 5.3%, without an explanation:

- No hurricanes
- No external shocks
- No other natural disaster with the exception of his own Government

We have started the journey toward the establishment of credible targets and achieving them and we intend to continue along this path.

The International Financial Community is already responding favourably to the new dispensation of fiscal responsibility. This includes favourable comments from Gregory Fisher – financial advisor of Oppenheimer Inc.

### **Interest Rates**

In relation to the increase in interest rates the former Minister told me “the increase in interest rates is your baby alone”. Mr. Speaker when he was Minister and I asked him about interest rates, he said “interest rates are market determined” and “monetary policy is handled by the Bank of Jamaica”. Now all of a sudden it’s “my baby alone”.

The truth is, Mr. Speaker, achieving over time, sustainably lower interest rates is a complex process that requires synergy in the consistent achievement of critical macroeconomic variables.

So far, we have made progress. We have stabilized the exchange rate. The NIR is now over US\$2.1 billion, and we achieved our first fiscal deficit target for the first time in seven years.

The promised Central Treasury Management System will help ensure reduced pressure in the money market for higher interest rates. But most of all, it is in the process of setting credible targets and meeting them, along with good governance, that will generate the confidence needed to lower interest rates.

### **Inflation**

Mr. Speaker, while I rely on our technocrats to provide sound projections for inflation, I am mindful of the unprecedented and volatile global environment that now prevails. For instance,

oil prices which jumped to US\$120 per barrel yesterday, were never anticipated three months ago. This further underscores the need to abandon “point-scoring” and look to initiatives to mitigate inflation such as energy conservation and food security.

I’m urging all motorists including those who drive government vehicles and especially drivers of MPs, to stop “idling their engines”....it is wasteful.

### **Expenditure**

#### ***Roads***

The Opposition Spokesman on Finance has told us that road repairs are underfunded. He really should not go there. Of the \$1.6 billion he allocated for road maintenance last year, \$1.3 billion had to be used to pay bills from the previous fiscal year, leaving only \$300 million to repair roads. Equally, several billion dollars was set aside to pay prior year deferred financing payments. The amounts allocated for road repairs represent a substantial increase over last year when these factors are accounted for.

#### ***Tourism***

In tourism, there has been a modest increase in the budget for promotion, but we are emphasizing efficiency in the use of our money and Minister Bartlett – that man of energy – is ensuring that we get a bang for every dollar spent in tourism promotion.

### **Token Reductions**

The Opposition Spokesman on Finance’s attitude towards the modest increase in the tax threshold, the decrease in transfer tax and stamp duties, as well as concessions on dividends and relief in the Customs User Fees for Capital Goods, reveals his own lack of understanding of the need to exercise good faith in commitments and in how business works.

We are committed to regular adjustments to the Income Tax Threshold in line with growth in the economy. We are also committed to reducing transactional costs in order to spur more investment in real estate and the construction and installation sectors.

He too, picked from the Matalon Report, but only of what he could take from the taxpayers, not what he could give – i.e. moved GCT from 15% to 16½ %.

We promised tax reform, it's coming.

We are serious about the Administrative Reform of our revenue management processes. It has started.

We are resolute that we will create a business-friendly and disciplined environment that over time will change the culture of the people towards respecting the tax laws and paying their taxes.

**And in exchange for this the Government commits itself to fiscally responsible expenditure, to cut waste, cut nepotism, cut corruption, increase efficiency, increase service delivery and show the people of Jamaica what it means to have a Good Government at work on their behalf.**

### **Multilaterals**

Mr. Speaker, consistently in all of my previous budget presentations I spoke of the need for the Government of Jamaica to embrace the multilaterals. When I speak of the multilaterals, I am specifically speaking of the CDB, the IDB, the World Bank, and their affiliates. Jamaica despite having stopped borrowing from the IMF is still a contributing member.

This is the context of my lobbying for the last 5 to 6 years for the multilaterals. My lobbying for them has nothing to do with confidence in our local technocrats and quite frankly I do not see the connection. The previous Minister knows better and should do better. Do not get our technical staff involved in your politics. Please leave them alone!!

Mr. Speaker, I believe that we must continue to court the multilaterals, and I will certainly do so. And the previous Governments need to stop scaring the country re multilaterals, it is not in Jamaica's interest to do so!!!

