



GOVERNMENT OF BARBADOS

ECONOMIC AND FINANCIAL POLICIES
OF
THE GOVERNMENT OF BARBADOS

PRESENTED BY
THE RT. HON. OWEN ARTHUR
MINISTER OF FINANCE

JANUARY 16, 2006

INTRODUCTION

It is providential that the presentation of the economic and financial policies of the Government of Barbados which was intended to have been made in December last year is now being made at the start of a New Year.

Over the past forty years, it has become the convention, resting neither on the law nor logic, for the country's Economic Policies to be presented to Parliament after the Budget has been laid and approved in March.

A Budget which is a statement of expected revenue and expenditure is merely one aspect of a country's repertoire of economic policies and programmes. It should ideally be intended to be one of the principal means by which the overall economic policies of the country should be brought into effect. Clearly however, those policies should have first to be spelt out.

In not following that process, we have been putting the cart before the horse in Barbados for over forty years.

We now have the opportunity to adopt a more practical convention by having the country's Economic Policies presented first and at the start of the year, to provide a framework for, and to be followed by, the presentation of the Estimates of Government's Revenue and Expenditure in March.

I believe that the adoption of this convention will put Parliament in a position to more substantially influence the substance and direction of both budgeting and economic policies, and will enrich the work of this House.

Mr. Speaker, this is your House, and the Prime Minister of the country, as one of its humble servants, is in no position to determine how Parliament should direct its affairs.

I however humbly propose for your consideration that the Standing Orders of Parliament should be amended to provide not only for the Presentation and Debate of the Government's Economic Policies, but also the Presentation and Debate of the Social Policies and Programmes of the Government, as well as its Foreign Economic Relations as specific events in the Parliamentary calendar.

The times in which we live require that we embrace the need for change, and perhaps no where more so than in the manner in which Parliament manages its affairs.

ECONOMIC AND FINANCIAL REVIEW

I believe that historians will come to judge the year 2005 as one in which Barbados realised historic achievements.

It was the year in which we ended centuries of adverse colonial history by ending our relationship with the British Privy Council and

accepting the jurisdiction of the Caribbean Court of Justice as our Court of Final Appeal.

It was the year in which Barbados concluded the arrangements to formally become part of a Caribbean Single Market; again ending an important aspect of our tortured and divided Caribbean history, and opening the opportunity for Barbados' future development to be planned taking into account the availability of a bigger market and a bigger economic space.

It was the year in which we made substantial provision for the attainment of the core goals set out in our National Strategic Plan 2005-2025 of resting our development on enriched human capital by providing the Cave Hill Campus with the physical means to support its expansion in pursuit of the objective of having one graduate per household by 2020.

It is also a major national accomplishment that in a world and in a region in which crime and violence are increasing in scale and

severity, crime in Barbados, in the year 2005 was reduced to its lowest level in nearly two decades, setting Barbados apart as an oasis of stability and good order in an otherwise troubled world.

Above all, one of the historic achievements of the year 2005 was the fact that Barbados turned the corner towards becoming a full-employment modern economy. The record low level of unemployment of 8.5% that was recorded in the third quarter of the year, when economic activity is at its lowest, portends that, with the appropriate measures to spur investment, training and the general level of economic activity, full employment can become a realistic goal for the Barbadian society.

Mr. Speaker, you better than anyone else in this Parliament know how difficult it is to score a lot of runs quickly when batting on a sticky wicket.

But, in metaphorical terms, that is precisely what our economy has been doing.

The times have indeed been challenging.

The very steep rise in the price of energy in 2005 added a major new challenge to the management of our economy. It is clear also that the incidence of severe natural disasters presents a new risk and uncertainty that we cannot ignore.

For us, the age of economic preferences effectively came to an end in 2005 with the decision of the European Union to cut the price for sugar by 36% over a four-year period.

In such a context, it is entirely salutary that over a wide range of indices of economic performance, significant progress was recorded by the Barbadian economy.

In relation to the general level of economic activity the expansion of our economy continued in 2005 with the realisation of real growth at 4.1% following upon the rate of 4.8% recorded in 2004.

The significance of this is that our economy is now on a development path at the base of which is a rate of growth that for two years now has substantially exceeded the target of 3%. The economic challenges we therefore face in large measures are those that arise not from too little, but from too fast a pace of economic expansion.

The economy's growth in recent years was driven by the extraordinary performance of the hospitality industry. This however, was not the case in 2005. Without the benefit of an English cricket tour, long stay visitors in 2005 matched the numbers in 2004 while cruise arrivals up to October fell to 425,933 from the level of 534,136 for the corresponding period of 2004, a 20% decline. Value added for the tourism sector as a whole fell by 4.2% in 2005.

Happily, the fortunes of the sector have recently taken a turn for the better.

In all of the other sectors of the economy growth rates in excess of recent annual average performances were realised. In respect of the

international business sector, some 384 new entities were licensed up to the end of November compared to 314 for the same period in 2004; an increase of 22%.

Sugar output rose by 10.3% in 2005 in contrast to a contraction of 5.4% in 2004. And the manufacturing sector is estimated to have expanded by over 3% during the past year.

All of the non-trade sub-sectors expanded significantly in 2005, but especially the construction industry where growth of 17.6% was recorded in Barbados.

Barbados' exports of goods also rose in 2005 to \$387 million up from \$340 million in 2004.

The evidence is also considerable and compelling that ours is an economy in which people are at work, our citizens are saving, our citizens are investing and building on an unprecedented scale.

I would have already remarked upon the record low level of unemployment that was registered to September last year.

The level of savings for 2005 represented only by domestic deposits in the commercial banks rose by over \$600 million from \$5.25 billion in 2004 to \$5.863 billion in 2005.

