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Subject: LEAD: OO GRCA/FCOLN 1: ANNUAL REVIEW 2001 - CAYMAN ISLANDS  
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SUBJECT: ANNUAL REVIEW 2001 - CAYMAN ISLANDS

SUMMARY

1. Significant budgetary problems; new political party, new Government. Need for careful handling of the financial sector. Good progress on immigration, international financial initiatives and Human Rights. Hurricane damage. Constitutional Review well under way; 2004 elections to offer new breed of candidates.

[REDACTED]

DETAIL

2. A troubled year dominated by unaccustomed budgetary problems and a lesson in the realities of parliamentary democracy. With the budget in such bad shape - declining revenue, burgeoning expenditure, negligible reserves, and borrowing for the first time to meet recurrent costs

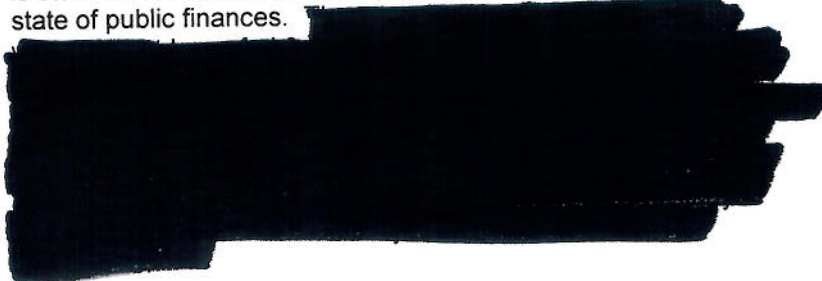
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Whilst the public demanded that I "save the Islands and dissolve the Assembly", I could only point to the Constitution to demonstrate both a Governor's limitations and the legality of what had transpired. It was a wake up call for Cayman and has served to heighten interest dramatically in the Constitutional Review Process that I had set in train in July.

3. With a new realization that these Islands are badly served by their present [REDACTED] voting system, the traditional suspicion of political parties is at last falling away. McKeeva Bush [REDACTED] but he is by far and away the most organized politician and has created a new party to legitimize his ascent to power. The ruling United Democratic Party (UDP) now meets in caucus every week to ensure consensus and agreement

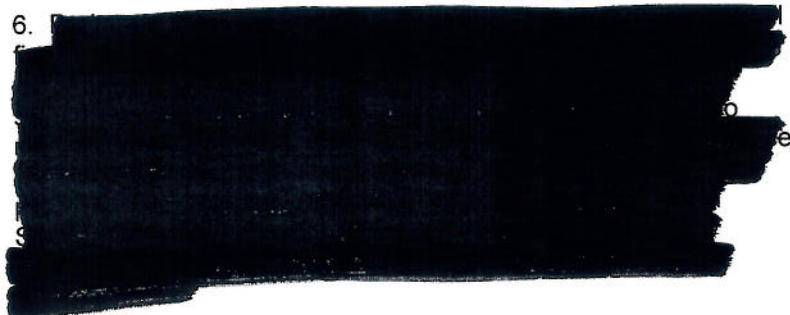
between the UDP Ministers and their backbenchers. For the first time since the construction of the present Legislative Assembly, a Westminster-style adversarial seating arrangement is being used which leaves no doubt where the power lies. At least for the time being.

4. I flagged up 6 "keys to success" for 2001 in last year's review and can report that 4 have seen encouragingly positive movement, 1 is stuck in its tracks and 1 is in poor shape. The latter is the state of public finances.



5. The situation is serious. We may have over C1\$75 million stashed away in the Public Service Pension Fund, but there are barely enough reserves for a week's essential imports. Revenue shortfalls in 2000 were met by withdrawals from reserves and in 2001 by borrowing. Even allowing for ultra-cautious estimates for 2002, how would a further shortfall be financed? The 2002 budget has been balanced, but only through a swingeing increase in fees, levied on the financial services sector. They have complained bitterly. The respected President of the Bankers' Association, Eric Crutchley, has written to me to say that unless there is some ratcheting back of the proposed increases, then this Government will destroy in a matter of months what has been built up over 30 years.

6.



7. At a standstill is growth management. It remains a Government policy objective and will be developed in 2002, but the various strains this year have precluded any serious progress on this subject. I suspect that many officials believe that it is too difficult to accomplish and will probably drag their feet, even though it has the blessing of McKeeva Bush.

8. The other 4 "keys to success" have shown some positive movement. On immigration, the moratorium on Caymanian status applications has been lifted and a backlog of over 200 applications cleared. As a fall back, CIG are to offer "permanent residence with the right to work" to around a thousand of the longest serving residents. This will give some security of tenure - and thus a future - to a group of expatriates who will now be more disposed to invest here.

9. Some progress too on Social Services, where the visit of the outspoken former Chief Inspector of Prisons, Sir David Ramsbotham, had the desired effect of shaming CIG into action on a juvenile remand centre, a safe house for battered women and a sanctuary for the criminally insane. All three projects are now under way.

10. Co-operation on international financial initiatives has resulted in our removal from the FATF black list, membership of the Egmont Group and our signing in Washington of a groundbreaking Tax Information Exchange Agreement with US Treasury Secretary O'Neill. Fears still remain over the EU Taxation of Savings Directive, and HM Treasury's desire for automatic exchange of information. CIG views the OECD level playing field concept with some cynicism and whilst they will continue to co-operate, they see no alternative but to approach each new initiative with the utmost caution.

11. The last and most successful of my "keys to success" is human rights, where considerable strides have been made. The high profile Human Rights Today Symposium held in September with modest but well appreciated financial assistance from GGF and HRPD funding, was a milestone for Cayman. I am fortunate at last to have one Minister (Education Minister Roy Bodden) who believes passionately in the human rights agenda and acts as my standard bearer. As a result of the Symposium, he undertook to bring in human rights education onto the curriculum in primary schools and has already passed a paper to that effect through ExCo.

12. Elsewhere there was progress on the environment with a successful sponsored visit to the UK by McKeeva Bush and the Director of Environment. The Charter was signed and we have had several high profile and successful projects funded by EFOT in 2001.

13. Tourism, already flat at best, took a beating post-September 11 and only now at year's end is there some kind of rebound. We have just recruited a new Director of Tourism from the private sector who should start to re-energize the industry after years of unimaginative promotion by civil servants. For the first time in several years cruise ships were allowed in on a Sunday in December, with the attendant opening of many shops. There was much muttering of protest from the traditionalists, but the visit passed off without incident and can be seen as a small but significant milestone in the modernizing of Cayman.

14. On law and order we had a mixed year, with some dramatic drug seizures and continued success on joint operations with the Americans, but some horrors on island. First, our biggest ever cocaine haul (50kgs in watertight bags found on the beach in Little Cayman) was "stolen" from the Central Police Station (CPS) and then two convicted murderers, fresh from an unsuccessful appeal hearing, proceeded to escape from their cells in CPS. They were recaptured within hours, but from an abundance of caution I have arranged an inspection of the Cayman Police Service by HM Inspector of Police early in 2002. Our new canine unit will be up and running in a few weeks, thanks to GGF, and we have high expectations of the multi-disciplinary use of the 12 fully trained drugs dogs.

15. We did not emerge unscathed from the hurricane season in 2001. Having survived the (ultimately empty) threats of Hurricanes Chantal, Iris and Jerry, we were hammered by Michelle, even though it was never any closer than 145 miles. The winds were never a