On the issue of cross conditionalities. Mr. Speaker the previous Minister fully knows that the international capital markets rely on the reports of the IMF and the World Bank in deciding on our ability to repay our loans. While capital markets do not “peg” us to the agreements with multilaterals, the multilaterals do themselves rely on some of the same indicators, such as, Primary Surplus, Budget Deficit, International Reserves, Tax Revenue, Capital Budget, amongst others. So, the cross-conditionalities are implied but not contracted.

The suggestion by some in the media that the hike in interest rates at the NHT is due to conditionalities is an old time socialist duppy that needs to be buried.

Let it be clear, this Government is not waiting on any multilateral to tell us to clean up our act. We are demonstrating the fortitude and the discipline to do so on our own.

I am pleased to announce that as a sign of our desire to further strengthen our relationships with the multilaterals Ambassador Richard Bernal has been nominated by me to be appointed as the Alternate Executive Director at the Inter-American Development Bank for the Caribbean Region with effect from July 01, 2008.

From this point he will be able to interface more keenly with the multilaterals on our behalf.

Dr. Davies was pleased to announce that he is going to Washington this week and I should join him. I thank him for the invitation but it won't be necessary. A week ago, emissaries from the US Department of the Treasury came to visit me at my corner office, with a view to understanding the priorities and needs of Jamaica and how they could assist us.

In that regard, I have already asked the US Treasury Department to send consultants from the US Internal Revenue Service to assist the Ministry of Finance in developing effective strategies for protecting the revenue at Customs and increasing efficiency in taxpayer audit and compliance.

World Bank - US\$10m signing was on the principle of the relationship not the money.

What cannot be denied is that 18 years ago Jamaica's debt profile was 70% Bilateral and multilateral debt, and 30% private sector (cheaper money).

Today, our stock of debt is 75% private sector (more expensive) only 25% Bilateral and multilateral.

#### Rebuilding (Heavily Indebted Middle-Income Countries (HIMC)/ Debt Management)

- Executive Director (World Bank) Samy Watson visits Jamaica in early May
- Tentative meeting scheduled with selected Finance Ministers of the Caribbean
- June meeting with Mexican Secretary of Finance, Latin America & Caribbean Region Finance Ministers to discuss responses to global challenges in Mexico City.

#### NROCC

Mr. Speaker, for the record I do not want to be accused of “vilifying” the persons who saw through the development of this project but we must be prepared to answer the Jamaican public as to why NROCC debts and losses are ballooning so rapidly that the losses are expanding exponentially. In 08/09 some \$8B will be added to the NROCC debt. This has serious implications for this budget and future budgets. Furthermore, the implications for the users of Highway 2000 are distressing, as somebody will have to pay for the losses.

In my opening speech I made reference to the fact that interest costs for Highway 2000 would approximate to 23% when you add the base (coupon) rate of 4.5% to this year's inflation rate of 19%.

Let me set the record straight on this matter. Currently the loan profile for NROCC is comprised of:-

- 1) J\$3.5 billion local indexed bond – base rate (coupon rate) is 4.5% of indexed principal where the principal is increased semi-annually on a compounded basis. To date, the principal has increased to \$6.0B (almost 100 % increase since 2002). Both the principal

movements and the interest charges affect the company's profit and loss on a yearly basis. As an example, if inflation is 19% then the impact on the company's profit and loss for the year would be 19% for movement in principal and 4.5% (compounded) interest charges. Mr. Speaker the Bond Inflation (separate from interest charges) charged to the company's expenses were \$368M for 2006/2007; \$849M for 2007/2008; projected for 2008/2009 is \$1.69B.

Mr. Speaker, the CEO of NROCC has advised me that to date the average interest charge on this local inflation-indexed Bond is 17%. Based on my own assessment of the situation there is no doubt that this will continue to increase over a period of time given that this is a 30-year bond.

- 2) A loan from Venezuela of US\$264M (Euro 204 M). While the interest rate to the DBJ is 7.5 % the DBJ is unending this loan to NROCC at 9.37%.
- 3) A loan from the MOF for US\$3M

Mr. Speaker the losses of NROCC is due to -

- a) The inadequate financing structure of this entity. There is no where in the world where you can finance long-term infrastructure projects at a cost of capital exceeding 9% on US\$ loans and 17% on Jamaican dollar loans.
- b) Exchange Rate losses
- c) The inflation indexation of the principal of the local bonds.
- d) The inadequacy of the toll rates.
- e) The subsidies provided to the toll operator in the absence of increased toll rates or lower than projected use of the toll road by motorists

Mr. Speaker, we must hasten to refinance the loans of NROCC otherwise NROCC will be worse than Air Jamaica or SCJ. (Omar Davies was opposed to this financing plan?).