Gross domestic investment in 2005 in Barbados is estimated to have amounted to \$1.067 billion as compared to \$975.4 million in 2004.

Commercial Banks mortgage loans for private dwellings increased by over \$100 million between December 2004 and October 2005.

There was also evidence of an improvement of Government's fiscal circumstances thus far for the financial year 2005-2006.

Public Finance 2005-2006

The 2005-2006 Estimates of Revenue and Expenditure were approved by Parliament in March 2005 and were formulated to achieve a fiscal deficit of 2.4% of GDP at market prices.

The Estimates projected current revenue of \$2,030.8 million, current expenditure excluding amortization of \$1,915.8 million and capital expenditure of \$258.8 million giving a fiscal deficit of \$143.8 million.

Preliminary information received from the Accountant General indicates that current revenue for the first nine months of this fiscal year 2005-2006 was \$1,470.8 million, an increase of 10.2% over the amount collected for the same period last year. The increase in current revenue was mainly as a result of an increase in Taxes on Goods and Services, which increased over the 2004-2005 figures by 14.1% due to the new measures introduced in September 2005 and increased economic activity.

Preliminary information also indicates that current expenditure less amortization was \$1,425.9 million, an amount of \$87.6 million or 6.5% above that recorded for the corresponding period last year.

Capital expenditure was \$130.8 million, \$10.2 million or 8.4% more than for the corresponding period of 2004-2005.

It is expected that the performance for the last quarter of the year will be on par with that of the first nine months. It is therefore projected that current revenue collected for the current fiscal year will be \$2,075.7 million. This will be 2.2% more than the \$2,030.8 million approved for the financial year and 9.4% more than collected in the last fiscal year.

Current expenditure excluding amortization is projected to be \$1,936.6 million during 2005-2006, an amount of 6.6% more than for 2004-2005. Capital expenditure is expected to be 6.7% more than the previous year and 6.8% less than the amount approved for the year.

Based on these projections, it is expected that the fiscal deficit for 2005-2006 will be 1.7% of GDP, well below the fiscal deficit of 2.6% recorded for 2004-2005 and the 2.5% originally targeted for 2005-2006. Details are at Appendix I

External Position

By contrast, there were aspects of the performance of the Barbadian economy in 2005 which provide grounds for caution and concern.

Despite the measures introduced by the Central Bank to curb the rate of growth of credit, total credit rose by as much as \$540 million up to October 2005. Most of the lending was distributed to the personal sector, which increased by \$270 million.

An increase in domestic demand, driven in large measure by continued credit creation, bore negatively on our external position.

There was a continued surge in import demand which when coupled with smaller receipts from tourism activity has given rise to a wider

current account deficit on the balance of payments, which was estimated at \$385.8 million for the first nine months of 2005 or \$99.7 million more than in the corresponding period for 2004. At the end of November, 2005, retained imports were estimated at \$2,472.2 million compared to \$2,349.6 million for the corresponding period 2004, an increase of 5.2%. This increase was mainly due to a provisional 17.2% rise in consumer goods imports, particularly for motorcars and durable consumer goods. For the similar period January to November, domestic exports expanded by an estimated 23.7% or \$75.3 million more than the \$318.1 million earned for the corresponding period in 2004.

The Net International Reserves (NIR) of the Central Bank is projected to be \$1209.4 million compared to \$1190.5 million recorded in the similar period in 2004. This represents 23.4 weeks of imports – still well above the three months equivalence regarded as that required for safety purposes.

On a positive note, the capital and financial account registered a surplus of \$140.2 million for the January to September period of 2005. During 2005, net private capital and financial inflows were estimated at \$430.4 million, compared with net private capital and financial outflows of \$13.5 million in 2004.

The evidence taken as a whole suggests that we need to heighten our measures to strengthen the Balance of Payments.

Inflation

The rate of inflation for the year 2005 is likely to exceed 4%, as compared to the 1.5% for 2004. The increase in inflation rate resulted largely from rising energy prices and earmarks this as an area of macroeconomic performance which warrants the deployment of corrective initiatives.

Prospects for 2006

The economy is forecast to strengthen significantly in 2006 and to realize a real growth rate that exceeds 4% for the third consecutive year.

Indeed, 2006 holds the promise that Barbados will realise economic expansion on a scale that has not been seen in recent memory.

It is expected that the growth and development of the economy will be fuelled by higher output from tourism growth and from every productive sector, the impact of investment on an unprecedented scale, in our tourism, housing and service capacity, and infrastructural activity related to the hosting of the World Cup 2007.

There is also ground to expect a continued improvement in the country's employment situation and the significant strengthening of our balance of payments as a result a strong inflow of private capital.

Framing the policy issues

The trajectory along which the economy is growing and the indices of its recent and projected performance suggest that the following constitute the essential issues and matters around which policy initiatives should be concentrated.

Demand Management

It is clear the increase in disposable incomes created by the availability of credit and the reform of personal income taxes is generating a level of domestic demand that will continue to put pressure on our external position.

It is proposed that the monetary measures introduced by the Central Bank to contract credit must be given additional time to work.

No additional increases in interest rates are contemplated for 2006.

There is however a need to use other demand management measures other than interest rates to curb our demand for imports.

Mitigating new Macro-economic Shocks

Rising energy prices and the incidence of natural disasters are two shocks which can de-stabilize the economy.

While we cannot affect the price of crude oil, a comprehensive programme involving all sections of the society to conserve on the use of fossil fuels, to accelerate the switch to alternative fuels and to increase domestic production of fossil and alternative fuels now becomes national priority.

