

THE STATE OF THE NATION
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PREMIER
TO THE CAYMAN ECONOMIC OUTLOOK FORUM
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Good morning everyone and thank you for your warm welcome. It is good to be here and what a difference a year makes! I remember being a little anxious beforehand about my participation in last year's event when I was part of a panel discussion with other politicians. I must admit that I much prefer the role I have been asked to play today.

It is an honour to have been invited to address you and I must thank the Chairman and Board of Fidelity for asking me to provide my perspective on the state of the nation.

I have been asked to give you a bird's eye view of the country, which I will do, but I wish as well to give some insight into what lies ahead from the Government's perspective.

After almost nine months in office, I welcome the opportunity to publicly pause and exhale. It has been one heck of a ride so far. As a young Government, I am proud of the work that my team has been able to accomplish in this relatively short space of time and I wish to publicly commend them this morning.

If I had to tick the boxes, right at the top of the stack would be the one marked "Confidence." Confidence has been restored in the Cayman Islands.

We recognize that as part of creating a welcoming environment conducive to investment as well as upholding our international obligations, we as a government must inspire confidence; confidence that public affairs are managed prudently, that Cayman enjoys stable and credible leadership, and that we are ready to take our place at the table as a willing partner in having a well regulated jurisdiction which meets international standards.

This is why we have taken a proactive approach since the elections to mending the relationship with the UK Government. This has begun with the excellent working relationship we have enjoyed thus far with our new Governor, Her Excellency Mrs. Helen Kilpatrick. We have also received Overseas Territories Minister Mark Simmonds and now anticipate the visit on 3rd March of Peter Hayes, Director of the FCO'S Overseas Territories Directorate.

A good working relationship with the UK has given the Cayman Islands a ring side seat at the formulation of policies aimed at reversing the flow of capital away from high tax jurisdictions in the G20. I believe it is far better to be in a position where our voice can be heard and where we may influence the outcome of policies that could have a deleterious

effect on our development goals, than to be butting heads with the FCO and our Governor with no result to show at the end of it.

This is not to say that while we continue to sign tax exchange treaties, act on requests from foreign tax authorities and submit to round after round of inspection, review and new rules, that we are prepared to surrender the principle of equality and fairness for all – developed and developing countries alike. Compliance and transparency cannot be one-way sewers into which small countries are thrown to swim haplessly against the tide. Their use as a punishment for success must stop if cooperation and common ground are to become the global rule.

I found it note-worthy that in a stirring treatise for a new multilateralism delivered at the Richard Dimbleby lecture earlier this month in London, Christine Lagarde felt compelled to add that “if countries compete for business by lowering taxes on corporate income, this could make inequality worse.”

While this is not the forum to debate Mrs. Lagarde’s view, it is a clear indication that we are on the right track in sitting at the table. Cayman must remain engaged and vigilant if we are to protect our primary revenue stream.

Having our voice heard where it matters is one such way. Being agile and prepared to respond to threats and challenges is another. Our memorandum of understanding with Cayman Finance is evidence of our

commitment to both these strategies. So too is membership of the Global Forum's newly formed AEOI group, which is examining how to effectively answer the G20's call for the Forum to monitor the implementation of automatic exchange of information as the new global standard.

My invitation as Premier to address Chatham House and be interviewed by BBC HARDtalk a few weeks ago highlight the recognition we are receiving on the global stage because of our engagement in international tax cooperative initiatives. It is time for us to tell our story and not merely hear of Cayman as a satirical by-line in Hollywood films or cannon fodder for NGOs whose zeal for addressing real economic concerns sometimes outweighs their analysis. We have a good story to tell and when given the opportunity, we should tell it in our own words. To do so means we will on occasion have to venture into hostile territory. But we must do so - for we will never change the negative perceptions about Cayman by talking to only those who know and love us. We must take responsibility for and become better managers of our global image.

Financial services is a key focus of this administration but so is local business. Honouring the commitment which we made during our election campaign, in the upcoming Budget meeting of the House in May we propose to announce a range of measures aimed at reducing government fees for small businesses. We recognise that small

businesses are the lifeblood of the economy and we intend to support them.

We have adopted an aggressive legislative agenda aimed at improving the environment for business. There are bills in the works to improve the legislative framework for Directorships, Trade and Business Licenses, Liquor Licenses, Local Companies Control Licences and Exempted Limited Partnerships.

