

To: [REDACTED]
From: [REDACTED]
Subject: [REDACTED]:REST:CAYMAN ISLANDS: 2004 ANNUAL REVIEW: PART ONE
OF TWO: [REDACTED]
Sent: 13 January 2005 14:30:25 GMT

[REDACTED]

[REDACTED]
FM GRAND CAYMAN
[REDACTED]

OF 131353Z JANUARY 05
INFO ROUTINE BERLIN, BERNE, CARICOM POSTS, DFID, GIBRALTAR
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[REDACTED]
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SUBJECT: CAYMAN ISLANDS: 2004 ANNUAL REVIEW: PART ONE OF TWO

SUMMARY

1. The year of Hurricane Ivan (11-13 September). Before Ivan, strong budget and economy bode fair for re-election of McKeeva Bush's UDP government in November. Elections now postponed to May 2005. Remarkable progress in recovery from Ivan, but still a long way to go. Constitutional reform temporarily shelved, but perceived lack of UK support since Ivan and uncertain implications of EU Savings Directive may engender renewed calls in election campaign for greater autonomy. Case for a UKG contribution meanwhile to Cayman's National Recovery Fund. Permanent increase in staffing necessary to achieve UKG objectives.

DETAIL

Pre-Ivan

2. In January 2004 Leader of Government Business McKeeva Bush [REDACTED] put off Cayman's Constitutional review until after the elections due in November. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] of

[REDACTED]

3. Otherwise, apart from a worrying increase in drugs-related violent crime, including two murders (one in broad daylight), things generally went well for Cayman in the first eight months of the year. Financial services, tourism and construction prospered, with growth for the year expected to be over 3 per cent. The CIG at last committed in principle to the EU Savings Directive, in return for a Framework Agreement with HMT containing promising UK concessions. There was good progress towards an understanding with UKG on guidelines for CIG borrowing, incorporated in Cayman legislation rather than a formal bilateral agreement. Buoyant growth in government revenue during the FY to 30 June 2004 yielded an unexpected budget surplus. The 2004/05 budget, the first prepared on a fully accrual accounting basis, also presented a strong fiscal position.

4. By early September, attention was turning to the general elections due on 11 November. [REDACTED] within [REDACTED] United Democratic Party, the UDP was confident of mustering a comfortable majority. Then came Ivan. (Readers who know enough about Ivan may prefer now to jump to para 11.)

Ivan and its early aftermath

5. The largest and most powerful hurricane to hit the Caribbean in 10 years, Ivan abated to strong Category 4 as its eye slowly passed the southern coast of Grand Cayman. The worst storm surge mercifully came by day and coincided with low tide. Thanks also to good warning and preparation under the well-rehearsed National Hurricane Plan, only two deaths were directly attributable to Ivan. The casualties could easily have been much higher. But the storm surge and sustained winds caused enormous physical damage, estimated in December by the UN Economic Commission for Latin America and the Caribbean at US\$3.4 billion (equivalent to about 183% of GDP), thus exceeding the total damage from the 2004 hurricane season in Grenada, Haiti, Jamaica and the Bahamas put together.

6. The devastation along Grand Cayman's south and east coast was similar to that inflicted in parts of South Asia by the Tsunami on Boxing Day. And the whole island was seriously affected, with the entire public service infrastructure eliminated or temporarily paralysed except for a small residual mobile telephone capacity which was swamped for the next few days except during the early hours of the morning.

7. The strongly constructed office buildings in the financial district of George Town survived relatively well. In meetings between government and the private sector immediately after the storm, it was agreed that the immediate priorities were emergency relief and earliest possible restoration of essential utilities to the financial services industry, which as a result was back in operation within seven days, at least on a skeletal basis.

8. [REDACTED]

[REDACTED]

quickly compensated on the Consular side by the helpful loan of staff from Kingston. There are lessons for the future, which I have discussed with OTD. With rapid assistance from OTs Law Enforcement Adviser Covington, and loan of 26 armed police from Bermuda, TCI and BVI, we just avoided a collapse of law and order.