Our national economic policies also must incorporate new initiatives to promote disaster prevention and mitigation as principal concerns by the productive sectors and households. Now policies are warranted to achieve these areas.

Foreign Exchange Generation

Our economy is generating significant activity and attracting major investment in our foreign exchange earning sectors. It is reflected in

employment creation but to a far lesser extent in the retention of foreign exchange.

There is in consequence the need for new measures to enable the economy to retain more of the foreign exchange that it is generating through capital inflows and export capacity.

Balancing of Trade Policy

Our trade policy has recently featured the introduction of certain protectionist tariff measures to provide a shield for those sectors of the economy which have faced the stiffest challenge from trade liberalization – manufacturing and agriculture.

Such a policy has been at the expense of growth prospects of some of our principal export sectors. In addition, Barbadians are now shopping abroad and especially in the Caribbean for goods they should be buying at home. The developments taking place in Bridgetown and in our other urban centres however should inspire us

to go further and transform them into the shopping Mecca of the Caribbean.

To realise this, we must amend the tariff policies that have been used to protect some sectors, but which are driving business abroad and hurting our export sectors. We must do so by replacing the tariff protection with economic and financial supports to encourage the continued repositioning of sectors affected by trade liberalization.

Institutional Change

Although the reform of the telecommunication sector has been undertaken, Barbados has yet to realize a full macro-economic dividend in the form of expanded bandwidth capacity at competitive prices.

Policies initiatives are now required to realize such a dividend.

Also we must accelerate the programme to enable us to use electronic means capable of changing the environment and the cost of doing business in and with the public sector and in the economy at large.

Employment Related Measures

It is clear that the Barbadian economy is generating more employment than can be satisfied by the skills available in the domestic society.

Also, the country is now importing skills which it has long ago shown a capacity to meet from local training.

To move to a full employment economy, a greater effort now has to be made to match the demand for and supply of skills, and to aggressively close the training gap that is now emerging in certain essential areas.

CSME Dividend

Barbados must gear itself to realize a benefit from being a part of the Caribbean Single Market by offering itself as a more attractive

alternative for the establishment of commercial presence by regional service providers, and creating an environment within which its own service providers can develop a capacity to produce and sell more services on a more competitive basis to the region.

Sectoral Policies

In relation to sectoral priorities, the major priority must be to introduce measures to transform the sugar cane industry in the face of the threat of falling sugar prices.

We must also strengthen and deepen the measures recently introduced to make Barbados a more Competitive International Business and Financial Centre, and to establish policy equivalence with countries which are our main competitors in this sphere and in export development in general.

Tax Reform

The present programme to reform Personal and Corporation Tax will be continued and completed in accordance with its intended schedule.

New measures will be introduced to ease the incidence of land tax and to spur construction for the home rental market.

Matters relating to land transactions need to be reviewed to create a more equitable environment within which such transactions are made.

Poverty Eradication

There are some sections of the Barbadian society which now subsist below the poverty line. A more comprehensive financial programme to begin this year, and to be sustained into the future, has to be put in place to aggressively reduce the incidence of poverty in Barbados.

The economic policies to be set out this afternoon concern themselves with these stated objectives and priorities. It goes without saying that fiscal prudence and wage moderation, and the full support for the Social Contract and Social Partnership are essential and enduring parts of our policy framework.

MACRO-ECONOMIC POLICIES

Exchange Control Liberalization

It is clear that the need for Barbados to strengthen its balance of payments position can in part be met by further liberalising our foreign exchange control regime.

Over the last three years the Central Bank, with the approval of the Minister of Finance as provided for in the law, has taken several steps to liberalize Barbados' Exchange Control regime. This has been accomplished through the delegation of increased authority to commercial banks to execute foreign exchange transactions and to ensure that, as far as practicable, Barbados can meet its obligations under the CSME to liberalize fully its exchange controls by the agreed implementation date of December 2005.

Now, acting on the advice of the Governor of the Central Bank I propose to extend the process of liberalising exchange control to the holding of foreign currency accounts.

At present, Barbadian residents must earn at least BDS. \$50,000.00 per annum in foreign exchange to be permitted to hold foreign currency accounts. The limit for the foreign currency account is 25% of the annual debits to the account. This applies also to returning Barbadian nationals.

However, CARICOM nationals resident in Barbados for a period not exceeding three years may hold foreign currency accounts without limit provided the account is funded by foreign exchange earnings. I do not propose to change this. But I will simplify the arrangements for Barbadian nationals and liberalise them further in the case of returning Barbadian nationals.

Effective from February 1, 2006 the following measures will be taken to facilitate the holders of foreign currency accounts:

1. Barbadian residents and CARICOM nationals resident in Barbados (CARICOM nationals are treated similarly to Barbadian residents after they have resided here for more

than three years who earn foreign exchange may hold foreign currency accounts with a limit up to the equivalent of BDS\$20 000.00 without exchange control permission provided the accounts are funded by foreign exchange earnings of at least BDS\$50 000.00 per year. For limits in excess of BDS\$20,000.00 exchange control permission will be required.

2. Returning Barbadian nationals may hold foreign currency accounts with a limit up to the equivalent of BDS\$100 000.00 provided the funds credited to such accounts represent foreign currency earnings from abroad in the form of pensions, rental income, interest, dividends or other income.

Under the existing regulations Mr. Speaker, Barbadian, CARICOM and other nationals **while resident abroad** are allowed to hold foreign currency accounts without limit, provided such accounts are funded by foreign currency earnings from abroad. No change is proposed to this provision.

The above-mentioned measures are designed principally to level the playing field for both Barbadian residents and CARICOM nationals resident here and to facilitate Barbadian returning nationals who need to hold foreign currency accounts to facilitate their current and other personal commitments abroad.