### **1. CUSTOMS – TO BECOME AN EXECUTIVE AGENCY**

The Jamaica Customs Department plays a pivotal role in Jamaica’s economy. It is the second largest income earner for the Government. However, its potential for revenue collection and protection can be vastly improved with a number of changes to its current standards and procedures. For several years the Jamaica Customs Department has been strongly criticized by the public for its unprofessional conduct, poor customer service and allegations have been made that some Customs officials are involved in corrupt practices.

In order to maintain and reinforce the role of the Customs Officer, the society needs to be educated on how corrupt acts have a negative bearing on them. By becoming an Executive Agency, the Jamaica Customs Department can enhance its operations and stamp out corruption.

As an Executive Agency, The Jamaica Customs Department will be led by a Board of Directors. This Board is responsible for evaluating the performance of the department and its staff as well as the appointment of a Chief Executive Officer (CEO). The CEO is responsible for overseeing the daily operations of the department.

### **C. Response to the Member from Central Manchester**

#### **“Freeness” unappreciated**

The member from Central Manchester is against free health care and free education because he fails to understand the concept of “Development with Equity with the People at the Centre”. He clearly does not understand the needs of the majority of the citizens of his constituency.

It is not surprising therefore, that the MP for Central Manchester has been a stalwart and unrepentant supporter of the former Finance Minister’s policies of “transferring wealth from the

poor to the rich never before seen since the abolition of slavery”. He now says poor people must not get education and health care free because they won’t appreciate it!

Mr. Speaker, we know the value of the policies that we have initiated, but they on that side must ask the thousands more people now taking advantage of hospitals as a result of this policy. Will this not mean a more healthy population, which in itself will reduce costs and increase productivity over time?

Ask the thousands of parents who got their refunds last year for cost-sharing in education and was able to use it to buy food and clothing for their children.

Or perhaps they ought to have consulted with the Leader of the Opposition who has now come to slap both her Finance Spokesman and Industry and Commerce Spokesman on their positions.

Mr. Speaker, what is the true position of the Opposition on these vital social issues of education and health care? What a confusion!

How can any well-thinking MP be against free education and free health care, which will in time allow them to be better able to deal with any price increases that come, as they will be healthier and better educated and can thus earn more. Mr. Speaker we are committed to improving the lives of people so that we won’t have to say every year that “we love poor people”, because our policies will ensure that in time “no one has to be poor”.

**Mr. Speaker, on this issue we need national consensus, but how can we achieve this when they on that side are unable to achieve consensus within their ranks?**

**But even as they seek to reconcile their positions, the Government is resolute and firm in its position, that it is time we stop squeezing everything from the people and start giving back tangible benefits to the people.**

We said in the campaign that:

*“There must be a better way, we are going to make that change, Jamaicans need a CHANCE to turn their lives around and we are going to make that change!”*

Mr. Speaker, this process of change has begun and the people are already feeling the benefits of better governance – we are governing with equity – **with the people at the centre.**

### *Unregulated Investment Schemes*

Mr. Speaker, there is a time honoured tradition that when you quote members of this Honourable House you should quote from Hansard in this full context of the subject matter at issue.

In quoting me, the member from Central Manchester curiously left out, and I’m reading my verbatim comments from the Hansard: “Mr. Speaker, I say to the Minister of Finance, enforce the rules where they are enforceable, regulate where regulation is necessary, inform the public of the risks involved, where risks are involved. And public education, Mr. Speaker, of course is vital. But we cannot take the word ‘free’ out of the concept of a free market economy.”

In fact, in this year’s budget I went further and proposed and I quote: “that the Government will give urgent attention to the development of a legal and regulatory framework within which the creative entrepreneurial spirit in the financial sector can further grow and develop”.

To take these statements and then to proceed to say that I supported these schemes, and to go further by linking my comments to the success/failure of these schemes, is frankly unacceptable behavior and a flagrant misuse of Parliamentary Privilege. At no time I have said that I supported these schemes.

Mr. Speaker, this administration has gone the furthest to bring the unregulated investment schemes into the regulatory framework. We have urged these schemes to register with the FSC and the FSC has had an aggressive programme in which it warns people to “think and check before you invest”.

In an effort to bring to bear our responsibility to protect the people of Jamaica, we have set up a Task Force to examine and implement appropriate recommendations from a recent IMF Report Addressing Jamaica's Unregulated Investment Schemes. This Task Force includes representatives from the Bank of Jamaica, the Office of the Director of Public Prosecutions, the Attorney General's Chambers, and the Financial Investigation Division (FID) of the Ministry of Finance.

