



**FINANCIAL STATEMENT
ECONOMIC
AND
FINANCIAL POLICIES
OF GOVERNMENT**

PRESENTED BY

**THE RT. HON. OWEN ARTHUR
PRIME MINISTER**

AND

MINISTER OF FINANCE & ECONOMIC AFFAIRS

**BARBADOS
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INTRODUCTION

Mr. Speaker,

It has been very well observed that you do not become the finest steel until you have gone through the hottest fires.

This observation has a special significance for us because, having enjoyed the longest and most robust period of economic expansion and prosperity since independence, our nation is about to enter a period of economic turbulence which will fully test our mettle.

Not for the first time, a Minister of Finance will present a Financial Statement and Economic and Financial Policies to Parliament against the background of deteriorating international conditions from which Barbados cannot be immune.

We however have the opportunity on this occasion to do things differently; to use the prospects of adversity as the stimulus for great change, and in so doing safely carry our country through the turbulence which is portended and build a stronger and more resilient economy in the process.

Great causes are never won by doubtful men.

Some of the economic circumstances before us could cause us to doubt ourselves.

But now is not the time for doubt.

- We are not stopping now.
- We are going on.
- We shall find the way through.

The economic and financial policies which I will today present to Parliament are thus intended to enable Barbados to avoid an economic recession, to create the conditions for our nation's continued, orderly sustained growth and development, and to continue the process begun in 1998 to prepare this country to successfully face the new economic era which will begin in 2005.

AN ECONOMIC PERSPECTIVE

Over the course of the past 8 years, our economy has been a model of success and prosperity, reflecting an annual average rate of real economic growth of over 3%, low inflation, a dramatic fall in the level of unemployment, an increase in the level of foreign exchange reserves to over \$1.1 billion, increased savings, surging investment, robust capital inflows, declining levels of poverty, robust consumer and investor confidence, model industrial relations and a sound fiscal position.

It is a record of which we can be proud.

Such an economic performance was due in large measure to the strength and the quality of the economic, fiscal and financial policies we choose for ourselves.

But, it was also facilitated by favourable predisposing circumstances in the global economy.

For, in that period, despite periodic problems in Asia, Latin America and in some parts of Europe, there was a sustained expansion in global economy activity.

In particular, the USA economy recorded 10 years of strong, sustained growth which in turn accounted for about 50% of incremental global economic growth. That extraordinary growth of the USA economy was driven in large measure by vast investments in its information technology sector, despite its low levels of profitability. It was also spurred by a "wealth effect", as over 50% of USA households came to participate in the stock-market as equity holders, and benefitted until recently from the remarkable increase in the value of stocks. This prompted a surge in consumer spending, which sustained USA activity, and spilled over into soaring demand for imports.

Things however have now changed. Corporate America is now trapped in a profits recession. Over investment in the information technology sector has led to a severe recession in that sector, as demand attempts to catch up with supply. The USA manufacturing sector has also been plunged into recession, and consumer spending has dipped as the stock market indices have plunged.

Despite six cuts in interest rates, and considerable tax cuts, the USA economy has in recent months performed below forecasts, and is now in a position to stimulate global growth as it has done in recent years.

In a new global economy, the effects have been instantaneous and dramatic.

World Trade which has been growing very fast in the last decade (accounting for about 25% of global GDP) has now drastically diminished. International trade is, in fact, now estimated to grow by only 4% in 2001, as compared to 12.8% in 2000. This is the steepest decline on record, with significant negative multiplier effects on global economy activity.

The toll has been heavy. Japan the world's second largest economy remains deeply mired in recession, with no end in sight.

At the start of 2001, many had hoped that the slackening in USA activity would be offset by stronger growth in Europe. However, prospects in Europe too have taken a turn for the worse. Hopes for a 3% growth this year have now been replaced with the expectation of growth of 1.7%.

The contraction in global economic activity has taken its most severe toll in the emerging markets of South East Asia and Latin America. Singapore's export led economy lurched into recession in the second quarter of 2001, when GDP fell by an annualised 10.1%, following a first quarter

decline of 11.3%. It is therefore now expected that Singapore will, this year, record negative growth for the first time since 1985.

Other East Asian countries, limping away from the 1997-98 financial crisis now find themselves confronted by falling demand in the USA and Japan and the downturn in technology based industries. Declining and negative growth rates are thus the norm in South Korea, Taiwan, Hong Kong and Thailand.

Similarly, the major Latin American economies find themselves confronted with the spectre of recession. The difficulties are especially pronounced in Argentina, where extraordinarily austere economic and financial measures have had to be deployed to bring the country back from the verge of default.

In a globalised economy, our own region has not been spared, with the most immediate and severe feature being a substantial decline in the fortune of the regional tourism industry which has come to be the mainstay of most small societies.

The global economic outlook is therefore deteriorating rapidly, as problems originating in the USA spread around the world.

Expectations of a rapid economic rebound in 2002 now also appear dim and there is in fact now the threat of a global recession.

DOMESTIC ECONOMY

In our case, there is now clear evidence that there has been a slow down in economic activity in the first half of 2001.

First quarter growth of approximately 1.7% was partly offset by declines in the main foreign exchange earning sectors in the second quarter.

As a result, real output is likely to have been less than 1% growth in the first half of the year, as compared to a 3.1% growth for the corresponding period of 2000.

The outcome for the first half of the year was mainly the result of a sluggish second quarter performance by the tourism industry, and the continuing decline in activity in the manufacturing and agricultural sectors, where the adverse effects of trade liberalisation have been especially severe.

The international business and financial industry, our second largest and once our fastest growing industry also laboured in this period under the cloud of uncertainty caused by OECD Harmful Tax Competition initiative.

By contrast, there was broad based growth in all of the non-traded sectors during the first half of 2001. In addition, our foreign exchange reserves performance remained buoyant.

The net international reserves grew by \$144.6 million, (to exceed \$1.1 billion,) in line with the \$141 million for the corresponding period for the past five years.

A current account surplus on the Balance of Payments, estimated at \$105.4 million was realised for the first half of the year; \$50.2 million more than for the corresponding period in 2000. This position reflects an improvement in our net foreign receipts from services, and a decrease in the value of retained imports consumed by the Barbadian economy.

As a result of strong long term private capital and financial inflows, the capital account on the Balance of Payments also recorded a surplus of approximately \$96.1 million for the first half of 2001.

The average annual rate of inflation for the period up to April 2001 stood at 2.7% as compared to 2.2% for the same period in 2000, driven in large measure by higher oil prices, but nonetheless at a tolerable level.

The rate of unemployment stabilised at 9.3% at March 2001, unchanged from the December 2000 rate and the same rate as a year ago.

We await, with obvious keen anticipation, the information on the second quarter position.

Government's fiscal position remained generally sound with a modest deficit equivalent to 2.1% of GDP being realised for the year ending March 2001, somewhat better than the original target of 2.6% of GDP.

There was also a significant rise in liquidity in the banking system in the first half of 2001.

Indeed the excess liquidity ratio at the end of June 2001 stood at 9.9%, some 2.2 percentage points higher than at December 2000.

Overall, the Barbados economy is expected to record its ninth consecutive year of growth in 2001.

The growth of between 1 and 1½% will be the lowest since the expansion started in 1993, and it is anticipated that it will be led by the non-traded sectors (2.4%) as the output of the exports sectors, without policy intervention, is projected to decline by 2.2%.

The projected rate of growth is lower than the rate of 3% we have set as the rate necessary to sustain improvements in the standard of living of the Barbadian public and to support the reduction of poverty in our nation.

Our immediate objective therefore must be to devise and implement the policies necessary to restore Barbados to a sustainable path of development, at the core of which is the realisation of at least a 3% real growth in the value of goods and services we produce.

The policies to be outlined this evening are in the first instance intended to achieve that goal.

However, while we attend, as we should, to the immediate situation confronting us in the form of a slow down in our economy's rate of growth, we must not lose sight of the need to continue to make structural and institutional adjustments to prepare our economy to successfully cope with the new economic framework within which it will have to function after the year 2005.

Since I last reported to Parliament, regional hemispheric and global initiatives have all been set in train to bring that post 2005 new economic framework closer to reality.

In our own region, a revised Treaty of Chaguramas to create a new Caribbean Single Market and Economy was signed by Caribbean leaders at Nassau in July this year. The work programme has been devised to put in place the most vital part of the new regional economic arrangements - an agreed framework within which existing restrictions on the provision of services, the rights of establishment of enterprise, and the movement of capital can be removed. This Agreed Framework is intended to be ready for implementation by January 1st, 2002.

The bulk of the previous effort at Caribbean integration has centered on the removal of restrictions on the production and trade in goods. The present initiative to remove restrictions on the trade in services will redound greatly to Barbados' interest, given the range and quality of the services we have to offer as compared to our regional neighbours.

Equally, at the Summit of the Americas held in Quebec City earlier this year, Hemispheric leaders directed that negotiations to create a Free Trade Area of the Americas should be concluded not

later than January 2005, and that the Agreement creating the FTAA should come into force as soon as possible thereafter, but not later than 2005.

Draft Chapters of the Agreement have already been prepared, embracing the areas of market access, subsidies, anti-dumping and counter-vailing duties, agriculture, services, intellectual property, investment policy and Government procurement. The negotiation groups in each of these areas have been mandated to make special arrangements to accommodate the special circumstances of Small States.

The creation of a Free Trade Area of the Americas, stretching across the areas and disciplines mentioned will expose Barbados to major new opportunities and challenges.

On the plus side, it will lead to the dismantling of all barriers to trade and investment which now exist in our Hemisphere, opening up for us the prospect of producing goods and services for a market of over 800 million people, and valued at over US \$20 trillion.

The possible production opportunities from such market liberalisation are enormous.

Participation in such a FTAA will however entail the loss of import duties on imports from outside CARICOM, require the opening of our market to competition from a larger collection of countries and in areas, such as Government procurement, traditionally largely reserved only for domestic suppliers. It will also expose our domestic producers to increased competition from larger and more technologically dynamic enterprises.

It is for these reasons that we will seek to negotiate to have the provisions of such an FTAA gradually phased in, and to be designed such that special and differential treatment is in fact accorded to small economies such as Barbados, to enable us to maximise the benefits ensuing while minimising the dislocation which the new integrating mechanism has the potential to cause.

Of even more immediate relevance to us is that, in keeping with commitments given in 1994, negotiations under the auspices of the WTO have resumed in relation to the Agreement of Agriculture and the Agreement on Services. These negotiations are intended to lead to the further dismantling of international barriers to trade in these two sectors which are areas of obvious significance to the functioning of our Barbadian economy.

In respect of Agriculture one of the crucial negotiating issues concerns the level of domestic support to be given by Government to the sector. Currently, the Agreement permits Barbados to provide domestic price supports of no more than 10% of the value production of any of its agricultural sub-sectors.

Other issues being negotiated pertain to the degree of protection that can be accorded to the domestic agricultural sector vis a vis agricultural imports and the nature and the quantity of subsidies that can be provided by Government to agricultural exports.

The negotiations in the area of services can have even more far reaching implications for the Barbados economy.

Under the existing 1994 Agreement, we were permitted to exclude from liberalisation those parts of our service economy which we felt we could not accommodate any competition.

Our commitments to liberalise in 1994 were therefore narrowly confined to legal services, medical services, software implementation services, courier services, entertainment services and reinsurance.

The new round of negotiations are however expected to be guided by the undertaking that no service should be excluded from the negotiations and liberalisation.

When the dimensions of these three regional, hemispheric and global negotiations are seen as one, it becomes immediately apparent that their outcomes will have huge implications for the structure and functioning of the Barbados economy, particularly after 2005.

To begin with, we will no longer enjoy free and easy access for our goods and services in the major markets of the world without giving similar access in our markets to foreign producers.

The extent of the protection we afford our industries, and the nature of that protection will also be changed. For example, we no longer, except on grounds of public safety, can use licences, or quotas to ban other people's goods, as we might have done in the past.

Fundamental changes to the way we organise production in Barbados, support productive activity, treat domestic and foreign investment, conduct the affairs of our corporations, organise and utilise our labour force and use technology and information will have to be made if we are to succeed in the post 2005 global economy.

We however cannot and must not wait until 2005 to make those changes. Indeed, in each presentation since 1998, I have sought to introduce new measures such that Barbados can, in an orderly fashion, phase in the new arrangements that will be required of us to successfully participate in the Caribbean Single Market and economy, the FTAA, and the new global economy.

I refer to it as economic repositioning.