Travel Within CARICOM

With the coming into effect of the CSME, it is appropriate that we remove exchange controls with respect to travel within CARICOM by Barbadian residents. Accordingly full authority will be delegated to commercial banks to provide foreign exchange for travel to Barbadian residents travelling within CARICOM. This however will require disclosure of national ID numbers so that these transactions may be monitored to prevent abuse.

Foreign Currency Reserve Requirement

I wish now Mr. Speaker, to switch to another area of monetary policy which has been attracting the attention of other central banks in the region.

Presently the reserve ratio that commercial Banks must maintain includes a cash and a non-cash component. It is calculated as a percentage of the deposits outstanding that commercial banks are required to hold at the Central Bank. The higher the reserve ratio, the more funds are restricted from being accessed by the public. This is a safety precaution designed to safeguard the liquidity of the financial system. The reserve requirement is at present 12% on securities and 5% on cash of the banks.

Increasingly many depositors are holding some portion of their deposits in foreign currency and there are increasing requests, particularly by non-residents and returning nationals to hold foreign currency accounts in Barbados. In recent years many central banks, including Bank of Jamaica, have introduced foreign currency

surrender requirements that require deposit taking institutions to sell a small portion of their holdings of foreign currency to the Central Bank for its own account so as to make some of these funds available to the pool of foreign exchange reserves available to the whole population.

It is instructive that Jamaica has operated a foreign currency surrender requirement on daily purchases that has varied from 5% to 50%; the current range for authorized dealers and cambios is a minimum of 5% and a maximum of 10%. The East Caribbean Central Bank also accepts foreign currency deposits and pays interest on them.

The introduction of a foreign currency reserve requirement – a surrender requirement based on holding of foreign currency deposits – will give the Central Bank additional holdings of foreign exchange in circumstances where the commercial banks are still not disposed in Barbados to selling foreign exchange to the Central Bank, despite recent tightening of the regulation regarding the commercial bank spot position. In addition, the anticipated further liberalisation of foreign currency accounts to facilitate greater foreign investment by returning residents and Caricom residents will make it more important

for the Central Bank to be able to access some of the foreign currency accounts held so that they can be made available to the general pool of foreign exchange reserves rather than allow them to be totally earmarked for the use of the holders only.

The foreign reserve requirement can also be used as an inducement for commercial banks to cover their foreign currency liabilities by placing funds with the Central Bank, rather than with banks abroad if the Central Bank also pays the commercial banks an interest rate, as they are not now doing, on the foreign funds withheld. Such a rate would need to bear some relationship to the US Federal Funds Rate (the benchmark rate for investment of Central Bank's foreign reserves abroad, and would therefore need to be adjusted frequently), to ensure that the yield to the commercial banks is attractive.

The proposed foreign currency requirement will be 6% of foreign currency deposits, which is quite small, amounting presently to about the foreign equivalent of BDS \$50 million and the initial interest rate on such deposits will be 3½% per annum.

Capital Market Development/New Debt Instruments

The Government of Barbados currently issues debt instruments of varying maturities viz. three and six month Treasury Bills; five year Saving Bonds, 10 year Treasury Notes and 20 year Debentures.

In recent years there has been a growing demand for a larger range of maturities for government securities as investors have sought to meet their varying investment horizons.

Our response to this demand has been to introduce medium term instruments such as Saving Bonds and Treasury Notes. However, the demand is now for longer term securities particularly by the NIS, life insurance companies and the investors of registered retirement savings plans. I have therefore agreed with the Central Bank that we should add 30 year bonds to our existing range of Government debt instruments to cater to this demand.

Insurance “Suitcase Trading”

Over the last few years, a disturbing trend in the marketing of insurance products has developed with the emergence of the so-called “Insurance Suitcase” trade. It has been discovered that marketers representing companies not registered in Barbados have been coming into this country and selling insurance products, mainly medical products denominated in US currency to residents. Payment for the product, we understand is made by credit card in the main.

It is also understood that the products are attractive to clients who purchase these products to provide coverage in the United States in the event of their requiring medical treatment in that country. We are also told that such products are marketed in neighbouring countries where the restriction on foreign exchange is more liberal.

This business of the “insurance suitcase trade” is disadvantageous to local companies that can market similar products legitimately but are restrained by legislation from selling products that are not approved

by the Supervisor of Insurance and Pensions and denominated in US currency.

We are of the view that local companies should be assisted in their efforts to expand their coverage locally. It is therefore proposed to allow local insurance companies to capitalize on any available business by removing the requirement to have policies denominated only in local currency provided the risks are in the region and the coverage is of the health care type, namely major medical care where the procedure or treatment is not available locally.

This policy will be implemented on a case-by-case basis and insurance companies will have to demonstrate that the requisite foreign exchange earnings will be available to them to meet claims when they arise.

Mitigating the Impact of High Oil Prices

The cost of energy is perhaps the singly most important factor affecting all aspects of the economy.

Over the past few years, the price of oil has more than doubled, moving from US\$30 per barrel to the unprecedented level of US\$70 per barrel.

High oil prices are unlikely to dissipate in the short or medium term and it is reasonable to assume that prices averaging between US\$60 and US\$70 per barrel will be with us for some time. Barbados cannot just passively accept and pass on to its consumers the full burden of these high prices. We must therefore devise and implement strategies which seek to minimise the effect of these high oil prices.

Energy Pricing Policy

It is important that we maintain an energy pricing policy in which, as far as practicable, only the change in the price of crude is passed on to the consumer. In this regard, the tax on energy products becomes a critical issue.