[REDACTED]

9. Thanks to sterling work by the emergency services, the strong commitment of the private sector and a rapid inflow of relief supplies (including some funded by DFID), the early relief and recovery efforts were remarkably successful. Supply of water was quickly resumed, much of it initially by tanker; essential food supplies were maintained; mobile telephone capacity was improved; and power was progressively restored (but not throughout the island until end-November). Clearance of the vast quantity of debris was initially much slower. But again the private sector did a great deal on its own, and a contingent from the Bermuda Regiment did invaluable work in the poorest residential areas of George Town. The wider clean-up at last gathered pace towards the end of the year. Housing repairs will also take much longer, even for the insured, because of the massive task of settling claims and also shortage of building capacity and materials. Among the relatively disadvantaged majority of the population, many people had no insurance and have no early prospect of rebuilding without financial help (see para 11(2)).

10. Considering the scale of the disaster in relation to Cayman's small size, the recovery otherwise progressed faster than I expected. Cruise ships resumed day-visits to George Town from early November, and stayover tourists began to return a few weeks later. The Christmas/New Year break was, for many residents, a milestone in the long road back to normality, although many of those evacuated before or immediately after the storm, particularly dependants and retirees, are still off island. Several thousand people are still displaced; there is a severe housing shortage; and rents have risen by up to 50 per cent.

DINWIDDY

[REDACTED]

[REDACTED]

[REDACTED]

To: [REDACTED]

From: [REDACTED]

[REDACTED]: CAYMAN ISLANDS: 2004 ANNUAL REVIEW: PART TWO
OF TWO: [REDACTED]

Sent: 13 January 2005 14:36:42 GMT

[REDACTED]

[REDACTED]
FM GRAND CAYMAN
TO PRIORITY FCO

[REDACTED]
[REDACTED] JANUARY 05

INFO ROUTINE BERLIN, BERNE, CARICOM POSTS, DFID, GIBRALTAR
INFO ROUTINE HAMILTON, HM TREASURY, LUXEMBOURG, OTTAWA, PARIS
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[REDACTED]
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SUBJECT: CAYMAN ISLANDS: 2004 ANNUAL REVIEW: PART TWO OF TWO

Prospects for 2005

11. Before Ivan we were progressing well against most of our 2004/05 Post Objectives, but several have necessarily been obscured or set aside since September. Ivan and its aftermath will continue to dominate much of what we do for the rest of 2004/05 and beyond. Our Objectives for 2005/06 will be tailored accordingly. Meanwhile, we face the following main challenges in the coming calendar year (speaking for myself in the next ten months, since I expect to leave Post in November):

(1) Budget. A high priority for the CIG in the New Year is to agree by early-February a revised budget for the FY ending 30 June. There has been a wide range of unavoidable extra expenditure since Ivan, and there will be some large shortfalls in revenue, including from tourists. I shall be working with Cabinet to keep the resulting deficit to a reasonable minimum. But the CIG will need to borrow, and also to depart from the timetable agreed with FCO for building up reserves. We shall need a rapid and understanding FCO response to whatever is proposed.

(2) National Recovery Fund. My main new personal objective is to raise at least CI\$ 20 million (Pounds 13 million) for the Cayman Islands National Recovery Fund, a Trust established in late September, under my chairmanship, with the private sector along

with the Leaders of Government Business and the Opposition, the Speaker of the Legislative Assembly and the Financial Secretary. We have so far raised nearly CI\$4 million, and we need at least another CI\$16 million in order to assist the necessary basic repair of some 1,300 homes of uninsured householders who lack any other source of support except possibly the separate CIG housing scheme established (for political reasons) with CI\$5= million taken from the CIG's stretched reserves.

[REDACTED], we are stepping up our local fundraising efforts in the first quarter of 2005. I am telling prospective contributors that it is imperative to help the disadvantaged, not just for moral reasons but also for Cayman's medium and long-term economic and social security.