While we must necessarily react to the short term turbulence that is facing the economy, the core of our economic and financial policies must continue to focus on the articulation and implementation of those measures that will allow us to reposition the Barbadian economy to accommodate new international trade arrangement that we know lie ahead.

STRATEGIC OBJECTIVES

The two broad strategic objectives sought by the proposal to be presented to Parliament will therefore be -

- To stimulate economic activity in the short term so that Barbados can be restored to the 3% real growth path as soon as possible, up from the 1% path on which it now finds itself; and
- To continue to devise and implement new fiscal, sectoral, human resource development, capacity building, institutional reform, productivity enhancing measures necessary for us to make our economy more competitive in the context of the regional, hemispheric and global economies, as they are likely to evolve.

In all of this, it is absolutely vital that we do not allow the clamour in some quarters for expedients to cope with the short-term situation to wreck the long-term prospects of our economy.

Some wish us to introduce new restrictions on entry to some of our markets, where no market restrictions exist at present. Others call for the perpetuation of forms of protection which are inconsistent with our regional and global obligations, and are incompatible with the building of a competitive economy. Yet others, while preaching the virtues of private sector activity, look to Government for every solution, usually in the form of the reduction or abolition of every tax.

The Government will not yield to such pressures. Neither will we seek to stimulate this economy by incurring massive deficits, financed by the printing of money nor will we seek to borrow our way forward.

Rather we will seek to strategically stimulate those sectors of the economy that possess strong export potential over the short and medium term; institute measures to reduce the cost of doing

business, and institute new measures to facilitate and promote investments in areas which generate foreign exchange and meet pressing social needs.

We will also institute new policies to radically transform the mechanism for the development of our human resources, which continues to be the foundation on which we must rest our development effort.

And we will introduce new far-reaching institutional and fiscal reforms to support a more competitive economy.

In recent years, in anticipation of this phase of liberalisation, our foreign exchange reserves were carefully boosted. In 1992 when adjustments had to be made to our economy, our foreign exchange reserves stood at only \$11 million. Today they exceed \$1.1 billion, one hundred times more, equivalent to over 26 weeks of imports. Some of these foreign exchange reserves on a modest scale, will now be pressed into service to help transform the economy.

Equally as noted earlier, there is evidence of excess liquidity in the domestic banking sector. Our domestic savings are therefore in a state to be deployed in support of higher levels of investment in a transforming economy, and to more than meet the existing needs of both the public and private sector of Barbados.

The point, Sir, is that we have significant elbow room, because of the size of our foreign exchange reserves and the state of our domestic financial liquidity, to stimulate the expansion of our economy without the fear of inducing balance of payment problems, and we propose to use that elbow-room creatively.

It is against that background that I turn to fiscal issues.

FINANCIAL STATEMENT AND FISCAL POLICY

A prudent fiscal policy, reflecting modest and properly financed fiscal deficits has been a considerable factor in generating our growth and stability in recent years.

Our present circumstances require that there be tax reform and the provision of carefully targeted financial support by Government to all of the strategic sectors of our economy.

We have also to provide better for certain vulnerable sections of our community.

Fiscal measures to accomplish these goals will be introduced later today. But these changes will be carefully measured such that even in the context of an expansionary fiscal policy such as is proposed, the overall fiscal deficit remains within manageable proportions.

Certainly, the financial performance for the fiscal year which ended March 31, 2001 can only reinforce our reputation for fiscal soundness.

FISCAL PERFORMANCE, 2000-2001

On March 21, 2000 Parliament approved a financial programme comprised of current revenue of \$1,725.0 million and incurred current and capital expenditures exclusive of amortisation of \$1,838.1 million to produce a fiscal deficit of \$113.1 million or 2.6% of nominal GDP at factor cost.

Final data on the actual fiscal performance for the 2000-2001 financial year indicate that current revenue amounted to \$1717.3 million, while current and capital expenditures stood at \$1,808.8 million, exclusive of amortization payments of \$198.7 million, to produce a fiscal deficit of \$91.5 million or 2.1% of nominal GDP at factor cost. The overall fiscal performance was therefore better, than the original target of 2.6%.

The current revenue collected for the financial year 2000-2001 shows an increase of \$91.3 million or 5.6% over the 1999-2000 fiscal year. A breakdown of the major taxes is as follows:

- \$247.9 million in Corporation Tax was collected, which represents \$26.4 million or 11.9% more than the previous financial year, and \$14.8 million or 6.3% more than the original target set for the 2000-2001 financial year.
- The Income Tax yielded \$318.7 million which was \$41.9 million or 15.1% more than the previous financial year, and \$49.8 million or 18.5% more than the original target set for the 2000-2001 financial year.
- Land Tax realised \$64.6 million which represents \$2.4 million or 3.9% more than the previous financial year, but \$8.4 million or 11.5% less than the original target set for the 2000-2001 financial year.
- Value Added Tax produced \$491.6 million which is \$34.2 million or 7.5% more than the previous financial year, and \$26.6 million or 5.7% more than the original target set for the 2000-2001 financial year
- Excise Tax yielded \$160.2 million, \$3.8 million or 2.3% less than the previous financial year, and \$74.5 million or 31.7% less than the original target set for the 2000-2001 financial year; and
- Import Duties amounted to \$135.4 million, \$0.8 million or 0.6% more than the previous financial year, and \$27.1 million or 16.7% less than the original target set for the 2000-2001 financial year.

Expenditure

In the Financial Year which ended March 31st, 2001 current expenditure excluding amortisation amounted to \$1506 million, \$79.2 million more than the year before, but Government spent \$12 million less than the original target for the year.

Government's wage bill, even including the repayment of the second tranche of the 8% increased only modestly by 3.9%. There was, however, a 15% increase in transfers for purposes such as clearing the arrears to the UWI, payments to the National Insurance Scheme on behalf of state enterprises, and the like.

Some \$302.2 million were spent on capital projects - 13.7% more than the previous year, but \$22.9 million or 7% less than the original provision.

As indicated, because of these trends, Government's overall fiscal deficit turned out to be smaller than that set as a guide to policy at the start of the year.

FISCAL PERFORMANCE, 2001-2002

I turn now to our fiscal performance so far for this financial year. The financial programme approved by Parliament for 2001-2002 was targetted to generate a fiscal deficit of \$179.0 million or 3.9% of nominal GDP at factor cost. It presumes current revenue of \$1,795.5 million, current expenditure, exclusive of amortization of \$1,621.7 million and capital expenditure and lending of \$352.8 million.

Provisional data on the actual fiscal performance for the first quarter of 2001-2002 indicates current revenue of \$403.9 million, current expenditure of \$392.1 million, exclusive of amortization of \$25.2 million and capital expenditure of \$51.6 million to produce a fiscal deficit of \$39.8 million.

The current revenue collected for the first quarter of 2001-2002 was \$13.6 million or 3.3% less than the target set, but \$15.4 million or 4.0% more than the first quarter in the previous financial year.

The Corporation and Income Tax both registered increases which exceeded the amounts collected in the previous financial year, as well as their targets for this fiscal year.

The Value Added Tax, boosted by the collection of \$9.5 million of arrears exceeded last year's level, but was below this year's target.

However, the Excise Tax, Import Duties and the Land Tax all fell below last year's level, as well as this year's target.

Expenditure

Provisional data on the outturn of current expenditure for the first quarter of the financial year 2000

- 2001 shows an amount spent of \$392.1 million, which is \$20.6 million or 5.0% less than the target

set, but \$53.4 million or 15.8% more than the first quarter in the previous financial year.

Personal emoluments grew by 15.6% principally as a result of the payment of the final tranche of 8% reduction in emoluments. Expenditure on goods and services fell marginally, while transfer to public enterprises increased by 6.6%.

Interest payments for the first quarter of this fiscal year was \$24.8 more than in the same period the previous year, an increase of 55.0%.

It is estimated that some \$51.6 million was expended as capital expenditure during first quarter 2001-2002. This is, \$8.6 million or 20.0 % more than the corresponding quarter in the previous financial year, but \$13.7 million or 21.0% less than the target set for the same period.

In the previous financial year, actual capital expenditure was 90.0% of the original fiscal target. Following this trend in expenditure, capital will be revised downwards by \$35.0 million to \$317.8 million, a limit of \$1,651.2 million will be placed on current expenditure, resulting in revised total expenditure of \$1,969.0 million, exclusive of amortization of \$223.8 million this financial year.

The revenue collected in the first quarter 2001-2002 was \$13.6 million or 3.3% less than the target set, but this under performance was due mainly to the \$18.0 million in arrears in excise tax. The collection of these arrears along with the buoyancy in the yield from taxes on income will increase revenue to \$1,818.0 million, as compared to the original target of \$1,795.5 million. The effect of these fiscal adjustments is that the fiscal deficit is now projected to be reduced from \$179.0 million to \$151.0 million, which is 3.2% of GDP at nominal factor cost or 2.7% at market prices.

The evidence therefore indicates that, on trend, the fiscal goals set by Government will be amply achieved, and our public finances will remain in sound order.

Other Fiscal Issues

Mr. Speaker, the information on the Public Debt and the Guaranteed Debt are fully set out in the Financial Statement which was today laid in Parliament, and will not be repeated out of respect for the long suffering endurance of Members.

I however wish to touch on two matters, which reflect on the quality of our fiscal management.

The Debt Service Ratio, which compares the total external debt service with export of goods and services decreased from 6.3% in 1999-2000 financial year to 4.2% in 2000-2001. For financial year 2001-2002 it is projected at 6.1%. The external debt of a country is serviced from export earnings, and this ratio is the most relevant measure on the level of indebtedness of a country. International standards set sustainable debt levels for the external debt service to exports of between 20-25%. Therefore, Barbados can be classified as a lowly indebted country.

Tax Effort

There has been some controversy over the magnitude of the tax effort and some persons would wish to have the public believe that it is over 40 percent of GDP.

A full statement of the ratio of tax revenue to GDP at market prices is set out as an attachment to this presentation.

It shows the ratio ranging from a low of 27% in 1994 to its highest of 30.6% in 1997 and 2000.

Most high income countries with highly developed social services have tax efforts that are in fact higher than Barbados' - the Netherlands 43%, US 33.4%, UK 39.2%, France 42% and Ireland 32.4%.

Government is sensitive to the need to ensure that the tax effort does not become a burden.

Without impairing the quality of the public services enjoyed by our citizens, we will continue to provide tax relief as our circumstances and obligations warrant.

SECTORAL POLICIES

The Agricultural Sector

The agricultural and manufacturing sectors have, over the past two years, been the spheres of the economy where the adverse effects of a drastically changed trading environment have been most profoundly felt.

It has been reflected in a steep decline in production, severe pressure on the viability of enterprises, and growing uncertainty, leading to a decline in investment.

One of our most compelling national challenges therefore, we face at the start of a new century, is to make commercial agriculture viable in Barbados.

It will require a supreme effort. The new trading arrangements under which the sector now must operate have stripped away much of the protectionist cover which hitherto afforded it comfort and have exposed it to intense competition at home and abroad.

It can also be anticipated that the implementation of additional trade arrangements in the future, under the auspices of the Caribbean Single Market and Economy, the Free Trade Area of the Americas, The Cotonou Agreement with Europe and the WTO Agreement on Agriculture, will accentuate the challenge of making agriculture in Barbados viable.

Yet, we feel that agriculture has a continuing crucial role to play in the development of the Barbadian society. Through its operation, we can assure ourselves of a satisfactory level of food security. The sector's existence is also crucial to maintaining the stability of rural Barbados. Its beneficial effects on the environment and its potential linkages to other sectors, confers upon it a role of catalyst that goes way beyond its direct contribution to GDP and foreign exchange generation.

Across the world, and especially in the advanced societies, extraordinary financial efforts have had to be made to protect the solvency of the farming community.

Everywhere as well, agricultural activity is treated as being sensitive and hence deserving of special protection.

The nature of the challenges facing our sector now requires that there be drastic reform in what we produce and how we produce in agriculture in Barbados.

Government will, therefore, in the context of reforms to be carried out in the sector, provide our agriculture sector with protection in all forms and fully up to the extent consistent with our regional and international trade agreements.

We will also provide the sector with continued but targeted financial assistance, to support efficient farming enterprises that have the potential to exploit local and foreign market opportunities.

We must also create expanded local market opportunities for the agricultural farmers.

And we must institute a land use policy that afford the sector the space to function effectively.

The framework to ensure the continued viability of our agricultural sector will centre around these four policy considerations.