Indeed our energy pricing policy has sought in recent years to reduce the tax on all energy products. We have reduced the total tax on gasoline by over 21 cents per litre or 82 cents per gallon since 1994.

In the case of diesel the reduction has been \$1.15 per gallon. In addition, this government we have removed all the taxes on fuel oil and kerosene.

The success of our policy is evidenced by the fact that in 1994, when the price of crude was under \$15 per barrel, diesel was sold at \$1.29 per litre, whereas now that the crude price is \$64 a barrel, a four-fold increase, diesel is selling at \$1.49 per litre. In the case of gasoline, the price at the pump rose from \$1.54 to \$2.30, way below the fourfold percentage price increase for crude.

In the event that the price of crude oil continues to increase the Government will reduce the excise tax to ensure that the tax take on energy products remains the same. Obviously the tax take will fall if and when energy prices fall.

To mitigate the effects of rising energy prices we will -

1. Intensify the efforts to maximise the production of crude oil and natural gas;
2. Diversify the energy mix to make natural gas and other non-liquid fuels more dominant in the domestic economy;
3. Introduce and maintain a comprehensive set of energy conservation and efficiency measures aimed at maximizing the efficient use of energy;
4. Ensure that renewable energy plays a progressively more significant role in the economy.

The Government itself will be in the forefront of these activities since as the single largest employer on the island its energy consumption is huge. The Public Sector Energy Conservation Programme is spelt out in Appendix II hereto.

Renewable Energy

The Government's target as originally set is for renewable energy to contribute in excess of 30% of the island's primary energy by 2012. However, given the unprecedented level of oil prices, we will be seeking to achieve this target in a shorter period. At the moment, the main renewable energy sources are bagasse and solar water heaters which contribute about 15% of the island's primary energy supply. We will now carry out a programme to develop other forms of renewable energy such as wind energy, fuel cane, and to improve the contribution of the current sources.

Wind Energy

The Government in recognition of the potential for wind energy in Barbados has been examining its feasibility for producing electricity to be fed into the grid as far back as the nineteen eighties.

These wind power feasibility efforts were reactivated when a joint detailed assessment study of a Lambert's east site in St. Lucy was undertaken a few years ago. This favourable assessment has led the BL&P with the Government's support to develop its own in-house plan for wind energy investment for this site in the very near future. We will support the BL&P proposals to develop the wind farm which will generate 26,000,000 kilo watt hours (KWh) annually which at today's prices have a retail value of \$ 8.8 million with an import fuel saving of \$4.6 million dollars.

Fuel Cane

As part of its plans to transform the sugar industry into a sugar cane industry, the Ministry of Agriculture and Rural Development through the Barbados Agricultural Management Company (BAMC) commissioned a Feasibility Study on a Fuel Cane Power Generation Project which was undertaken by Schaffer and Associates International of the United States of America. It is envisaged that

through this fuel cane project, 30 mega watts of electricity will be produced.

A 30 MW plant should generate 263 million KWh with a reduction in the fuel import bill of Barbados of US \$29 million per year.

The Cabinet has agreed that the fuel cane project is deserving of national support and hence requested that a project unit be established within BAMC to prepare a Pre-investment Plan and a Budget for its full implementation.

It is proposed that this investment will come on stream by 2008.

Concessions for Renewable Energy

At present items needed to support a Renewable Energy Programme are not shown as a separate category under the Customs Act.

I propose, therefore, Mr. Speaker to exercise the authority provided to the Minister responsible for Finance under Part II Section A of the Common External Tariff to grant conditional exemptions for energy conservation schemes by waiving the import duty payable on the energy systems referenced in Appendix III hereto. The items to benefit include:

- Wind turbine systems
- Solar systems
- Bio-fuel systems

Energy Conservation

A demand side management study carried out by the BL&P suggested that an opportunity for saving 6% of total energy cost through more energy efficient activities of electricity users. There is an equally large opportunity for savings in non-electricity application such as in the transport sector. Given the fuel import bill of \$350 million dollars over the last year it is estimated that energy efficiency savings can be

as much as \$24 million as the fuel import bill reaches the \$400 million mark.

A national Energy Conservation Programme containing the following elements will now be implemented in Barbados.

Home Energy Efficiency

Inefficiently designed homes contribute to the wasteful use of energy. Consequently, Mr. Speaker, Government proposes to support the use of materials which keep houses cooler, such as thermal barriers, roof insulation, window tint and ceramic roof coatings by treating them as “energy efficient systems/components” attracting an import duty of 5%. rather than the present 20% which they carry at present.

Home Energy Audits

Home Energy Audits should be encouraged as a standard practice in managing household spending, and lead to significant savings on energy costs. Indeed, Energy savings as little as \$20 dollars per

month per household will lead to over \$40 million dollars in savings annually.

For each house holder there is need for separate advice on what components to buy (solar lights, fluorescent lights, thermal barriers, window tints etc).

It is therefore proposed that the cost of a 'household energy audit and recommended conservation systems/materials' up to \$2000 be allowed as a deduction from assessable income under the Income Tax Home Allowance Scheme. The Ministry of Energy and Public Utilities will develop criteria for approval and certification of the auditors.

Energy Savings from Fluorescent Light Bulbs

Fluorescent light bulbs can be five times more energy efficient than incandescent bulbs.

Although fluorescent light bulbs are more energy efficient than incandescent bulbs/fittings they both carry the same import duty rate of 20%.

To encourage greater use I therefore propose to reduce the import duty on fluorescent light bulbs and fittings to 5% effective immediately.

Transport Sector

The energy used by the transport sector is in excess of 30% of our national fuel import bill representing over \$100 million in import value.