Government is also pursuing comprehensive intellectual property reform this year and exploring the modernisation of protection for trademarks and copyrights in Cayman in particular. We know these things must be done to help our economy not only survive, but grow.

If Government is to be lean and keen then it must be given the tools to do so. Under the guidance of Councilor Alva Suckoo, Government is now pushing ahead with its E- Government initiative and plans to build on the recent successes and achievements such as the online portals at the General Registry, namely CORIS and EDMS and other projects that involve Immigration, Lands and Survey, Planning and the Judiciary.

The Progressive E-Government plans outlined in our manifesto call for the creation of a Director of E-Government and we are now moving to recruit someone with the requisite experience and skills to fit that role and have that individual in place within the next few months. This position is a vital component of this initiative and will be key in

ensuring that the Government's E-Government and Digital Society plans become a reality.

While we seek to improve the business and economic environment in these islands we do so starkly conscious that the world economic order has been thrust into an evolutionary cycle as a consequence of the 2008 Recession. The fact that there has been little uniformity of pace or form as countries struggle to emerge from the recession is our best indicator that far reaching change will be required to resolve the deep seated, and in some cases systemic problems confronting both developed and developing economies.

While some of these problems may seem far removed from our little corner of the reef, the integration of the world's finances makes it very much part of our business – even more so in our position as a leader in the financial services industry. We must continue to be alert and agile if we are to depend on financial services to earn a living for our country and our people.

At the same time we must get our own finances in order to position ourselves for both challenges and opportunities. I can tell you that Minister Archer is working hard every day on doing just that and the good news is that the country is on the right side of the curve when it comes to our fiscal position.

At the end of January 2014 the fiscal current account was in surplus by \$80.5 million. For the first seven months of the current financial year revenue is \$385.9 million, ahead of budget projections by \$11.2 million. Operating expenditure is \$305.4 million, \$9.3 million below budget projections for the period. We appear to be on track to meet or better the projected \$100M operating surplus for this fiscal year.

At 31st January, 2014, Central Government's outstanding debt balance was CI\$559.0 million. This total amount, of course, is not payable immediately: the obligation to pay the outstanding debt is spread over a number of years.

The Government has a proactive strategy to reduce the debt. First, for the foreseeable future we do not intend to borrow any long-term money. Secondly, we have recently agreed terms with a local commercial bank to amortise the five loans it holds for the Government, which will result in a saving of interest expense by \$6 million over the next decade when the loans mature.

During the course of the year to 30 June 2014, Government will make repayments of debt principal that total CI\$26.4 million and interest payments of CI\$30.8 million.

With a debt to GDP ratio forecast to decline to 21.9% at the end of 2014, Moody's has given us an Aa3 bond rating with an all-important stable outlook. In our part of the world this is indeed a truly enviable rating.

Together with responsible management of our finances, we are endeavoring to diversify our economy to make us more resilient to future economic shocks. I am sure that most of you know that Health City Cayman Islands opens next Tuesday. This will immediately double the number of hospital beds on Grand Cayman and will provide specialized surgical procedures that our residents would otherwise have to travel abroad to procure.

Beyond the anticipated contribution of 2-3% growth in the economy, Health City will provide Caymanians with the opportunity to find good quality jobs across a wide range of medical and support services over the long term. I hope that our people will grasp the opportunities with both hands.

During the construction of phase one of the Health City the work force was 65% Caymanian, for which Mr. Gene Thompson and his management team must be commended. This is an example that other investors will be encouraged to follow.

Another area of economic diversification has been Cayman Enterprise City, which has reached a milestone of 100 clients. This attraction of foreign direct investment and the accompanying multiplier effect has resulted in an estimated \$15 million impact on the local economy over the past two years. In addition to revenue generated for the Government through licensing, the men and women who work in the

zone are using local providers for legal, accounting and banking services as well as renting and buying property, shopping at our stores, purchasing entertainment and more.

Construction of the new Kimpton Hotel on West Bay Road is underway with opening slated for 2016. Work will soon begin on the expansion of Beach Suites on Seven Mile Beach increasing the number of floors from five to seven. Then there is the proposed construction of a new hotel on the old Hyatt site that will also bring much needed investment, economic activity and employment to the country.