Land Use Policy

In the context of the intense local competition for land, and the rising price of the available supply, the future of the agricultural sector in Barbados will depend heavily on land use policy.

Of our total land area of 43, 176 hectares, some 32,000 is classified as agricultural land. At present, approximately 22,000 hectares is in gainful agricultural production.

The Land Use Policy, as articulated in our new Physical Development Plan requires that 31,000 hectares be reserved for agriculture, involving the following targets with respect to specific agricultural activities:

Sectors	Hectares
Sugar and Cotton -	11,000
Vegetables -	1,500
Root Crops -	1,200
Fruit -	1,000
Managed Grasslands -	10,000
Tree Crop/Conservation -	6,300

Such a land use policy will enable us to assure ourselves of food security, and enable the sector to take advantage of local and export market opportunities.

Sugar

Very far reaching changes now have to be made to ensure that a sugar industry continues to survive in Barbados at all.

Recently, the industry has taken a financial pounding largely as a result of foreign exchange rate fluctuations. In this respect the price received for sugar from Europe has steadily declined from \$1406 per tonne in 1995 to \$988 per tonne in 2000.

It can also reasonably be expected that over the next 10 years, that already depressed price will be further depressed, as the European Union reduces its domestic price supports to its own sugar producers under WTO obligations, and with it, the price it pays for imported sugar.

The market outlook for our export of sugar to Europe has been made even more desperate by the new Everything But Arms Initiative. Under this Initiative, developing countries like Bangladesh, which can produce sugar in vast volumes and at extremely low prices, will be allowed by Europe, beginning in 2006 to sell sugar to the European market without duties and quotas as is presently the case.

Our industry, as presently structured, cannot possibly survive in such a market environment.

We therefore have to move now to avert disaster after 2006.

Reforms

The Government has in recent years provided the industry with financial support.

In the face of the clear financial hardship just described, we now agree to provide additional financial support of \$10.55 per tonne on the 2000 crop which will enable growers to receive a final price of \$83 per tonne at which they will break even.

This will cost \$3.68 million. The Cane Replanting Incentive Scheme will also be continued.

However, in the face of the new international marketing situation, we now set a new production target of 450,000 tonnes of cane, equivalent to 50,000 tonnes of sugar for 2006 and beyond.

At present, sugar produced in Barbados is not sold in Barbados. The Barbadian market is however the most lucrative market, price wise for our sugar. The local price for sugar is \$1,305 per tonne as compared to \$988 we received from Europe.

Hence, in the future, Barbados will stop importing sugar and reserve the first 10,000 of local production for local consumption.

It means that we will voluntarily have to reduce our quota to Europe from the present 54,000 to 40,000 tonnes.

It is also agreed that the cost of production of sugar in Barbados cannot be reduced sufficiently to make the country competitive in the sale of raw, bulk sugar, as it has done for over three hundred years.

Hence, a new production and marketing programme will be mounted to sell our sugar, not as a raw, bulk commodity, but as a branded special product, for direct consumption to niche markets.

Barbados already produces small quantities of such special sugars which are distinctive for colour, clarity and other characteristics.

It is now imperative that we build on this, and add value to our industry by producing a number of high grade, high quality sugars and sugar based products for specific niche markets, including our local tourist market.

These reforms will require changes in our factory operations.

The present three factory operations, if kept in place, will require an injection of at least \$15 million in each year to the operations of the BAMC. This, along with high costs and low production efficiencies make the continuation of the current three factory system totally impossible.

The factory operations will therefore be rationalised, beginning with the closure of Bulkeley at the end of the 2002 crop, followed by Portvale in 2005 and the upgrading of Andrews in the context of the new mix of output sought of the industry. The closure of Bulkeley will not lead to job losses as the workers will be absorbed elsewhere within the context of a new 56 hour week arrangement, in place of the 72 hour arrangement which prevails at present.

Such changes will lead to the reduction in operating costs in the industry of \$8 million per year, and together with the proposed changes in the marketing and the output mix, give it a chance, its only chance, to save itself.

Cotton

A properly developed, integrated cotton industry, aimed at carrying the production process from raw cotton to high valued Sea Island cotton products still represents an attractive alternative and complement to the sugar industry.

However, the production of the primary product will first have to be assured. At present, Barbados produces cotton from only 27 hectares. We propose that a 2000 hectare industry should be encouraged.

To facilitate this, in the same way that we provide price support for sugar, we will provide price support for cotton production, to the extent of \$4.80 per lb. for seed cotton up from the present \$3.20 per lb.

Replanting

We will also provide incentives for the planting of cotton as follows:

1. A grant to farmers of \$500 per hectare for idle land brought back into cotton production will apply to plot sizes from 0.2 hectares to 8 hectares.
2. A grant to farmers of \$250 per hectare for idle land brought back into cotton production will apply to plot sizes over 8.0 hectares
3. A rebate of 25% of the cost of certification of organic cotton farms up to a maximum of \$2,000 per farm.

Government will also continue to assist the West Indies Sea Island Cotton Association (WISICA) to establish its rights to its trademark.

In addition, the role of the Government will be to create the enabling environment within which an integrated private sector owned, led and driven industry can evolve.

Government will therefore provide the following new fiscal framework and incentives to support cotton development:

1. A ten year tax holiday for investments in cotton production, processing and marketing to encourage the move from the current stage of lint to the value added stages of yarn, fabric and final consumer products;
2. A technical assistance fund of \$500,000 to assist producers, processors and investors in areas such as feasibility studies, market research, project development, market development and engineering;

3. Establishment of a working capital fund of \$1,000,000 for those involved in all aspects of the cotton industry to militate against cash flow difficulties, this fund will be operated on a revolving basis:

4. Duty free concession on plant, machinery and equipment for all aspects of the cotton industry;

5. Legislation that would circumscribe the development of cotton as an integrated industry similar to that which obtains for sugar; and

6. Establishment of a cotton research and development fund based on 1.0% cess from industry proceeds.

Expanded Local Market

Our Agricultural Sector urgently needs an expanded local market. Government must and will lead the way.

Increased consumption of locally produced agricultural products in schools and other Government institutions such as hospitals and custodial institutions can only redound to the benefit of the farming community. Currently the school meals service uses very little locally produced fresh milk.

This must stop. So must the practices in other institutions which favour consumption of foreign goods at the expense of local production.

Hence, to begin with, at least 60% of the milk requirements of the School Meals Service and all other Government institutions must be met from our local milk production. Should it become necessary, we will require that 100% of the consumption in these institutions be met from local output.

Similarly, at least 60% of the requirements of the school meals programme and other public institutions including hospitals and all custodial institutions will be assigned to local fresh and processed products; beef, lamb, poultry, fish, vegetables, root crops, herbs and spices.

The Ministry of Education and the other institutions will consult with the Ministry of Agriculture and Farmers' Organisations to put in place a framework to ensure that the fresh products are competitively priced, meet acceptable standards, are appropriately packaged and benefit from reliable supply.

Incentives

To enable the sector to cope with the pressures of trade liberalisation this administration has created an Agricultural Development Fund which now has over \$12 million, to provide targeted assistance to the sector.

It is the wish of Government to prioritise the use of these funds such that potentially efficient farmers can have access to resources to retool, and to strengthen areas of activity that hold strong potential in the local and export markets.

As such, it is now proposed that a range of new incentives be provided to enable Barbadian farmers to improve their post harvest technology, export promotion, product differentiation and niche marketing, productivity enhancing measures and to strengthen farmers' organisations.

Post Harvest Technology

Available data indicate that there is a large variation between average expected yields for fresh fruits, roots and vegetable produce in Barbados and actual yields, ranging from 28% to 75%. Part of the variation has been attributed to inferior quality. It has also been observed that further losses are incurred in the market place because of inadequate handling, packaging and storage. These phenomena are a function of pre and post harvest practices at the farm level, which decrease the overall competitiveness of the agricultural producer.

Development of grades and standards for fresh agriculture produce is an essential aspect of retooling the sector to allow it to compete locally and internationally.

In support of this programme the following post harvest technology incentive scheme will be instituted:

1. A grant of 30% of the cost of establishing a post harvest facility on the farm for sorting, grading and packaging agricultural produce up to a maximum of \$5,000 per farmer;
2. A grant of 40% per farmer of the cost for procurement of approved post harvest equipment such as dipping tanks, grading tables, field crates and materials for packaging produce such as bags and boxes up to a maximum of \$1,000 per annum;
3. A grant of 30% up to a maximum of \$5,000 of the cost of establishing appropriate chilled facilities, firstly for reducing the field heat of fresh agricultural produce and secondly to allow for storage of produce at an appropriate temperature to extend the shelf life;
4. A technical assistance fund of \$100,000 to facilitate farmers accessing training in post harvest technology and quality assurance systems to be administered by the Ministry of Agriculture. Farmers seeking to benefit from these funds will be required to meet 25% of the cost of the training programme.

Export Promotion

Trade liberalisation is expected to present some opportunities to the agricultural sector in Barbados particularly in the form of potential export markets for agricultural products.

It is against this background that the following incentives will be provided to stimulate export agriculture:

1. A rebate of 30% up to a maximum of \$10,000 per exporter per year, on the cost of international transport and freight for fresh produce exports;
2. Establishment of a technical assistance fund of \$250,000 to assist producers and marketers in the conduct of feasibility studies, access new technology and implement quality assurance schemes related to the export of fresh agricultural produce. Producers and marketers seeking to benefit from these funds will be required to meet 25% of the cost of the respective activities.

Product Differentiation and Niche Marketing

In comparison to some of our regional and hemispheric neighbours, Barbados is a relatively high cost producer of agricultural commodities. The country will therefore not be in a position to pursue a competitiveness strategy in commercial agriculture based on cost leadership. Rather the focus will be placed on product differentiation and niche marketing through programmes that seek to address product quality and other non-price competitiveness factors.

Farmers will be encouraged to pursue practices that enhance the appeal of their products, such as the growing of vegetables "naturally" or "organically" since this is a lucrative market with

tremendous potential because of the healthy lifestyle which is now being promoted locally and internationally.

Organic Farming

The market for organically produced crop and livestock products is considered to be the fastest growing market in the international food trade. This trend has been reflected in the Barbados market as evidenced by foods labelled 'organic' appearing on the shelves of major local supermarkets during the past 18 months; one supermarket imports organic produce from the USA.

Organic crop production in Barbados is estimated to occupy 16.2 hectares and is practiced by seven individuals and two farmer organisations. The Future Centre Trust, a private sector organisation, has played a key role in the promotion of organic farming and is also engaged in some production.

However, an integrated business systems approach is required for effective production and marketing of organic products. The following incentives will be instituted in the area of organic farming:

1. Establish a technical assistance fund of \$100,000 to facilitate the development of organic production in Barbados through, inter alia, the development of an internationally acceptable protocol for certification of organic farming in Barbados.
2. A grant of 50% of the cost of certification of organic farms, up to a maximum of \$2,000 per farm. Where 2 or more farmers work together to achieve international organic certification, a grant of 60% of the cost of certification up to a maximum of \$10,000 will be provided;
3. A grant of 30% of the cost of approved organic inputs made from local materials, up to a maximum of \$500 per hectare. The range of products includes compost, pesticides, fertilizers and mulches;
4. A grant of 50% up to a maximum of \$30,000 of the cost of establishing a facility to manufacture organic inputs such as pesticides, mulches, planting material, fertilizers, soil ameliorants and compost using local material would be made available to a registered farmer's organisation or agricultural cooperative predicated upon an acceptable business plan;
5. Duty free concession for specified organic agricultural inputs.

New Crop Technology

Emphasis must be placed on the adoption of farm practices and technologies which result in a reduction in the relatively high cost of production in Barbados. In this regard the following incentives will now be made available:

1. A rebate of 40% for the components of greenhouses and hydroponic systems for crop or horticultural production up to a maximum of \$30,000 in order to stimulate the investment in proven technology that can lead to increased productivity. Commercial plant nurseries are not included in this provision;
2. A rebate of 30% of the cost of extended life weed fabric up to a maximum of \$2,000 per hectare. This is designed to reduce weed management costs and increase quality of fresh agricultural produce.

Artificial Insemination

The Ministry of Agriculture in collaboration with livestock farmers successfully applied artificial insemination technology over the last 20 years to improve the genetic potential and the productivity of cattle in Barbados. Dairy farmers have recorded an increase in productivity from 9.1 to 11.4 kg of milk per animal per day to the current level of 18.2 to 20.3 kg per animal per day as a result of AI. All classes of farmers now avail themselves of artificial insemination in cattle. The Ministry has embarked on an artificial insemination programme for goats and pigs and is in the process of pursuing research related to artificial insemination in sheep.