The following initiatives are proposed to induce significant savings in this sector.

Diesel Vehicles

Diesel and gasoline powered vehicles attract the same levels of excise tax.

However, diesel vehicles get up to 40% more mileage per dollar than equally sized gasoline vehicles. A diesel driver therefore spends less money and produces less green house gas emissions when travelling on the road.

I propose therefore, Mr. Speaker that there be a separate tariff for gasoline and diesel vehicles should be introduced. The existing tax structure will apply only to gasoline vehicles and a new tariff structure for the diesel vehicles based on equivalent fuel efficiency will be introduced.

Consequently, with effect from April 1, 2006, the minimum rate of excise tax of 46.95% which at present is applied to a gasoline vehicle

with an engine size under 1600 cc and a chargeable value under \$45,000 will now be applied to a diesel vehicle with an engine size under 2000cc and a chargeable value under \$45,000. Further details of the new excise tax structure for diesel vehicles may be seen at Appendix IV.

On the basis of the above if all gasoline vehicles were to be replaced by diesel vehicles the \$160 million paid for gasoline annually would be reduced by \$40 million. While such a transition is unlikely I intend to assist the process by mandating that effective September 1, 2006 all taxi owners and operators of vehicles for approved tourism ventures desirous of accessing the duty free concessions available under Part II B of the Customs Tariff can only do so by purchasing diesel powered vehicles in the future.

**Electric, Solar, Hybrid, Natural Gas and Liquefied
Petroleum Gas Ethanol, Vehicles**

I propose, Mr. Speaker, to encourage motorists to assist us in reducing the over \$200 million spent on transport fuels annually by providing special concessions on vehicles that use energy sources that are less costly than traditional or locally available fuels.

I therefore propose that with effect from April 1, 2006 hybrid vehicles as well as those powered by solar energy, LPG and Compressed Natural Gas will attract an excise tax at a fixed rate of 20%. as compared to the lowest rate of 46.9% on regular cars.

The management of the Transport Board has been mandated to undertake a technical and economic feasibility study of using alternative fuels to power the Board's fleet.

Tourism Industry

The Tourism Development Act offers concessions for Tourism facilities development and plant refurbishment and more specifically “energy efficient light bulbs and fittings”. I propose that an energy efficiency audit and Retrofit Fund of \$10 million dollars be established as a revolving loan fund for the tourism industry for the purchase of energy efficient devices and equipment, including solar systems. It is proposed that such a new fund should be managed by the Enterprise Growth Fund.

Increase in Local Production

Given the prevailing energy prices, we must seek to substantially increase local production to 1,500 BOPD and to increase the reserve to production ratio from 5 to 10 years. At current prices this additional 500 barrels in production translates to a reduction in the fuel oil import bill by in excess of \$10million per year.

In addition on the commissioning of the new terminal facilities, the storage of fuel oil will be moved from Needham’s Point to the

Holborn terminal and the product will be delivered to the BL&P through a dedicated pipeline.

The use of the pipeline facilitates the efficient and timely transfer of fuel oil to the BL&P's new 35 megawatts power generating plants.

The commissioning of these two highly efficient engines, according to BL&P, will save the country approximately \$8 million per month in fuel cost, largely because of the shift from the more expensive jet fuel to fuel oil resulting in reduced electricity cost. This decrease will be passed on to the consuming public.

Ethanol as a Transport Fuel

Many countries throughout the world have been moving towards the use of ethanol blended in gasoline and diesel. Ethanol can be blended in gasoline at up to 10% without any negative impact to the functioning of modern gasoline vehicles.

An “ethanol for vehicle fuel” study has just been carried out as part of a Sugar Cane energy study. The study suggests that an investment of US \$10 million in an ethanol plant in Barbados would produce 60,000 litres per day of ethanol. Our immediate target is to meet 10% of current annual gasoline consumption of 140 million. i.e. 14 million litres per year.

Until domestic production comes on stream it is proposed that, beginning April 2006, we will import 14 million litres of semi-processed raw materials from Brazil, and under an arrangement with a company in Trinidad & Tobago have it processed into Ethanol to thereafter be blended with the gasoline to be brought into Barbados.

Given the present import cost of gasoline, the 14 million litres of Ethanol would result in a fuel saving in excess of \$25 million.

In total Mr. Speaker, these programmes will require significant investments of approximately \$195 million but will yield annual returns in the form of \$65 million in energy savings – excluding the \$96 million to accrue from the BL&P’s switch to fuel oil.

Risk Mitigation Measures

Disaster prevention, mitigation and recovery are matters that, on recent evidence, need to factor more in our macro-economic policies.

Tourism Industry

The tourism industry has been the mainstay of the Barbadian economy for the last several years, and has the potential to be the main support of the economy for several years to come. However, because of the predominance of hotel accommodation in coastal areas their exposure to hurricane damage is great and presents a risk we must guard against.

There are currently about 420 places of accommodation in Barbados divided between hotels, villas and condominiums and about 90% are

located on the coastline; within the circumstances, this Government is of the view that steps must be taken to protect our major industry from the catastrophic perils that could visit our shores during the hurricane season.

As a consequence of the hurricane activity this Government would want to ensure that all hotels and places of accommodation are adequately insured against perils associated with property insurance and public liability; it is proposed therefore that beginning **January 2006** it shall be a condition of the licence to operate here in Barbados, that all hotels and places of accommodation should be adequately insured for property damage and public liability.

Chattel Houses

It is important that the culture of home insurance becomes general across Barbados. There are currently about 83,000 occupied dwelling units in Barbados of which about 33,000 are made of wood or wood/concrete blocks. Of all the dwelling units about 52% are insured

and of the dwelling units of wood/wood concrete block construction, 25% are insured.