In addition, steps have been taken and instructions given to the FSC and the Attorney General to carry out a comprehensive review of the regulations to amend the laws taking into account the new dispensation in the global financial market, whereby legitimate non-traditional financial instruments can be accommodated within the regulatory framework, these include hedge funds, derivatives and mutual funds.

In this regard, Mr. Speaker, I am to advise this House today that I have concluded negotiations to bring expertise from overseas within the next few weeks to assist in this process.

The suggestion of inaction by the member from Central Manchester is dishonourable, hypocritical, and without foundation. Had he done his research, he would have found ample evidence of advice given by the Attorney General referring to the former Minister from as far back as April last year - advice which appears to have fallen on deaf ears.

### **Commission of Inquiry**

Mr. Speaker, the MP for Central Manchester made a call for a Commission of Inquiry into alternative investment schemes. I was confused as to whether he was speaking as the Shadow Minister of Finance but that is for the Leader of the Opposition to correct him again or for the present Shadow Minister to remind him that he is still around. (seems as if we have two Shadow Ministers of Finance)

Where was his call for an enquiry in the most devastating bomb to have hit Jamaica – the financial sector melt down in the 1990's, and the resulting impact of FINSAC on thousands of

Jamaicans? Where was his call for a Commission of Inquiry when 27 people were murdered in Tivoli Gardens? Where was his call for a Commission of Inquiry in the various scandals that robbed the country of billions of dollars? I speak of Operation Pride – thousands have still not yet received their homes, funds cannot be accounted for, and witnesses to corrupt practices have apparently vanished in thin air; the Zinc scandal, the now infamous Trafigura oil deal, the sale of the Air Jamaica slots, the forward sale of Bauxite below production costs, and I could go on and on and on.

Mr. Speaker, the police and the Financial Investigation Division are currently investigating Cash Plus. A Receiver has been appointed by the Court and his first interim report should be filed with the Court by May 5, 2008. Given these activities I see no rationale for a Commission of Inquiry.

Mr. Speaker, a commission of Inquiry can only be properly established under the Commission of Inquiry's Act and is reserved to bring to light facts and issues that are not available from civil action. A Commission of Inquiry must be as a result of Government action or policy intervention that does not allow the ordinary citizen a right of action.

### **1. FINANCIAL SECTOR COLLAPSE – COMMISSION OF INQUIRY**

Mr. Speaker, I must agree with the Opposition spokesperson on Industry and Commerce, that the PNP Government “guided the economy through the most profound economic transformation”. Just ask the thousands of employees of businesses which had to close their doors on account of the financial sector collapse. While in Opposition, the Jamaica Labour Party made an attempt in the Senate to launch an investigation. This was blocked. We also appealed to the Universities to carry out a study on the collapse. This was met with a lukewarm response.

We maintain our stance and will implement this year a Commission of Inquiry that will specifically pinpoint the causes of the collapse and will assist us as a country to set down rules to avoid such a catastrophe ever befalling Jamaica again.

On this issue of the Commission of Inquiry I turn to the financial sector meltdown of the 1990's.

Mr. Speaker, as a result of a prolonged period of high interest rates due to inappropriate policy decisions, inappropriate because of the timing and lack of understanding by the then Government of these decisions, we had the most devastating bomb to hit Jamaica: Mr. Speaker, I speak not of the PNP but the financial sector meltdown of the 1990's

Interest rates during this period Mr. Speaker, ranged between 70% to 140%, which small and medium size businesses were expected to pay. How ironic it is Mr. Speaker, that today we are discussing how impractical it is for alternative investment schemes to make returns over 100% but yet the then Minister of Finance expected companies to be able to make profits so as to finance interest rates of over 100%.

Obviously, many of these medium to small businesses could not afford to pay these rates of interest and so thousands of businesses became bankrupt, which created a ripple effect throughout the Banking Sector.

The devastation affected every sphere of Jamaica's business sector and private life. As a result, the Government was forced to intervene, which it did but in a very haphazard manner.

In some instances depositors received 90% of their deposit with no interest, and in other instances depositors received 100% of their deposits plus interest.

In some entities the Government's decision to place them under Temporary Management was decisive, for others liquidity support was given by the Government although it was known that these entities were technically insolvent at the time of the liquidity support. The Bank of Jamaica now has debt of \$60 billion on its books which is owed to them by the Government of Jamaica in part as a result of this crisis.