To assist in the development and promotion of artificial insemination among commercial farms in Barbados the following incentive will be provided:

1. A rebate of 50% of the cost of approved fresh or frozen semen of cattle, pigs, sheep and goats up to a maximum of \$5,000 per farmer and \$20,000 per farmer's organisation per year. Previously the rebate was confined to \$5,000 per farmer's organisation per year and excluded individual farmers.

Livestock Feed

Inadequate supplies of forage during the dry season remain the bane of livestock farming in Barbados. In addition to the existing pasture development incentives, incentives will be provided as follows:

- A grant of \$50,000 to a registered farmer's organisation towards the cost of establishing an operation to manufacture and distribute molasses/urea blocks to aid in dry season livestock feeding. Funds are to be accessed on the basis of an approved business plan;
- A grant of 30% of the cost of establishing forage preservation facilities such as a hay barn or silo up to a maximum of \$12,000 per annum, this has been previously \$2,000 per annum.

Retooling, Fishing and Dairy Industries

Industry officials have advised that the equipment and machinery being used by producers are obsolete and are not compliant with HACCP or ISO requirements. Consequently, for producers to become internationally competitive it is essential that their plants be upgraded.

- We now propose to provide a rebate of 50% of the cost of equipment and machinery up to a maximum of \$30,000 to retool dairy farms as well as fish processing and fish landing operations in order to bring them up to required HACCP and ISO standards. (The rebate for the fishing industry would be applied to secondary fish processors as well as primary fish processors who are engaged in the export of fish and fish products;
- Technical assistance to train producers in the necessary due diligence practices in accordance with HACCP requirements will be facilitated by the application of a grant up to a maximum of \$3,000 per dairy farmer and per fish processor.

Farm Management and Agribusiness

With the emphasis now being on international competitiveness, and given the rapid changes in the policy environment, the Agricultural Sector has to move from being a highly state-supported sector to one organised on the basis of international business practices, driven by a market orientation.

The incentive regime will accordingly be amended to allow agricultural producers to claim for rebates for costs incurred in accessing professional business services as a means of encouraging the agricultural producers to utilise these services.

Accordingly, in addition to the current 50% rebate up to a maximum of \$1,000 for any approved computer programme specifically for crops and livestock enterprises, we propose to add agro processing, cottage industries, fisheries and cooperatives.

In addition we will provide a grant of 50% up to a maximum of \$5,000 of the cost of procurement of a multi-user licence for a farmers' or fisherfolk organisation or cooperative to procure an appropriate records management software for its members. The programme must be installed and contain at least six months of farm data before the rebate is granted.

Support to Farmers' Organisation

The future of the Agricultural Sector in Barbados will depend heavily on the capacity of farmers and fisherfolk to work closely together in the form of agricultural and fisherfolk cooperatives and other forms of association.

It is now proposed that a financial window of \$250,000 be put in place to facilitate empowerment of registered farmers' and fisherfolk organisations to better serve the farming community.

Farm Security

Praedial larceny is a big problem and as such Government will provide a one time rebate of 50% of the cost up to a maximum of \$5,000 for any approved farm security system to protect against praedial larceny. The maximum rebate was previously set at \$1,000. This system may either be physical, electric or electronic or any other kind which does not breach the laws of Barbados and meets the requirement of the Ministry of Agriculture.

Resource Planning and Management

It is well established that Barbados is endowed with shallow soils. As a result, some of the top-soil is lost due to inadequate cultivation practices, lack of attention to appropriate soil conservation techniques, as well as incidental rainfall.

We propose to encourage farmers to invest in approved soil conservation measures such as, but not confined to, grass barriers, diversion ditches, grassed waterways, windbreaks, storm-drains and hedge rows by providing a rebate of 30% of the cost of establishment of such measures up to a maximum of \$5,000.

In addition, in order to mitigate the effect of livestock production on Barbados ground water supply and in order to promote a mechanism for recycling of waste water, gas and organic slurry, the Ministry proposes a 30% rebate of the cost of design and construction of biogas digesters up to a maximum of \$3,500 per farmer.

The cost of these new incentives, together with the support for the sugar and cotton industries will be met in large measure from the Agricultural Development Fund which now stands at over \$11 million.

I urge the farming community to make the most of these measures.

THE TOURISM SECTOR

Tourism continues to be the prime generator of foreign exchange for Barbados and the motor for much of the rest of the economy. We must therefore make sure that this sector maintains its optimum performance in order for the economy to sustain its development.

Current performance in 2001 to date suggests that considerable work still needs to be done. In comparison to last year's relatively good performance of a 5.6% increase, visitor arrivals for the first quarter saw a marginal increase of 1.5%. The second quarter decreased by 7.1% and

together so far there has been an overall decrease in arrivals of 2.7% to June. Cruise arrivals are however up by 15%. Current economic growth rates and changes in the level of consumer spending and confidence in the major markets for our tourism do not help matters.

In the past, we have never responded properly to the cyclical period of decline nor attempted seriously to tackle market variations in preemptive fashion.

This time, however, we are going to increase our market presence to stave off the decline this year and to prepare the way for renewed increases in the following years.

New marketing thrust for the BTA

The Barbados Tourism Authority, along with the private sector, has developed a strategic marketing plan for 2000-2005 as a framework within which actions will be taken. It is against the above background that we will commence an appropriately funded programme in the current fiscal year and continue it over the next few years to support a new marketing thrust for tourism.

Our thrust will be to augment the existing overall marketing programme to stave off any major disruption in the United Kingdom market, and to capitalise on current airlift opportunities especially in the USA. As an integral part of this new marketing thrust, Government is prepared to provide marketing support for additional sustained airlift to Barbados where, on the basis of a cost/benefit analysis, there are clear benefits for Barbados in doing so.

With respect to airlift, we expect:

- US Airways to introduce its daily non-stop service from Philadelphia starting November 03, 2001, providing approximately 1000 new seats per week;
- Air Canada to increase its seat capacity by 600 seats weekly for this winter, starting November;
- British Airways to increase capacity by 275 seats weekly from December 01, 2001 through April, 2002;
- Condor Airlines to reintroduce service from Germany, with 135 seats per week

To implement the immediate and sustained intensification of this marketing thrust, the Government will make available an additional \$20 million over the next three years, with \$6.5 million being provided immediately to support the programme.

Having dealt with the immediate and medium term marketing issues, we now turn to some of the medium to long term financial incentives for the tourism sector. A National Tourism Policy has now been developed by the Ministry of Tourism after wide spread collaboration with our tourism partners, and will be used as the basis for developing a new Tourism Bill to facilitate increased investment in the tourism sector in Barbados. The new approach treats to the needs of the entire hospitality industry and this represents a fundamental difference and point of departure from the existing Hotel Aids Act 1967, which focuses on giving concessions to hotels only.

New provisions under the Draft Sustainable Tourism Bill

The new Sustainable Tourism Bill introduces the concept of a qualifying tourism project that will be considered for concessions that not only include hotels, but also restaurants, villas, time-share properties, recreational facilities and the establishment and restoration of monuments and other outstanding historical structures as designated by the National Trust.

Our policy framework also recognises that Barbados' competitive niche in the tourism business is in the upper middle to high end accommodation. As a result, new definitions of hotels,

restaurants, villas, time-share properties and recreational facilities have been adopted to reflect this class of tourism business that Barbados wishes to attract.

Concessions for qualifying tourism projects

For the first time, concessions previously given only to hotels will be extended to restaurants, villas, sports/recreational facilities and attractions. The Bill provides that qualifying tourism projects for which approval has been granted, can import or purchase locally free of duties and taxes, building materials and the items listed in Appendix B.

Owners and operators of qualifying tourism projects can, on presentation of the relevant tax clearance certificate, import items listed in Appendix B for refurbishing and upgrading of facilities.

Other new concessions will also be given to qualifying tourism projects, however these will be addressed under the Income Tax Act. CAP 73. These new concessions differ from those currently made available under the Hotel Aids Act.

Some would have already been referred to in my presentation in the past two years. These include:

- Provision to allow investors to write off expenditure against revenue over a 15 year period, rather than the present 10 years;
- accelerated write off of up to 150% of interest incurred on loans for upgrading facilities, building conference centres, investment in inland hotels, refurbishing and upgrading natural, historical, cultural or heritage assets;
- Provision of an allowance of 150% write off for training and marketing expenses;
- special provisions to encourage large investments through longer periods for capital recovery, up to a maximum of 20 years; and
- Special tax concessions to encourage investment in inland tourism.

It is now proposed that additional concessions not previously announced be given in addition to those outlined above. Some of the more significant of these are as follows:

- The activities for which investors may write off 150% of expenditure against income for tax purposes will be extended to include the following provided that they are approved by the Minister of Tourism:
 - Development of operating trails in rural Barbados for tourism purposes;
 - Development of linkages between tourism and other sectors;
 - Development of community tourism programmes;
 - Development of computer software for the industry;
 - A qualifying tourism project will be allowed to write-off 150% of training expenses. An additional 50% can be claimed if the qualifying tourism investor has an employee share ownership scheme that meets the criteria set by the Minister of Tourism;
- Dividends paid by an approved tourism product to resident and non-resident persons shall be free of withholding taxes and the provisions of Sections 65(4) and 65(4a) of the Income Tax Act shall not apply;

- Qualifying tourism projects and not just hotels will be allowed to write off capital expenditure against revenues over a fifteen year period. This represents an improvement on the concession given under the Hotel Aids Act, which was for ten years and applied only to Hotels.

A full list of all of the concessions now to be made available to tourism are set out at Appendix B.

These proposed changes have been the subject of full and frank consultations between the Government and other stakeholders in the sector and have been fully agreed to. These will substantially improve the prospects of our Hospitality Industry. But we will not rest. For we have opted with good economic reason to compete in that part of the tourism market where standards have to be high and constant, and so we have always to be one step ahead of the competition to ensure that we maintain our edge.

INDUSTRY AND INTERNATIONAL BUSINESS

Output for the first quarter within the manufacturing sector contracted by 8.8% when compared with the same period in 2000.

The outlook in the short-term for local manufacturing is also challenging, having regard to its ability to compete in the local, regional and international arenas.

Government's Objectives for the Redevelopment of the Manufacturing Sector

Government is prepared to provide all requisite support and protection for the local manufacturing sector within the framework of its obligations under the CARICOM Single Market and Economy (CMSE), the EU/ACP arrangements, the World Trade Organisation (WTO) and the pending Free Trade Area of the Americas (FTAA).

A highly structured programme has also been prepared to provide financial and technical assistance designed to create a core of competitive and efficient local enterprises over the medium to long-term. This strategy will focus on those enterprises with export potential as well as those with significant local market share and contribution to employment.

Government has also implemented a number of trade policy initiatives to assist the continued development of the sector.

Bound rates of duty and ceiling bindings, to provide tariff protection equivalent to the value of protection previously extended by licences and quotas, have already been instituted, in keeping with the 1994 Uruguay Round Agreement.

The Cabinet has also recently approved the implementation of an applied duty of 60% on extra-regional imports of selected products formerly under the surtax regime as well as a number of products which were outside of that regime. This will provide further protection to the manufacturing sector.

Government has also provided and will keep in place a number of incentives to encourage a vibrant and striving manufacturing sector. New export and training grant incentive schemes were established to provide much needed assistance to those enterprises that wish to strengthen their technical skills and to encourage export market penetration and development. Recently, Government has enacted the Fiscal Incentives (Amendment) Act 2001 to extend the maximum tax holiday from ten (10) years to fifteen (15) years, and to increase the length of time for which an Approved Enterprise may carry forward losses following the period of the tax holiday. Under the Small Business Act, eligible enterprises are only required to pay corporation tax of 25% instead of 40%. This regime also provides an exemption from import duty on plant and equipment, and withholding tax on dividends and interest earned on investment by small businesses. Additionally, there is no stamp duty on all financial documents and registration for small businesses. Under the Act, small businesses qualify for incentives on exports earnings, market research and general development activity.

In addition, all manufacturers since 1994, qualify for exemption from import duty on inputs to the manufacturing process.

And since 1998 we have provided technical assistance to the manufacturing sector with an aim to develop a more competitive sector. Indeed, last year I announced the allocation of an additional \$5 million for each of the next three years in additional technical assistance to support manufacturing .