There is the need for a scheme to assist persons at the lower end of the socio-economic ladder by indemnifying them against perils that may cause damage to their property.

The Government therefore proposes to establish a scheme to be called the Catastrophe Fund. The Government and the working force will be contributors and the fund will be used to provide relief or assistance in respect of damage to owner-occupied chattel dwellings or dwelling units of wood/concrete block construction. The relief or assistance would be available to persons receiving income of less than the income tax limit of \$22,500 per year.

The programme will be funded on the following basis:

- (i) the Government will make annual contributions of \$2.5 million for five years; depending on the experience of the

fund, an assessment will be made to determine whether the Government will continue; and

- (ii) contributions from the working force will take the form of a deduction of 0.1% of earnings up to the national insurance maximum.

It is estimated that on this basis, the Fund, after five years would have received approximately \$13.7 million and would have made payments of about \$6.0 million.

This initiative will be effective from financial year 2006-2007.

INSTITUTIONAL CHANGES

Telecommunications

The availability of telecommunications facilities at competitive prices is still one of the most important factors affecting our capacity to generate new business in Barbados.

The liberalisation of the telecommunications sector has been carried out. Thus far, international rates have been reduced by as much as 50%.

The vibrancy of competition in the cellular market has resulted in a substantial increase in mobile subscribers, from approximately **90,000** prior to the liberalisation of this sector, to in excess of **200,000** subscribers today.

Mobile rates have dropped from as high as 50 cents per minute to as low as 20 cents per minute.

The full implementation of liberalisation has resulted in increased bandwidth being made available at lower prices, which has enabled the increased penetration rate of broadband (**ADSL**) into homes, from approximately 1% to 12% i.e. 1,200 to 12,000 in just over a year.

Greater competition has resulted in access to IP (Internet Protocol) technology based solutions for example, voice over the internet

protocol (**VoIP**). This affords customers calling capability throughout the world at better rates by having access through the Internet at a substantially reduced rate, by as much as 70-80% savings.

Broadband services have seen a substantial reduction in pricing, and faster speeds have become more affordable. This has led to the recent introduction of a flat charge of \$69.00 for international calling to USA and Canada, which will be extended to UK/ Western Europe - \$119 over the existing carrier's broadband network.

With the advent of additional suppliers, more technologically advanced, state of the art applications are being introduced such as fully functioning Customer Call Centres, Customer Contact Centres, Unified Messaging (integration of voice mail, e-mail, and fax mail), as well as IP applications.

The Way forward

Notwithstanding what has been achieved to date from telecommunications liberalisation, the country has not yet reaped the full macro economic benefits from this sector.

In pursuit of attaining these benefits Government will be giving attention to a number of critical strategic initiatives.

The completion of the laying of the under-the-sea cable by TeleBarbados by the end of the March 31st 2006, will result in greater bandwidth availability to the country. This will lead to greater attraction of international companies, and also help existing companies to become more competitive internationally. This will lead to a further reduction in leased circuit rates.

Greater emphasis will be placed on **Voice Over Internet Protocol** (VoIP) technology. This will result in cheaper international calls, open access to international connectivity for call centres, and hence

the achievement of higher employment levels. A **VoIP** policy will therefore be put in place by the start of the new financial year.

Government will continue to support technology that addresses the bridging of the digital divide. Therefore the Ministry of Energy and Public Utilities will continue to provide licences to operators wishing to deploy wireless technologies.

With the pending operationalisation of the licence awarded to Sunbeach Communications Inc, Barbados should again expect vibrant competition in the market for mobile services. Further, if the application for the merger of Digicel and Cingular is approved, spectrum would be returned to the Government, thereby allowing Government to offer another licence for the provision of mobile services. Only full and vibrant competition can result in achieving full benefits from liberalisation. A duopoly or monopoly type market condition must be avoided.

Finally, whereas competition has resulted in significantly cheaper rates to extra-regional jurisdictions, the same does not obtain when placing calls within the Caribbean region. Rates via the same providers still remain high for CARICOM destinations. For more effective communication within the CSME this situation must be addressed as a matter of urgency by regional governments to cause these providers to treat the Caribbean in no less favourable terms than they treat the rest of the world.

Regional collaboration on this matter will be pursued by the Government of Barbados as part of the effort to bring a vibrant CSME into existence.

E-Government

The ability to have Government's services accessed by electronic means is a crucial aspect of the economic programme planned for Barbados.

Consequently, the Government proposes to establish an Integrated Portal Project. This portal will serve as a single access point for Government employees, and the general public, to select Government services and resources using information and communication technologies

The level of integration within the portal however goes beyond the provision of access to existing Government ICT applications, as it seeks at the Ministerial and departmental levels to facilitate increased collaboration and communication among Government departments by providing access to tools such as file-sharing and web-conferencing applications.

In this matter I should point out that Barbados once again leads the way in the English speaking Caribbean since no other Government in the region has so far taken the step to implement an integrated portal.

The full programme will be implemented over a period of four years such that by 2008 the system must be fully operational.

The first public sector services to come online then will be those offered by the Land Tax Department, the Land Registry Department and the Registration Department. By September 2006 members of the public will be able to perform online transactions in the full range of services offered by these departments.

The services offered by the Customs Department and the Inland Revenue Department are programmed to come on stream by September 2007 while similar facilities for applications for passports and the renewal of drivers' licences will be provided in a subsequent phase. These latter services offer challenges of a security nature which need first to be addressed before online transactions can be securely undertaken.

The success of this portal facility requires the support and cooperation of the general public and the business sector.