Topping the list of planned developments is the \$360 million mixed use Ironwood Community proposed for Frank Sound. I am pleased to announce that not only has Arnold Palmer agreed to design the golf course that anchors the development, but Arnie as he is known to professionals and weekend hackers around the world, will be coming to Cayman shortly to break ground on the course.

An important part of the Ironwood development will be the public private partnership that will oversee the construction of a ten-mile extension to the East West Arterial, from its present terminus at Newlands to the North Side Road, deemed essential by the developers to the success of their project. Government will not have to expend any money on the road and has maintained that Caymanian employment is to be encouraged, with an open and transparent bidding process of local

suppliers and contractors seeking to work on the construction of the road.

The advantage of this project is that the developer has offered to contribute to the cost of the road through the reallocation of import duty that some developers would otherwise seek as a concession from Cabinet.

In addition, the extension of the road will open up more land for future development and the project falls well within our policy of diversifying our tourism product through the vehicle of sports. I don't have to tell you that we have recently held several regional and world class sporting events, which have brought hundreds of visitors to our shores and given Cayman much needed exposure around the world. I certainly don't want to steal any of Mr. Webb's thunder so I will not go any further than that. Suffice to say that from a social perspective I am heartened by the inclusion of sport in a high level symposium like Cayman Economic Outlook because it breathes life into this Government's commitment to our youth to provide opportunities to use sport and culture as alternative means to making a living.

Once you have been in Cayman for the last year you will already be familiar with our commitment to airport development and expansion in Grand Cayman and the Brac; and with the construction of the cruise berthing facilities in George Town so I will not belabor them now except to say that these are all projects that will spur economic growth over the

long term and enhance our tourism product, which grew by 7.4% for stay over arrivals. We cannot afford to cede the cruise business for want of a dock and the Government remains committed to our campaign promise to build this facility.

What we have not spoken a lot about is the revitalisation of George Town, so I will spend a few minutes on what will be an important project in retaining and maintaining the character and heritage of our capital city.

Government has constituted a technical team that is investigating a holistic approach to the revitalisation of the Downtown area. The team is currently seeking input from valued stakeholders in tourism, the Chamber of Commerce and independent interested parties in order to maximize the impact of the Cruise Berthing Facility planned for George Town.

A range of proposals will be examined including changes to traffic and pedestrian flows; beautification; mixed-use planning permission to allow commercial and residential activities in the same building; protection and preservation of historic areas and landmarks etc. in the immediate, short, medium and long term. The team will put forward its recommendations to the Government in March, after which there will be public consultation with implementation of the immediate recommendations starting by mid-year.

Of course there are some things that we have to face and fix. The recent landfill fires have brought the issue of waste management into sharp focus and the government is being faced with calls for an immediate solution to a problem that is the result of many years of unsustainable waste management practices.

While we fully acknowledge the urgency of this issue, we cannot be expected to resolve it overnight. The procurement process for major projects like this was outlined in the FFR, and has been enshrined in our Public Management and Finance Law. We do not have a choice. The process that we are required to follow is identical to the one that is being done for the cruise ship berthing project - we must create a Strategic Outline Case, which will provide an overview of the issue and identify and broadly assess the various options for the project. This Strategic Outline Case will then form the basis for an Outline Business Case, which will provide further evaluation of the options and result in a better definition of the project for procurement. There will also have to be an EIA, and stakeholder consultation, including public consultation.

The processes that are in place are there in large part because of the disastrous consequences of the last tendering exercise conducted by government for a waste management solution. I am sure my good friend, the President of the Chamber, will recall this well, as he was involved in that tendering exercise. These processes will ensure transparency and accountability in the procurement process this time round. While there have been previous tenders, and there are quite a

few studies about this subject, the fact is that the previous iterations were not subjected to the level of research, assessment, and scrutiny that the process currently requires.

Much has been said about the time that it will take to get through this process, and the composition of the steering committee. I believe that we have assembled a very capable group with the tremendous depth of technical expertise that will be required to successfully steer the project through the process.