Policy Measures for 2001

By way of further financial assistance a new \$25 million Industrial, Investment and Employment Fund will be now be created this year by way of the sale of shares of the BNB and the ICB. In a word, the fund will be geared toward the building of international competitiveness of the local manufacturing sector by providing a source of funds to finance the retooling of industries, complementing much of the work done to date through technical assistance.

We look, through the use of this Fund, to create at least 30 new competitive industrial firms in Barbados over the next few years.

Barbados is the only Caribbean country which negotiated for special safeguard provisions for its agro-processed products under the Uruguay Round of 1994.

Additionally, therefore, my government will shortly be applying the special safeguard provision to selected agro-processed food products, in accordance with its rights under the World Trade Organisation. This provision will provide additional protection to prevent a large surge in the volume of imports from flooding the local market. The special safeguard provision will be applied to the following products:

- Selected Oils and Fats
- Processed Meats
- Jams and Jellies
- Selected Beverages.

INFORMATION SERVICES SUB-SECTOR

The Information Services has continued to exhibit prospects as an area of potential growth, despite constraints, some of which revolve around the present downturn in the international economy in general and the information technology sector in North America in particular.

This sub-sector has over the past three to four years provided job opportunities for more than 1,500 persons on average per year, two-thirds of whom are female.

The sector has however been challenged to adapt to the rapid change which is sweeping the international market place, and increased emphasis has been placed on the higher value-added activities in Software Technology and Applications Development. In addition, Call Centres have emerged as an activity of favourable prospects for Barbados. These areas, however, require a very much higher level of technical skills-a requirement which has presented us with a major challenge.

In moving to meet this challenge, Government has recently established the Barbados Technology Training Centre, at the Harbour Industrial Park.

The Technology Training Centre, in providing accelerated training in software development, e-commerce and other internet-related applications, will play a significant role in enhancing

productivity locally and improving the international competitiveness of the sector. Through its training and certification programmes, it will equip Barbadians to access employment opportunities not only in the Caribbean, but in almost any part of the world. A minimum of 250 persons is expected to be trained by the Centre annually.

In furthering the development and diversification of the information services sector, the promotion of Call Centres and Medical Transcription Services is now being considered. Call Centres have the potential to generate significant employment, ranging between 200 and 800 employees per centre. However, the future growth prospects of these areas could revolve around the success of present efforts to liberalise the local telecommunications industry.

Telecommunications

In my last Economic Policy Statement to this Parliament, I indicated that the Government would implement a telecommunications reform policy aimed at introducing competition into the telecommunications sector, enhancing the technological capabilities of our national and international network and the implementation of a modern regulatory framework, compatible with the technological and business environment of the 21st century.

All arrangements have now been concluded to permit the full implementation of the reform of the telecommunications sector.

The Government and Cable & Wireless have concluded negotiations on the transition arrangements for the early surrender of their existing licences and the entry into the new liberalised environment. These arrangements have been cast in the form of a Memorandum of Understanding and, subject to the remaining formalities on both sides, will be signed by the Government and Cable & Wireless by the end of this month.

I am therefore happy to announce revised but firm, fixed and achievable dates for the phased liberalisation of the telecommunications sector. The majority of the reforms will occur in Phase One. This Phase will last for 12 months starting on November 1st, 2001 and end on October 31st, 2002. During this phase, there will be competition in cellular telephone services, provision of telephone sets, and Call Centres in the informatics sector will be able to use their own communications equipment such as VSAT's for international communications, among other reforms. This latter reform will be a major boost for the informatics industry and will result in several more Call Centres immediately setting up business in Barbados and providing jobs for hundreds of Barbadians.

Phase 2 will be of nine months duration from November 1st, 2002 until July 31st, 2003. During this phase there will be competition in the provision of the local telephone services.

In addition to the legal and regulatory reform outlined there have been ongoing investments in the telecommunications infrastructure. Also, the consolidation by Cable & Wireless of several critical business units in Barbados has resulted in the additional investment of approximately \$35 million, the creation of a number of new jobs and the establishment of Barbados as a regional telecommunications hub.

International Financial Sector

During the last year the international business sector showed growth in the registration of new companies in all areas except Foreign Sales Corporations. Of the 621 new registrations in the year 2000 there was a record 456 new International Business Companies (IBCs) formed.

The arrangements to create a new framework within which the sector is to function are virtually complete. These reform measures include, the strengthening of supervisory and regulatory framework, expanding the range of tax treaties, increasing the range of products available in the financial services sector, more aggressive marketing of Barbados, and administrative reforms to increase the efficiency of company registration and other approvals.

I am happy to report that these sector reforms are, where appropriate, captured in law.

The amendments to the IBC, SRL and Exempt Insurance Acts to permit doing business in Caricom is before this Parliament.

The range of insurance products will be expanded by amendments to the Insurance Act and the Companies Act to permit the formation of Protect Cell Companies and Segregated Accounts. In addition the Exempt Insurance Act will be amended to permit registration of branches. There is high demand for these new products and already several investors are awaiting the enactment of this legislation.

I now turn to the OECD Harmful Tax Initiative. I can report that much progress has been made at great effort and expense to Government. Whilst indications are that the matter no longer poses as grave a danger to Barbados as before, we will not drop our guard. We will continue to engage with the OECD in this matter but we remain committed to pursuing this matter to wherever the ends of justice may take us.

HOUSING

The Housing Sector presents itself as one which can lend to our objectives of raising economic activity and uplifting the standard of living in the short term.

The National Housing Corporation now has a land bank of over 942 acres which stand ready to be developed. The existing financial climate of excess liquidity and falling interest rates can support the launch of major new Housing initiatives. Government has also been approached by a number of local and foreign developers to support joint venture arrangements for residential construction aimed largely at middle and lower-middle income earners.

Over the next 18 months, a new Joint Venture building Programme, involving the National Housing Corporation, Barbados Mortgage Finance Corporation and private developers will be launched.

The National Housing Corporation will contribute 100 acres of publicly owned land to be developed into 1000 lots for sale to lower and middle income earners.

Mortgage financing for the purchase of house and land will be provided by the Barbados Mortgage Finance Company up to a tune of \$50 million, to be raised by a bond issue. Other institutions that provide mortgage loans will finance the remaining part of the programme.

The rates on these mortgage loans from the Barbados Mortgage Finance Company will be around 7.5% for qualified first time home owners whose family incomes do not exceed \$9,000 per month. In the case of single person families the qualifying income will be \$ 5,000 per month. The total cost of properties cost is anticipated to range between from \$176,000 to \$236,000.

Furthermore, Mr. Speaker to ensure that the Barbados Mortgage Finance Company is able to carry out its part of this programme, Government will invest with the Barbados Mortgage Finance Company part of the proceeds of new sale of some of Government's shares in the Barbados National Bank and the Insurance Corporation of Barbados Limited.

Mr. Speaker, I turn now to the tenancies. The Tenancies Freehold Purchase Act Cap 239 was recently amended to permit qualified tenants on non-plantation urban and rural tenancies to pay no more than \$ 2.50 per sq. ft for their lots. The difference between this figure and the price of the lot will be met from the Consolidated Fund.

Government recognizes however that in spite of this concession, there will be some households who would wish to purchase their lots but will be unable to do so for lack of funds. In this respect therefore the existing loan facility for tenancies at the Barbados National Bank will be expanded

so that these tenants may also be assisted in becoming enfranchised freeholders through ownership of their own house and land.

Provision will be made for such tenants to borrow both to finance the purchase of the lot and also to improve their houses. The loan ceiling will be raised to \$50,000 with interest rates on loans at 6% for concessionary loans and 9% for all others.

INVESTMENT PROMOTION PROGRAMME

PUBLIC AND PRIVATE SECTOR CAPITAL INVESTMENT In addition to the measures that I have just outlined to improve the market and investment conditions for the productive sectors, it is my judgement that the short and long term improvement of the economy can also be met by a programme to stimulate public and private investments in areas that can, both directly and indirectly, expand the foreign exchange earning capabilities of the economy.

Many of the projects are also collectively designed to ensure that Barbados' built infrastructure is of such high quality and durability as to allow the unimpeded and continuous undertaking of economic and social activity in the country.

These investment projects have passed through their initial conceptualisation, development and design phases, have secured their required financing and have received their requisite planning permissions, or are at the point of doing so, such that they constitute the core of the investment stimulation programme that will be implemented over the next 18 months.

Many of the projects will, in large measure, involve off-budget financing, and many will introduce new and innovative financing methodologies to Barbados.

Allow me, Mr. Speaker, to outline the principal features of some of the major projects that form part of Barbados' capital project pipeline.

- The \$185.6 million Grantley Adams International Airport Expansion Project is ready to proceed. Financing for the project in the amount of \$75.0 million has been obtained from the Caribbean Development Bank and the European Investment Bank, and sources for the remainder have been identified.

- A major overhauling of the Bridgetown Port, in the amount of \$67.0 million, to improve port operations and systems is expected to get underway next year. Some \$33.0 million of the required financing has been secured from the Inter-American Development Bank, and the remaining \$34.0 million will be financed by the Barbados Port Authority.

- Construction on the new Barbados Hilton Hotel Project is expected to commence construction before the end of the 2001.

- The new Barbados Hilton will feature 350 rooms, a ballroom and associated resort facilities. The financing of this \$153.0 million project is by a consortium of public and private sector entities injecting a mix of equity, quasi-equity and loans.

- The Barbados Tourism Investment Inc. will seek to spend \$50.0 million of funds acquired through a development bond issue, and \$25.5 million in loan funds from the Caribbean Development Bank on a \$75.5 million Urban Rehabilitation Programme in the Bridgetown, Speightstown and St. Lawrence Gap. The project seeks to enhance physical and economic infrastructure of the three urban centres.

- The Barbados Investment and Development Corporation will commence the construction of New Business Park at Newton, Christ Church to support the growth and expansion of the information technology sector by providing for speculative and derived demand for office space. The Business Park is estimated to cost \$18.5 million and financing will be by way of a Build, Own, and Transfer arrangement which has already been secured.

- The Government will support the Hotels and Resorts Limited (Gems of Barbados) programme to create a group of a minimum of 500 new and renovated hotel rooms on the South Coast of Barbados that are centrally managed and marketed, and serve as a successful model for small hotel development in Barbados.

The Government is committed to supporting Gems in the completion of its medium term capital development programme for Blue Horizon, Eastry House, Dover and a Phase III expansion of the Savannah Hotel. However, this support will be in the context of placing a moratorium on any further capital development in order to give Gems breathing room to work down its significant debt overhang, seek a minimum level of profitability and to acquire a significant equity partner through which the operation can be converted into a public-private joint venture.

In addition to these projects that are sponsored and co-financed under the aegis of the public sector, there are a number of exciting projects sponsored and financed totally by the private sector, that have been evaluated and appraised by Government's regulatory agencies to the point where they are ready to start. The Government is determined to facilitate the implementation of these projects over the next year and a half.

Planning permission has been granted for the construction of a major new 870-acre golf resort, featuring a hotel and residential units, on lands encompassing lands at Apes Hill, Water Hall, Gregg Farm Plantations, St. Andrew and Taitts Plantation, St. James.

Also on the cards, Mr. Speaker, is an 18-hole golf course at Bushy Park, St. Philip that will feature the construction of almost 600 villas and apartments and 275 square metres of commercial shop space to start in 2002.

At Bennetts, St James, permission has been recently granted for the development of golf courses and development of other lands for residential and recreational purposes. One of the golf courses is completed and work on the residential units is expected to commence in 2002.

Government will support Phase II of the Sugar Hill project which includes an 18 hole golf course, residential units, an hotel and retail space.

Government will also support the erection of a new 120-room hotel, the Mango Bay Hotel, on the Needhams Point peninsula, since this will enhance Government's effort to convert the peninsula into a premier belt for hotel accommodation on the South Coast.

Also on the South coast, activity has already commenced for the renovation of the Ocean View Hotel, which will bring 116 hotel rooms into operation.

Crane Beach Resort has commenced phase I of its upgrading programme and phase II, which consists of private villas, timeshare facilities and condominiums, is expected to commence in 2002.

The development of a 27 apartment, four (4) town house development at Queens Street, Speightstown (the Schooner Bay Development) is expected to break ground before the end of the year.

Government will support the major multi-faceted private sector development planned for the Pierhead area of Bridgetown, that will now also feature the construction of a marina, as well as the retail shops, restaurants, entertainment facilities, offices, a museum, apartments, a hotel and parking facilities that were part of the original project.