(3) General Elections. These were postponed from November and are now set for 11 May. Cayman has a good record for running elections. This poll will be the first to be fought between two parties.

[REDACTED]
[REDACTED]
[REDACTED] Bush's UDP remains odds-on favourite.
[REDACTED]

(4) Constitutional Reform. Bush will propose again during the campaign some lessening of Governor's powers, and the establishment of a Senate. He may continue to oppose a move to single-member constituencies, at least in West Bay. It will remain hard to re-establish a consensus between the two parties on Constitutional reform. But the current Constitution badly needs updating. I hope we can prepare some of the ground for this before my departure.

(5) Contingency Planning. We are reviewing our plans for the Governor's Office. Cayman having also experienced a significant earthquake on 14 December (6.9 on the Richter scale, but miles offshore and causing virtually no damage), I am likewise pressing for revision of the CIG's National Hurricane Plan to be set in the wider context of a master plan to deal with any sort of emergency or disaster. There are several strands to pull together, in concert with the relevant parts of the CIG, the CIG's US disaster management consultants, JL Witt, and UNDP/ECLAC.

(6) Security. I am working with Covington, my Chief Secretary and the Police Commissioner to ensure that the Police recognise and absorb the lessons from Ivan, which substantially weakened the operational strength of the force for several weeks. The top Command will be considering later this month a revised structure, aimed at allowing better flexibility, more proactive policing and more effective crime prevention. We are meanwhile also discussing with the Attorney-General ways of improving criminal prosecution. And I plan to transfer responsibility for Prisons from the Minister of Community Services to the Chief Secretary, in order to improve security liaison with the Prisons Department.

(7) EU Savings Directive. Because of Ivan the CIG slipped 3-4 months behind in its preparations to implement this. The

Paymaster-General indicated last June that Treasury officials should be ready in September to take forward policy discussions on a Bilateral Taxation Agreement, as trailed in the Framework Agreement (FA) of last January. With Cayman's elections now looming again, the only tangible benefit from the FA that the CIG has to show the electorate and backbenchers in the Legislative Assembly is Inland Revenue recognition of the CI Stock Exchange. Cayman's implementation of the Directive will yield negligible additional revenue to EU member states. But the CIG is conscious of the heavy public and private sector costs of complying with the Directive, and of local concern that it may presage even worse EU measures against Cayman's financial services. The CIG will seek further assurances from the Treasury on these points before signing the Tax Information Exchange Agreements with the member states (including the UK) and passing the associated legislation.

(8) Human Rights. The new Human Rights Committee established last year under the chairmanship of Education Minister Bodden has not met since Ivan. We shall seek to re-energise this towards action on Social Development Direct's recommendations, but little progress is likely before the elections.

(9) Environment. The biggest loser from Ivan! In consultation with the Environment Department, we shall continue to do what we can to ensure that environmental considerations receive due attention in the process of debris removal and reconstruction.

(10) Staffing. I am grateful for the long overdue provision, since Ivan, of a Head of Governor's Office, first in the person of [REDACTED] whose experience, counsel and hard work were invaluable in the early aftermath of Ivan, and now with [REDACTED]

12. I look forward to discussing some of these issues with [REDACTED], Director for the OTs, during his visit next week. Despite comforting visits by the Shadow Foreign Secretary (3 November) and the Earl of Wessex (16-18 November), Cayman has felt rather neglected by potential high-level visitors since Ivan [REDACTED]

[REDACTED]. It would still be very helpful if the UKG could contribute (say) Pounds one million to the National Recovery Fund, which would be seen as a gift to the people, not to the UDP government shortly seeking re-election. I recognise that UK capital assistance may be all the less likely since the Tsunami disaster. But we are likely to hear more criticism during the election campaign of UKG's perceived indifference towards Cayman (notwithstanding the oft-repeated strictures about contingent liabilities), and renewed calls for greater CIG autonomy. Bush knows he would have no chance of obtaining a popular mandate this time round for seeking independence. But it may one day be seen that further seeds for that were sewn during the Year of Ivan.

DINWIDDY