Borrowers from the failed financial entities, including individuals with mortgages, companies, and other business entities, were treated differently depending on their connection - some loans were reduced or written off, and others were forced to pay the hideously high interest rates. As one borrower stated the other day, *"they were sold to the Texans like cattle"*.

As a part of the bailout strategy FINSAC was created where non-performing loans, and assets of selected financial entities were transferred. Subsequently, these non-performing loans were sold to JOSLIN/Jamaica Redevelopment Foundation at 20 cents in the dollar – 80 per cent discount. A discount that the Government never saw fit to offer their own people.

## 2. AIR JAMAICA

Mr. Speaker we all know about the losses of Air Jamaica, I spoke about it in my first presentation and the Prime Minister spoke about it yesterday. Today I want to speak about a matter relating to Air Jamaica having to do with London Route. I refer to the sale of the Heathrow slots.

### Heathrow Slots

Air Jamaica operated seven slots at Heathrow Airport. These slots allowed Air Jamaica to fly daily into and out of Heathrow. During the winter period all seven slots are considered prime slots – which is defined as arrival and departure between 7:00 am and 3:00 pm; during the summer months four of our departure schedules were marginally out of the prime spot periods. Overall, the seven slots are considered to be prime slots.

On March 10, 2007, Air Jamaica sold these prime slots to Virgin Atlantic for an amazing price of US\$10M. Mr. Speaker, amazing because the Government of Jamaica and the then Board of Air Jamaica should have known of the high demand for these slots given the pending Open Air Skies Agreement, which was going to free-up traveling across the Atlantic.

In fact in April 2007 the administrators of the airports in the UK stated publicly that, and I quote, “Heathrow slots are highly scarce and demand far outstrips supply”. **But more than that, in March 2008 Continental Airline paid US\$209M for four prime slots not seven!!!** The London Times in reporting this sale said “..this indicates how desperate airlines are for access to Heathrow”.

This sale is of great concern to this Government for several reasons:-

1. The Open Skies Agreement has been in the making for many years. Any person in the industry should have known of the consequences of the agreement. The primary objective of the agreement is to open Heathrow for other aircrafts from the USA to other carriers, including, Continental and Delta who previously only had access to Gatwick. Why did the then Air Jamaica Board and the then Minister of Finance not know this? And if they did, why did they sell off these prime slots so cheaply?
2. The process was not subject to public tender. It appears that only two companies had been courted, British Airways and Virgin. But Mr. Speaker, the interesting point which should be noted by this House is that these two airlines already were allowed to operate between the USA and Heathrow so their concept of the value of the slots would have been different from the airlines which would benefit from the Open Sky Agreement, such as, Continental and Delta, amongst others.
3. Parliament's consent on a fundamental issue as this was never sought. Parliament was only advised when the "sale was signed, sealed and delivered". This is a significant asset of the people of Jamaica!
4. It appears that legal officers of Air Jamaica and other senior Government technocrats had no input in the negotiations and the drafting of the sale agreement!!!!

We have asked the Contractor General to investigate this matter. The sale revenue given up is too large, potentially US\$364M, for us to not fully investigate this matter. US\$364M or J\$26B could have paid off 75% of the US\$473M liabilities of Air Jamaica that your Government left behind, including the US\$325M Bond for which this Budget has to find J\$3.7 billion this year alone to service this debt.

## **D. RETURNING CREDIBILITY TO THE BUDGETARY PROCESS**

Mr. Speaker, while in Opposition I spoke of the need to bring back good governance to the management of the affairs of the country.

The starting point of good governance is to return credibility to the budgetary process. We are firm in our conviction that we have started this process in the presentation of this our first Budget for a full fiscal year.

We are confident that this Budget provides the platform for growth and development with equity – with the people at the centre.

## **E. THE WAY FORWARD**

Like Shakespeare, W. Clement Stone saw benefit in adversity. He said “In every adversity there is a seed of greater benefit”. Let us together sow those seeds of greater benefit. Let us grasp opportunity from the new global adversities that we now face, and let us move forward with confidence as we engineer the creation of wealth out of the challenges of the time.

Indeed, these seeds of greater benefit are not confined to the basic needs of food security, as citizens we urgently need to sow new seeds of hope, good conduct, respect for one another and for human life, of public order, of increased productivity and good governance.

Once these social, cultural and economic seeds are grown and carefully nurtured, we together will secure our future of Development with Equity with the People at the Centre.

May God bless you all and may God bless Jamaica!

*Audley Shaw, MP*  
*Minister of Finance and the Public Service*

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