Mr. Speaker, these major capital projects have important beneficiary effects on the Barbados economy. They will continue the boom in construction activity in the economy and thereby sustain and create employment in the sector. Since many of the projects carry foreign financing, their implementation will sustain inflows of long term capital, and in so doing, support the maintenance

of a favourable overall balance of payments position. These projects will also allow Barbados to realise its potential to be the premier exporter of high quality services.

SINGLE MARKET

We are at the stage where the implementation of the measures to create a Single Market and Economy will bear on the immediate functioning of the Barbadian economy more than it has in the past.

I wish therefore today to announce Barbados' position in relation to the programme of liberalisation subsumed under the CSME.

Before I proceed to specific measures, I will need to make a few general observations about strategy and philosophy.

The first is that a Caribbean Single Market and Economy should be WTO and FTAA plus; meaning that we should be prepared to dismantle barriers to trade and investment among ourselves, and over a broader area than we are prepared to with the Americas and the rest of the world.

Secondly, the CSME now has only about four years to be a real driving force in Caribbean affairs. Most of its provisions will after 2005 will be subsumed in the arrangements we make to be integrated into the new Free Trade Area of the Americas. There has hence to be a greater urgency in how we proceed.

It means that we have to go as fast and as far as possible in implementing the obligations we have assumed under the revised Treaty of Chaguaramas to create the CSME.

Briefly, the main feature of the Caribbean Single Market and Economy is that it allows Caricom goods, services, people, businesses and capital to move throughout the Caribbean Community without tariff and without other restrictions on a non-discriminatory basis and on similar terms and conditions. These rights are secured in a series of Protocols, all of which have now been signed by Member States, and have been incorporated into a revised Treaty.

The most important of the nine Caricom Protocols is Protocol II which deals with the right of establishment of businesses, the provision of services and the movement of capital within the Community.

The Caribbean Region is now in a position to commence negotiations with a view to developing an agreed programme and time-table for the removal of any impediments to the implementation of Protocol II. As required under Protocol II, Barbados and its other CARICOM partners have all officially notified the CARICOM Secretariat about our existing restrictions (including the administrative arrangements) regulating the flow of capital, the movement of labour and the right of establishment of enterprises in our respective jurisdictions. It is intended to have an agreed programme ready for implementation by December this year.

The Government of Barbados has examined the implications of implementing its obligations under Protocol II and is satisfied that, except in a few sensitive areas, Barbados is in a position to liberalise on a reciprocal basis within the framework of Protocol II as soon as agreement can be reached with our CARICOM neighbours.

Skills

It is no secret that Barbados is already quite "open" in terms of the free movement of professionals. The provisional implementation of this aspect of Protocol II has already brought to our shores a number of skilled professionals from other CARICOM countries such as doctors, lawyers, accountants, engineers and others. Far from taking Barbadian jobs, these persons bring

with them much needed skills and expertise and are daily contributing to the overall development of Barbados and to the delivery of services in and from Barbados and we welcome them.

Rights of Establishment

It is also our judgment that the existing legal framework which governs the right of commercial establishments in Barbados is already almost completely liberalized. The Barbados Companies Act, Cap. 308 (passed in 1982 with an eye on the 1979 CARICOM Company Law Harmonization Report) already provides, in our view, the necessary legal framework for the creation and management of economic enterprises by persons irrespective of nationality (including nationals of CARICOM Member States). Using these provisions, numerous external companies from Trinidad and Tobago, the Bahamas, Bermuda, the British Virgin Islands, Canada and elsewhere have, without very much difficulty or red tape, registered their enterprises with the Registrar of Companies for the purposes of investing and doing business in Barbados. I venture to say that the investment and commercial climate in Barbados is much the healthier for their presence among us.

The Barbados Companies Act also facilitates corporate mobility into and out of Barbados, provided that reciprocal provisions exist in the state or country from which or to which the company migrates or emigrates. Several foreign companies regularly use and continue to use these provisions to move their business operations from other CARICOM countries and from farther afield to our shores, creating jobs and otherwise stimulating activity within the local economy.

The Registration of Business Names Act, Cap. 317 which is regularly used by Barbadians to conduct business under a business or trade name, can similarly be used by CARICOM nationals to establish a commercial presence in Barbados. The Act contains no hindrances to the right of establishment by CARICOM nationals and is yet another example of how liberalized and "open" the Barbados market already is.

Turning to the registration of intellectual property rights, Barbados has always had, and with the recent passage of new intellectual property rights legislation, currently has, a modern regime for the protection of intellectual property rights in line with international standards established under numerous treaties to which we are party. Right-holders of intellectual property of many kinds have always been able to seek protection in Barbados on a non-discriminatory basis and all applications local or foreign are dealt with on an equal footing.

Despite the relative ease with which CARICOM nationals may currently establish commercial enterprises and register their intellectual property rights in Barbados, a Study conducted on behalf of the CARICOM Secretariat in 2000 identified four (4) sections of the Companies Act and one (1) section of the Industrial Designs, Patents and Trade Marks Acts as restrictions on the right of establishment and therefore presumed to be inconsistent with our obligations under Protocol II. Barbados is, however of the view that valid objections may be raised at the upcoming Protocol II negotiations concerning the categorization as restrictions of certain of the provision relating to the establishment of external companies and the making of intellectual property applications by non-nationals.

In the negotiations, Barbados will vigorously resist the removal of most of these provisions on the basis that (a) they are not restrictions or impediments to trade and investment but rather necessary regulatory or administrative requirements which cannot be removed without seriously compromising domestic arrangements and/or (b) that they do not discriminate or offend the "national treatment" requirement of our obligations under the CARICOM Treaty.

Since it is our view that Caribbean Company Law must stand on common ground within the CSME arrangements, Barbados will endeavour to ensure that the Report of the Work and Recommendations of the 1979 Working Party on Company Law in the Caribbean Community together with the draft Bill is placed on the negotiating table for the consideration of Member States and be used as a reference point for the negotiations.

Services

The analysis has shown that Barbados in relation to services has relatively few restrictions to remove. Indeed, of the 21 notified restrictions associated with Barbados, five of them are in the category of necessary regulations, leaving just 16 restrictions to be actually removed.

It is this Government's view that Barbados has a comparative advantage in the provision of services to the region. Indeed, Barbados has a long history of providing teachers, policemen and lawyers to countries of this region. In today's Caribbean, we similarly have the specialist educators, nurses, computer technicians and heart surgeons that can find the opportunities for further career advancement in the various parts of the Region. It is therefore in the best interest of Barbados to move as quickly as possible with the removal of its few restrictions, since the long term benefits to be gained in this regard far outweigh the short-term dislocations that may be associated with such action.

However, there is one important caveat in relation to Barbados' removal of its restrictions. Mr. Speaker, its process will not and must not be unilateral. Barbados cannot be expected to act to remove its restrictions while our Caribbean neighbours keep their restrictions in place. Rather, the removal of Barbados' restrictions will only be in the context of reciprocal treatment by Caribbean Member States for Barbados. We have an example of this methodology already in practice in today. This is in relations to the provision of legal services in Barbados. Under the Legal Profession Act, only qualified citizens of Barbados are admitted to practice law in Barbados. However, non-citizens belonging to the countries listed in the First Schedule to the Act are admitted to practice on the basis of reciprocity.

Further, Mr. Speaker, the removal of Barbados' restrictions will only be constrained by considerations associated with the maintenance of economic and national security. In this context, it is to be noted that Protocol II makes provision for an exemption from the removal of restrictions with respect to the existence of monopolies deemed by the Government to be in the public interest. Therefore, the provision of water, sewerage, inland postal and telecommunications service will be declared by Barbados for the purposes of Protocol II, as public monopolies, recognising the fact, however, that the Government is taking action at this time to deregulate the provision of telecommunications services in Barbados.

As I indicated earlier, there exist a number of reported restrictions that are by nature necessary regulations. These regulations for the provision of official addresses and names and addresses of key contact personnel come to the fore in cases of applications for the registration, use and licencing of industrial designs, trademarks, patents and copyrights. They are also seen in the establishment of onshore banking and insurance services. These regulations will remain in place since they are required operational tools for efficient government regulation and monitoring of sectoral activity, for the protection of the public and to allow for the practical litigation of the service provider.

With respect to the regional provision of professional services such as financial auditing, land surveying and architectural services, there exist in Barbados minimal restrictions on the movement of persons entering Barbados for the temporary or intermittent provision of these services. For example, there is the requirement that the provider be a citizen or ordinarily resident in Barbados as in the case of auditors, or to have spent a six month apprenticeship at the Government Lands and Surveys Department as in the case of the land surveyors, and the necessity to collaborate with Barbadian architectural entities in the case of architectural services. The need for a foreign entity to act with or through a domestic entity is also applicable in respect of the provision of tour operator services, where tour operators not resident in Barbados can only offer facilitation or other services in Barbados through a travel agent licenced under the Travel Agents Act. Barbados will agree to remove such minimal restrictions in respect of these professional services to those Member States that remove like restrictions that impede the movement of Barbadian services, people and skills in the areas of auditing, land surveying and architectural services and tour operator services.

There are currently some services activities that are reserved to nationals only. Services such as taxi services, car rental services, minibus and omnibus services, water sports providers, travel agent services and small-scale restaurant services fall in this category. The Government's policy will be to seek to remove these restrictions of nationality on the basis of reciprocity within the negotiation process. Barbados will therefore liberalize in such areas only if a similar liberalization is granted to Barbadian nationals to provide the same service within reciprocating Member States.

In summary, Mr. Speaker, the negotiating position that I have just outlined for Barbados with respect to the removal of its restrictions that are at variance with the provisions of Protocol II, seeks to provide an appropriate non-discriminatory but regulated environment that opens up the Barbados economy to further investment opportunities for others in the Caribbean, while at the same time providing Barbadian service suppliers the same opportunity to gain access to the more lucrative markets in the region which has been for so long closed to Barbadian investment. Barbadians need not fear that the opening up of markets in this way will generate a free-for-all. To a significant extent the appropriate regulatory framework is in existence in Barbados, and wherever necessary, the relevant laws and administrative procedures will be put in place to make internationally accepted best practices an established element in the way business is done in Barbados.

Capital

Our obligations under Protocol II also requires us to remove existing restrictions on the movement of capital.

The Central Bank of Barbados will, in this context, continue its policy of gradual liberalization of exchange controls as they affect the Caribbean Single Market and Economy. The Central Bank has therefore completed an evaluation of the exchange control regime and has submitted recommendations on the further liberalization of Exchange Control, which I have accepted.

Current Account

In the context of the facilitating e-commerce transactions it is proposed that entrance and subscription fees in respect of credit and travel cards be liberalised and will be dealt with by commercial banks under the delegated authority of the Central Bank. Also to encourage Barbadians to patent their work and to register such patents overseas, it is recommended that exchange controls on these transactions be further liberalised.

Capital Account Transactions

The Securities Exchange of Barbados currently has been delegated authority to approve the purchase and sales of shares listed with stock exchanges in Member States of CARICOM up to the value of BDS\$2.0 million per transaction. In keeping with the commitment of the Government of Barbados to the CARICOM Single Market and Economy, it is recommended that, with effect from September 1, 2001, further authority be delegated to the Securities Exchange of Barbados to approve up to a value of BDS\$3.0 million per transaction for such transactions.

FINANCIAL SECTOR AND CAPITAL MARKETS

Mr. Speaker during my presentation last year, I announced that the BNB & ICB would be partially privatized and this was done during the latter part of 2000 and early in 2001. The Government however, is still the overwhelming majority shareholder in these entities. It is therefore our intention to return to the market to continue the divestment of a substantial portion of the remaining Government interest in these companies. Government is committed to retaining at most 20% of the equity in the two companies. This second offer will not be limited to the local market, but will also be targeted at regional pension funds, insurance companies, social security schemes and strategic partners either regional or international. I must also especially state that

the impediment, unintended , which prevented Credit Unions from participating meaningfully in the first exercise will be removed this time around.

Because of the bearish performance of the local stock exchange, one way in which companies attempt to improve the performance of their stock is the repurchase of their shares. However, Section 185 of the Companies Act defines a take over bid as any offer made to one or more shareholders by an issuer to repurchase its shares. The Companies Act will therefore be amended to allow companies to repurchase up to 10% of the issued shares without triggering the take over code.

The Enterprise Growth Fund, the Barbados Agency for MicroEnterprise Development Ltd (Fund Access) and Collections, Recoveries and Liquidations Ltd (CRL) were created as a consequence of the closure of the Barbados Development Bank.