I want to be very clear that we are not simply going to sit back and do nothing while the Committee takes the larger project through the procurement process. There is much work that needs to be done to enhance the capacity and management of operations at the landfill. We are reviewing the situation with regards to the landfill equipment. We are also undertaking efforts at recycling and reuse, such as the recent contract to remove the scrap metal (which is still on-going) and the tender to remove the tires. Public education to increase each resident's awareness and identify easy ways for every one of us to take personal responsibility to reduce the amount of waste we generate will also be key to our short-term strategies. Enhanced recycling and waste reduction programmes will also be pursued, with a goal of a better managed landfill now, which should form a better base for the larger solution.

While on the subject of areas that we need to face and fix, we knew that we would have to take a strategic long-term view of immigration that would satisfy both the labour needs of business as well as provide opportunities for sustainable employment for Caymanians. Despite the early push back in some quarters, I am pleased to report that the outcome of the first amendment to the Immigration Law has been better than we expected.

The furor over the elimination of the key employee status and eligibility for permanent residence in nine years has been tempered by tougher requirements for qualification and better administration of the process. Consequently, over a third of those who were eligible to apply decided to leave the island.

As promised, work continues on Phase two of the new immigration policy.

I could not make a speech about the state of the nation without mentioning the size and cost of the public service. While the head count of the public service has declined significantly over the past few years as a consequence of quite deliberate efforts, there can be little doubt that in a number of instances this has had an adverse effect on some of the services government provides. The restriction on hiring, while necessary, has compromised the performance of some departments and agencies and in a number of instances these savings are temporary in

nature. Eventually, vacant posts will need to be filled. The current situation at the Fire Service is an obvious example of this.

The reality is that if Government is to significantly and permanently reduce its headcount, with all that that entails including responsibility for healthcare and pensions, government is going to have to hive off some of the services it currently provides to the private sector. Consequently, we are examining what agencies and services could possibly be privatized. There are no sacred cows. The only criteria is that what is done is in the best interest of the Cayman Islands and its people and that the sale of the agency or service doesn't wind up costing us more in the long run.

Getting jobs for Caymanians who are willing and able to work remains a top priority of this Administration. We believe that the National Workforce Development Agency, supported with additional resources and an appropriate focus – has a key role to play in helping us realise this critical goal. Since taking office in May 2013, we have allocated much needed resources to the NWDA and the agency is well on its way to having the staff needed to deliver on their important mandate: to ensure that it is positioned to support Caymanians in accessing and progressing in employment.

Since 1 June, 2013, through 31 January this year, 159 people have been placed in jobs or offered employment with the assistance of the NWDA.

We are systematically tackling the legacy issues that affect the National Pensions Office. Since the National Pensions legislation was passed in 1998, about 50,000 employees have been enrolled in pension plans in the Islands and assets under management by the 15 registered pension plans is nearing US \$1 Billion.

Government has taken a decision to increase the retirement age from 60 to 65, in line with most developed countries.

We remain committed to the introduction of a minimum wage. But we will do so only on the basis of a proper assessment and advice. Those of you who follow proceedings in the Legislative Assembly will be aware that there is a pending Private Members' motion with respect to this issue which will be dealt with next week. While the government will not resile from our stated position, we will proceed with care.

There is also another Private Members' Motion before the House calling for electoral reform and the implementation of single member constituencies. For those in doubt, the government remains committed to the implementation of single member constituencies and the adoption of the principle of equality of franchise. But again, more on that next week.

Finally, I should say that crime reduction continues to be a high priority for this administration. A range of measures are being implemented to reduce the incidence of robberies, burglaries and thefts and the last

month has seen a significant decrease in crimes of this nature overall. Better policing coupled with renewed efforts at reducing recidivism will remain a key focus of the government.

In conclusion ladies and gentlemen, I believe the elections have had the effect of throwing open the windows to the nation. A refreshing breeze has blown over the land and the Government that I have the honour to lead has responded to the challenge of setting the country on the road to progress once more.

It has not been and will not be easy sailing, but I believe we are taking the right steps to position our financial services industry in a safe and effective place. Our economy is rebounding and we are strengthening it through diversification. We are also working on creating more sustainable jobs by supporting the small business sector.

Going forward we have to pay more attention to the built and natural environment and how we manage our use of the land and sea around us.

We must also focus on preparing Caymanians for the jobs of the new economy we are building so that they are participants and not observers.

I hope that those of you who live and work here in the Cayman Islands will join us in being part of the solution.

The evidence is that Cayman is on the upswing. Our role is to ensure that it is a smooth, controlled climb to a high summit with an expansive plateau beyond.