CRL was created to manage the outstanding debt of the Barbados Development Bank and was expected to finance the two other agencies from its collections. It was always intended that CRL would have a finite life and it is therefore our intention to review its operations within the next 18 months to determine if it is cost effective to continue that agency to collect the remaining debt outstanding.

CRL has however now found itself in a situation where it is no longer able to continue funding the administrative cost of Fund Access and Enterprise Growth Fund Ltd.

This leads me to the matter of the future funding of Fund Access and Enterprise Growth Fund Ltd. Fund Access has been providing a useful service to micro-businesses, with loans up to a maximum of \$50,000.00 per year and has achieved tremendous success with a number of clients.

The Government is committed further to providing resources to this agency in the face of the difficulty with CRL is having with funding it. This year a grant of \$1 million was provided to the agency from the Public Enterprise Investment Fund and the Government is further committed to providing assistance to the agency in the form of funding for the technical assistance which the agency provides to its clients. This assistance costs the agency some \$600,000.00 per annum, which the Government will now cover directly through the Consolidated Fund.

Enterprise Growth Fund Ltd was formed to provide venture capital financing for businesses for amounts in excess of \$50, 000.00 up to a maximum of \$500,000.00. As a venture capital agency providing high risk financing it is expected that the reflows would not be adequate in the early years to fund on-going activities. The Government has therefore assigned to the agency the management of the Tourism Loan Fund, the Innovation Fund, the Small Hotels Investment Fund, the Agricultural Development Fund and the new Industrial Investment and Employment Fund which we are creating today. The management fees which the agency will charge for managing these funds will assist the agency with increased cash flow.

The Government will from the proceeds of the divestment of the next phase of the Barbados National Bank and the Insurance Corporation of Barbados, make further large capital injections into the Enterprise Growth Fund and the Fund Access to enable them to expand their financial services to the emerging small business class of Barbados.

Since 1994, the credit union movement has grown at the phenomenal rate of approximately 14.3% per year. From total assets at the end of 1994 of \$174.3 million, the movement's assets have grown to \$388 million at the end of 2000.

This phenomenal development has led to the very pleasant situation where the three largest of these credit unions are now almost as large as the smallest of the commercial banks. However, like the commercial banks, the credit unions ought to operate in an environment of accountability to shareholders, transparency of policy and procedures, safety and soundness of assets.

Unfortunately, as the credit union movement has grown, some of the individual credit unions have not been operated as safely as they should. Despite the sterling efforts of the Registrar of Cooperatives and his staff, problems have arisen with increasing delinquency of loans. In addition, some credit unions are investing too much of their resources in assets that do not earn any income for the institutions, and some expenditure of some of the credit unions is not directly related to providing services for members.

In order to provide guidance for financially prudent operations, the Credit Union Movement here has accepted the PEARLS system of managing its financial operations.

However, some Credit Unions are not following these standards and so we will amend the Co-operative Societies Act, Cap 378A, to make these standards mandatory for all credit unions. Further, we will amend the act to hold directors legally accountable for their actions that endanger the stability and viability of credit unions. We will also require all directors of credit unions to attend minimum levels of training acceptable to the Registrar of Cooperatives, unless the director can substantiate to the satisfaction of the Registrar that he has had adequate prior training.

But, we must go further. Many credit unions now have gone beyond the initial purpose of credit unions to raise equity from members and to relend that equity to members. Many of the credit unions now raise much of their funds through taking deposits, both from members, and, even more critically, from non-members. Additionally, the credit unions are now lending more money than they are raising from shares and deposits and are having to borrow funds from other institutions in order to fund loans.

If there is any mismanagement in these credit unions, it will impact negatively on the whole financial system. The Central Bank will then have to manage such a situation and perhaps be called upon to provide funds to rescue the institution.

It is my view therefore that Credit Unions are now sufficiently large and are operating so far from their original purposes, that credit unions should be inspected in the same way as other financial institutions and by the same body. I am therefore willing to accept any recommendation that may be forthcoming from the Central Bank of Barbados, under the Central Bank of Barbados Act Section 34, Subsection 2, for the Central Bank to declare any credit union a financial institution for the purpose of inspecting that credit union, and to make recommendations for better management of its financial affairs.

TAXATION ISSUES

In a transforming economy such as ours, tax reform must be made a permanent part of the economic policy agenda to ensure that the fiscal system promotes job creation, capital formation and the building of a more competitive economy, is conducive to personal initiative, and does not work a hardship on individuals.

One of the main purposes sought by tax reform in recent years has been to protect and advance our interests in the new Caribbean Single Market and Economy by ensuring that our tax rates are not out of line with our regional neighbours.

I have therefore already reduced the tax on energy products to regional standards costing the Treasury over \$60 million.

This year I go further.

Corporation Tax

In so far as the current level of corporate taxation puts local business in a disadvantageous position vis-à-vis their CARICOM and international competitors, the government will do its part to ensure that there is a gradual reduction of the tax rate. Of course, the existing nominal rate of tax is supported by a system of numerous allowances which when taken into consideration can

substantially reduce the effective rate of tax. If the rate is to be reduced therefore, then a number of these allowances will have to be reviewed. Indeed, there are some of these allowances that are not being used.

I therefore propose to review all allowances, corporate as well as personal, with a view to rationalizing them beginning in the year 2003. Our review will be conducted in accordance with the CARICOM position on harmonization of tax systems.

In keeping therefore with the desire to reduce the corporate rate of tax to a level comparable with our CARICOM neighbours, the rate will be reduced by 2.5% with effect from income year 2002 and then further reduced over the next 4 years until the corporation tax rate is reduced from 40% to 33%. It is expected that the reduction in the tax rate for the income year 2002, will cost the Treasury \$9.3 million for that year.

The change in our corporation tax will, of course, have to be accompanied by changes in the rates, bands and thresholds and allowances pertaining to personal income tax.

Changes in the Income Tax in these various respects will be devised to become effective in income year 2003.

Property Transfer Tax

Concern has been expressed that the treatment of property transfer tax on sale lease-back transactions can act as a deterrent to the use of leasing as a form of financing and hence inhibit the efficient management of cash by businesses. In addition, there is concern by the Ministry of Finance that many leases are not being registered with the Registrar of Titles and hence are avoiding the payment of stamp duty and property transfer tax. In an effort to ensure compliance with the law, lease payments will no longer be deductible for income tax purposes unless the lease has been registered with the Registrar of Titles and the relevant property transfer tax and stamp duty has been paid.

To facilitate the use of sale lease-back transactions as a form of financing, the property transfer tax payable on the lease-back of the property will be computed on half the capitalized value of the lease. If there is a sale lease-back, buy back transaction, the property transfer tax to be paid on the buy back will be at the regular rate.

Intellectual Property

There is currently no allowance for expenditure incurred in the development of intellectual property such as copyright and patents. In an effort to ensure the development of our knowledge industries the Government will provide a deduction from taxable income for persons investing in (creating) intellectual property. Such persons will be granted effective income year 2000, an allowance of 50% of the amount expended which will be deductible over a ten-year period.

Taxation of Villas

Mr. Speaker, villas constitute an important component of our tourism product and the new Tourism Bill acknowledges the importance of this segment of accommodation. Persons who own villas and make them available for rental to visitors are contributing to the stock of available rooms for tourism purposes and should therefore benefit from some of the concessions available to hotels. However, villas involve less liquidity risk, less investment and fewer facilities than a hotel. It is therefore my intention to reduce the land tax payable on villas, which are registered with the Barbados Tourism Authority and committed to the tourism rental pool for at least nine months of the year. The rebate on the level of tax payable by villas will be equal to half of that applied to hotels, i.e. 25% of the tax payable. This concession will be effective from April 1, 2002.

INSTITUTIONAL REFORM

The administrative efficiency of Government institutions impact on the cost of doing business and the welfare of members of the public, and to the extent that agencies are not operating at full efficiency they become a burden which cannot be afforded.

Recently, in response to claims of excessively long delays in getting refunds from some Departments, calls have been made for the Government to change the rates and base of the tax involved.

It is unwise and unnecessary to change the systemic features of a tax to deal with administrative problems. Better that you change the administration of the Department involved.

In such a context, it is proposed to carry out a process of institutional reform for revenue departments and trade facilitation agencies to make them adopt a charter of best practice in their dealings with the public.

Transparency and Accountability

The first step is to guarantee the practice of accountability and transparency.

As such, all revenue agencies falling under the ambit of the Ministry of Finance as well as the Town Planning Department will have to provide half yearly reports to Parliament regarding the number of applications, appeals, the number processed, approved and refused, and explanation as to why applications for decisions were not dealt with.

Capacity building

Some Agencies cannot get the job done because of inadequate space and shortage of personnel and institutional capacity. Their deficiencies will be rectified.

In particular, the registration of all land titles is a matter to which Government is committed, since this provides a mechanism for both simplifying and accelerating the process of titling.

The Land Registry has been the object of justifiable criticism recently and has been cited as a contributory factor to the slow pace at which land transactions are completed. There are however a number of factors which have operated against the Land Registry fulfilling its mandate in an efficient manner. The department has been in accommodation which has not been the most comfortable and this has impacted on the speed with which it can process transactions. This constraint will be rectified shortly, as the Cabinet has approved the relocation of this Department to more comfortable surroundings and this should be done by the end of the year.

In addition to the foregoing, over the next 18 to 30 months, Government will spend some \$4 million to computerise all records at the Land Registry dealing with land covering the period from 1970 to 1997 and which are currently housed in the vault at the Land Registry.

When this project is completed, the time taken to conduct searches will be reduced substantially. The legal profession will then be in a position to conduct searches from the convenience of their offices via a secure computer and telecommunications network.

This innovation will therefore also see Government utilizing e-business technology to bring best practices and efficiency to one of the more important processes in physical development in the country.

The Corporate Affairs and Intellectual Property Office is carrying out its affairs with reasonable efficiency, and will continue to benefit from improvements in its information technology capacity to better serve its clients.

The Inland Revenue Department is required by law to process tax funds within a six month period and has been of late able to process refunds to taxpayers within 3 months. The Department has also made the services of its staff available to assist taxpayers who have difficulty in completing returns. In addition, to facilitate the public, the agency has installed 24-hour boxes for the receipt of payments, thus reducing the time persons spend in making payments. The Department is continuing with its computerization in an effort to further reduce the response time of the Department in catering to the needs of the public. These are the standards we want from every revenue department.

The Land Tax Department committed itself to improving the level of service to the public via the setting up of an enquiries desk and the extension of the collection hours. It will continue to improve its system and technology to provide a better service.

I turn to the VAT.

During the implementation process, we committed to refunding the Value Added Tax in six weeks. Implicit in our commitment is that we will only refund VAT to those registrants legitimately entitled to such refunds. Regrettably, the VAT system has been bedeviled by unscrupulous persons who make spurious claims for refunds to which they are not lawfully entitled. Weeding out the imposters is time consuming and sometimes negatively impacts on the service delivery to genuine and deserving registrants claiming their legitimate refunds.

It is recognised however that additional staff, including tax officers and auditors, must be assigned to the VAT Division to assist in its better administration. The required additional posts have been created and suitably qualified persons have already been identified to fill those posts. The remaining constraint has been accommodation. The existing accommodation is no longer adequate. Alternate accommodation has therefore been identified in the new Insurance Corporation of Barbados' complex at Roebuck Street and it is expected that the VAT Division will be relocated by the end of August 2001. The additional staff, though necessary for assisting in improving the efficiency and effectiveness, cannot be brought on board until the accommodation requirements are finalised.

In addition to the initiatives already implemented to improve the efficiency and effectiveness of the VAT administration, serving officers have been appointed to their posts thereby bringing them security of tenure and peace of mind. Every effort, including fast tracking, profiling, bench marking, risk analysis and risk management, will continue to be made to expedite legitimate VAT refunds.

Our aim is to fully complete all legitimate VAT refunds within three month of filing.

The statutory requirement at present is that interest becomes payable on the outstanding balance of registrants after six months.

Once the new institutional arrangements are put in place to enable the VAT office to complete refunds within 3 months, and the system has proven its worth, consideration will be given to making interest payable on VAT refunds after 90 rather than 180 days as is presently the case.

SOCIAL SECURITY

Mr. Speaker I wish to turn my attention to Social Security. The tenth actuarial review of the National Insurance and Social Security Scheme has been completed and this time the Scheme had the benefit of two reviews, one undertaken by the UK Government Actuary's Department and the other by the International Labor Office (ILO). Both reviews indicate the need to review the long term branch of the Scheme for its future well-being and the National Insurance Board has advised me that its public information program will commence in October 2001.

In the interim, both actuaries have recommended that since the Unemployment and Severance Funds have reserves in excess of those needed for liquidity purposes, \$60 million should be

transferred from the Unemployment Fund and \$40 million from the Severance Fund to the National Insurance Fund as a means of buttressing the long term branch of this Fund. I have decided to accept the advice of the actuaries and this transfer will be made effective October 1, 2001. The actuaries have also recommended that the contribution rate of the Severance Fund should be reduced by 0.5% from the present 1% because the Fund was over-collecting and that the reduction could be transferred to the National Insurance Fund. I have decided not to increase the contribution rate of the National Insurance Fund at this time, but to await the outcome of the review being conducted by the National Insurance Board. The contribution rate of the Severance Fund will therefore be reduced effective October 1, 2001 by 0.5% and it is expected that this will result in savings by local businesses of \$6 million per year, thus reducing the cost of doing business and enhance their competitiveness.

The actuaries did not recommend that Old-Age Pension be increased, however, in addition to the foregoing, the pensioners have not had an increase since September 1998 and during that time they would have felt the effect of inflation even though it was extremely low. I therefore propose to adjust pensions with effect from pension periods commencing October 8, 2001. This adjustment will be in keeping with the inflation over the three year period since 1998 and will represent a cost of living allowance at a rate of 7%. This will see the minimum contributory pension moving from \$98.00 per week to \$105 per week and the non-contributory pension moving from \$80.00 per week to \$86.00 per week. All other social security pensions will be increased accordingly by a similar percentage rate.

The additional cost to the Treasury of funding the non-con pensions will be \$1.9 million for this fiscal year and \$3 million for the National Insurance Fund during the remainder of its financial year. At the end of the reform process by the National Insurance Board I will be advised of a systematic method by which pension adjustments should be made in the future.

The maternity and funeral grants are inadequate to meet the needs they were intended to serve. The maternity grant which is \$500 has not been adjusted since 1986 and the funeral grant of \$1000.00 has not been adjusted since 1989. Effective October 1, 2001, these grants will be increased to reflect inflationary changes over the period. The maternity grant will be increased from \$500 to \$800 and the funeral grant from \$1000 to \$1400. These increases are expected to increase expenditure by \$662,000 over a financial year.

ENERGY

Two years ago, I announced that as part of the new policy for energy products, we would seek to systematically reduce the tax on energy products to bring them in line with our main regional competitors. Thereafter consumer prices will reflect movements in the import prices for these commodities. Since 1998, we have been able to reduce the excise tax on gasoline from 65.381 cents per litre to 44.824 cents per litre and that on diesel from 58.02 cents per litre to 27.277cents per litre. In addition we have removed the tax on fuel oil, used mainly in the production of electricity, and on kerosene oil and diesel used by the agricultural, fisheries and manufacturing sectors. The cost to the treasury of these adjustments is estimated to be over \$60 million per year.

The import prices of petroleum products have recently declined by 15 cents per litre for gasoline and 10 cents for diesel. We have also negotiated a reduction of energy prices with Trinidad and Tobago.

Therefore, consistent with our stated policy we are now in a position to fully pass on these reductions to the consumers. I am pleased to announce that with effect from Monday, August 13, 2001 the retail price of gasoline will be reduced from \$1.66 per litre to \$1.45 per litre, a reduction of 21 cents per litre, or about 80 cents per gallon.

In addition, the price of diesel fuel will be reduced from \$1.29 per litre to \$1.18 per litre, a reduction of 11 cents per litre, or 42 cents per gallon. We are therefore passing back to consumers over \$30 million per year as a result of these changes.

My Government will continue to explore all avenues open to us so that we can obtain our fuels at the most reasonable price.

SPORTS AND CULTURAL FUND

Sports and Cultural Industries constitute two of the most lucrative careers available to our youth.

For example, a young Barbadian engaged as a successful West Indies cricketer can expect to earn twice as much as the Prime Minister, in a career that can last twice as long.

Government is making a considerable investment in the sporting infrastructure across the country and resources are now needed to better prepare our youth to excel internationally.

We need also to provide better to stimulate our cultural industries through a fund for the Endowment of the Arts.

These funds must come from the proceeds of gaming.

Last year, I generously proposed to reduce the taxes on lotteries, provided they merged their operations, create one successful lottery, and put the difference between the existing tax and the reduced tax into a Sports Development Fund.

The operators of the lotteries have refused to co-operate.

The carrot having failed it is now time to use the whip.

Hence, I propose to increase the tax on lotteries from 11.5% to 12.5% with effect from October 1, 2001.

Sixty percent of the total revenue generated will be used to create a Sports and Arts Endowment Development Fund.

In addition, the Betting and Gaming Act will be amended, in line with the provisions of the National Insurance and Social Security Legislation to make Directors personally liable where companies collect but refuse to remit taxes due to the Crown.

HUMAN RESOURCE DEVELOPMENT

We have chosen a lot in which the quality of our human resources holds the key to our national development.

Great as has been the progress, much more needs to be done.

Indeed we face a massive training deficit. For the academic year 2000-2001, 13,282 persons applied for places at the Barbados Community College, Samuel Jackman Prescod Polytechnic and Erdiston Teacher's Training College. Only 4,504 persons could be accepted leaving a yawning gap of 8,698.

Such a training deficit is inconsistent with our development objectives and cries out for change.

With this in view the Government has decided to restructure post-secondary education with a view to increasing access and improving the delivery of the service. There is a pressing need for greater collaboration and coordination between and among the existing post-secondary and tertiary institutions in Barbados, namely, the Barbados Community College, the Samuel Jackman Prescod Polytechnic, Erdiston Teachers' Training College and the University of the West Indies Cave Hill Campus, with a view to optimizing the use of scarce resources (capital, financial,

managerial and technical). Therefore, a means must be found to maximise the productive capacities of the three national post-secondary and tertiary institutions.

In addition, matters pertaining to articulation, accreditation and certification continue to be issues at the post-secondary and tertiary level. Opportunities for progression from one institution to another are limited due to the absence of clear linkages or equivalencies between the programmes of the various institutions.

Financing tertiary education is another matter of concern. The competition between education and the other social sectors for government financial support places an additional burden on the allocation process for available funds. Strategies for rationalizing the use of financial resources in the education sector must therefore be sought in order to optimise the use of the funds available.

One of the critical issues in the 1995 White Paper on Education Reform was the need to facilitate the expansion of access to tertiary education. Between 1995 and 2000 the gross enrollment rate within our post secondary/tertiary education has moved from 21% to 28% of the 17 - 24 year old cohort within Barbados. While this figure represents one of the highest tertiary level transition rates in the region, it is still inadequate in terms of the country's human resource development strategy which seeks to create a highly skilled workforce.

All of this speaks to the need to rationalize the relationship between the existing tertiary institutions.

The vehicle to achieve this rationalization will be the establishment of the University College of Barbados.

The University College of Barbados will offer a wide range of basic, technical and higher education with qualifications from certificate through to degree within the same institution. There will be no conflict with the UWI at Cave Hill since a university college has as its main emphasis the provision of programmes in applied areas and job preparation, whereas a university focuses on academic programmes and research at the graduate and post graduate level.

Mr. Speaker, Barbados has for some time been restructuring its economy to meet the opportunities of the global market. The sectors of special importance to Barbados now include tourism, financial services and information and communication technology, as well as entrepreneurship. All of these require a variety of specialized higher order professional skills. Barbadians therefore need lifelong education and training in order to remain on the cutting edge so that they may capitalize on existing opportunities and maintain or gain competitiveness.

Mr. Speaker, there is therefore a need for a wide range of education and training in Barbados which is outside the scope of the traditional university. The flexible structure and programming of the proposed University College of Barbados would be ideal for the provision of education and training that is responsive to the dynamic and varied needs of the different sectors of the economy.

In addition to the foregoing, the University College will provide the opportunity for the rationalization of the administrative and financial aspects of tertiary education in Barbados. The benefits gained from cost efficiencies would be used to provide a broader range and depth of programming.

Mr. Speaker, the Government has therefore established an Advisory Committee of private and public sector persons chaired by Mr. Robert Morris, Deputy General Secretary of the BWU, and Joseph Goddard of the private sector, has agreed to co-chair the advisory committee and to advise on issues relating to the proposed establishment of the University College of Barbados, with the intention of bringing the college into existence by 2003.

I propose some additional measures to support the development of our human resources.

At present persons attending the Campuses of the Hospitality Institute have to pay fees. These fees may appear to be small, but can be a mountain for unemployed young ladies seeking to be trained as maids.

It is also a very wrong thing to allow a citizen access to University Education at State's expense, but to charge persons to be trained as maids, and chefs.

The Government will absorb fully the payment of the fees for attendance at our Hospitality Institutes.

In addition, one of the responses of the local business community to the challenges of liberalisation has been to merge operations with a view to reducing costs.

It has generally meant that a number of persons have to be laid off.

We cannot put a stop to mergers, but we can put a more humane face to its consequences.

Hence, wherever Property Transfer Tax is exigible as a result of a merger, it must be paid, except in these cases where Government has committed itself otherwise by prior agreement. Proceeds will not go to the Consolidated Fund but will be earmarked and provided to Fund Access to enable it to create a facility to provide displaced workers with funds for retraining, and as seed capital to start their own new enterprises.

The retraining facility will be operated on a part grant, part loan basis, and interest should not exceed 3% to enable the fund to recover only administrative costs.

CONCLUSION

Mr. Speaker,

Our National Anthem, in its very first stanza speaks in terms of "In plenty, and in time of need."

This administration has already served our nation in a most admirable way in the seven previous years of plenty.

We stand ready, once again, to serve Barbados with distinction at another hour of need.

The Economic Policies and Programme which I have just announced to this House are clear and powerful evidence of that resolution.

They will energise the economy by pumping in hundreds of millions of dollars of new investment and purchasing power, giving us the confidence that we can attain the path of sustainable development to lift the standard of living of all of our people.

They will sustain and spur on job creation.

They will create a new environment within which all of our productive sectors can chart new successful courses to competitiveness.

Every section of the Barbadian society will benefit from our programme; the old, the young, the lower and middle classes, small businesses, large businesses, emerging entrepreneurs, our farmers, our entire Hospitality Industry, our fisher-folk, our manufacturers, maids, cricketers, footballers and the boys on the block.

The programme, though ambitious, is not reckless. Its implementation will not

endanger our foreign reserves nor put Government in an unsound nor unsustainable financial position.

And it does not stand alone, in the beneficial and transforming effects it will have on our future development.

We have recently reduced interest rates. And over the past year, we have been introducing into this Parliament new legislation and new policy initiatives to create the framework within which the new economy of the 21st Century will function, and succeed.

We need however, to supplement these economic initiatives with new attitudes and new values.

I fear that there is now developing in our land a cult attitude whose only purpose is to bash progress. Every investment that can carry forward our development is held up for ridicule. Our visitor and foreign investors are being made to feel unwelcome.

Persons, one generation removed from poverty, are being stigmatized, and made to feel victims of their own success because they have improved their lot and live in Gardens, Heights and Terraces. They are being made prisoners in their own land for no greater crime than that they have realised the Barbadian dream.

And there are those who would have us not reach for the top, but to race to the bottom; to glorify bad manners, indiscipline in the workplace, on our streets, in our communities and to evoke every excuse for lawlessness and deviant behaviour.

A nation that cannot stand success is a nation that has no ambition.

And, the only thing that is necessary for the triumph of wickedness and indiscipline is for good people to do nothing.

I therefore issue the call for zero tolerance from all of us who can exercise influence on this insidious new cult of indiscipline and divisiveness, which can become the social cancer that can surely wreck us.

I want to thank all who have contributed to the conceptualisation and development of the Economic Policies which I shall ask this Parliament to approve.

You will be aware there was a National Consultation on the economy in May, embracing every section of our society to help us to fix on the course we should take.

These policies which are before Parliament for its approval reflect much of the consensus which arose from that Consultation. In so doing, they embody maturity and enlightenment in the management of our affairs for which Barbados stands out as an exemplar.

But you must allow me to especially thank the officers of my Ministry of Finance and Economic Affairs.

They contributed to the preparation of the programme which is before Parliament while managing and servicing the public hearings on K Mart.

They all missed Crop Over; but I assure them that their harvest is to come.

We have before us, Mr. Speaker, the Economic Programme that will carry this country forward to a new prosperity.

Let us therefore to the task, as God gives us the light to see that task, and the strength each to play our part.