In addressing the matter of support and cooperation from the business sector I would wish to make specific reference to the banking sector which has so far shown a reluctance to be part of the programme, through the provision of ecommerce services.

I commend the single bank in Bridgetown which has shown both interest in the programme and the courage to provide merchant banking services for the Government in this new venture. At the same time it is my hope that other banking agencies would recognize the value of supporting this activity.

The full suite of services to be facilitated through the government portal project will be available by end of the calendar year 2008, at a cost of approximately \$5.0 M to the Treasury.

Education and Training

To move to a full employment economy, a stronger effort must now be made to match the local supply of and demand for skills

Barbados in recent years has been experiencing a deficit in areas such as the artisan trades and the nursing profession where we have traditionally been self-sufficient.

We need a multi-pronged approach to remove this deficit, as well as to assure ourselves of a higher ratio of graduates per population.

In the first instance changes are being made to the curricula of the secondary schools to allow children to pursue a pre-vocational programme. Options will therefore be provided on a pilot basis in six schools – Combermere; Coleridge and Parry; St. George; Grantley Adams Memorial; St. Lucy; and St. Leonard's Boys' for students to choose careers in carpentry, masonry, painting, tiling, electrical installation, steel-bending, and other similar skilled work areas. Their skills will be certified by way of the Samuel Jackman Prescod Polytechnic Artisan Certificate.

It is proposed that this programme will produce 150 graduates per year who can either enter the workforce as artisans or receive further training.

Secondly Mr. Speaker, the Ministry of labour through its agencies – the Barbados Vocational training Board, the TVET Council and the National Employment Bureau will develop and implement comprehensive training programmes that focus on those skills sets which are now in short supply.

These areas and programmes are outlined in Appendix V hereto but will be reviewed according to the changing needs of the work force and will include training for retrenched workers and assisting workers generally in becoming multi-skilled.

Retraining Programme

Barbados is the only Caribbean country that has an Unemployment Insurance Scheme. The Scheme is intended to assist contributors in times of temporary displacement from work up to a maximum of

twenty-six weeks, but may also provide for re-training where the course being undertaken is approved by the Director.

The time has also come for us to develop this latter aspect of the Scheme and I propose to boost our efforts to retrain those persons who are presently beneficiaries of the Unemployment Scheme by the establishment of a retraining fund of \$10 million for these purposes. The National Insurance Board will manage the Fund and will collaborate with its parent ministry and the Ministry of Education in determining the nature and content of the programmes to be funded.

Nursing Training

The demand for our nurses has increased both through growth in local demand in the public and private health care sectors as well as through aggressive recruitment of Barbadian nurses by the United States, Canada and the United Kingdom.

In 2003, the Government tripled the intake of nurses trained at the Barbados Community College from thirty to ninety. It is now proposed to further expand the intake of nurses for training to 120.

This programme will be implemented from the start of the new academic year August 2006. Additional funding of \$1.23 million will be provided in the Estimates to meet the cost of additional staff, classrooms and teaching, materials.

Community Tourism Training

With the development of our hospitality sector the demand for skilled workers has been increasing. Added to this has been growing requests for our workers in North America. To meet this demand the Hospitality Institute will be utilized to undertake training at a cost of \$786,000.00 in Tourism and Hospitality in nine (9) parishes of Barbados to complement training which is currently being undertaken in Christ Church at the Hospitality Institute and at the All Saints' Unit.

Education Savings Plan

At the tertiary level, notwithstanding the large increase in enrollments, we still are lacking the physical resources to cater to the increasing numbers. As a consequence, students are having to avail themselves of other opportunities requiring them to pay high tuition fees.

To assist them, I propose to exempt from the payment of withholding tax the interest earned on Special Saving Accounts to be designated as Education Saving Plans, which are created specifically to be used to help persons offset the cost of acquiring a tertiary level education overseas .

SECTORAL INITIATIVES

1 Agriculture

The efforts to develop our agricultural sector continue, to be challenged by certain domestic and external factors.

Yet the agricultural sector has a critical role to play above all else in ensuring that the country is capable of meeting its food requirements.

The time is now ripe us to accelerate the programmes recently introduced to build a stronger agricultural sector in Barbados.

Developments in the Sugar Industry

Mr. Speaker, the sugar industry has experienced a pounding on the international arena. The latest attempts at sugar reform by the European Union in December, have resulted in cuts in the guaranteed price for sugar provided by the ACP countries, of 36% over four years. As such, the current guaranteed price of 523.7 Euros per tonne is scheduled to decrease to 335 Euros by the 2008/2009 crop. Based on its quota to the EU of 31,097 tonnes (white sugar equivalent), Barbados stands to lose more than BDS \$30 million over the four year period.

It is against this background that a number of initiatives to be pursued with the aim of transforming our local sugar industry into a viable “sugar cane” industry.

We can no longer depend on producing and selling sugar abroad as a primary product. The sugar cane industry can only survive if it produces a mix of products that maximises the full production potential of sugar cane. Cabinet has therefore approved a plan to construct a multi purpose facility costing about \$US150 million within which is expected to lead to a viable and profitable sugarcane industry. The outputs of the proposed facility will include:

- 30 mega watts of electricity;
- 12,000 tonnes of refined sugar (for the domestic market);
- 10,000 tonnes of specialty sugar (for the export market);
- 5,000 tonnes of specialty sugar (for the local market);
- 14,000,000 litres of ethanol (for the domestic market).

Plans are underway to utilise, in the first instance, and on a phased basis, the existing 23,000 acres of land that is actively under sugarcane cultivation to produce more of the fuel cane varieties. By 2008, it is anticipated that the fuel cane will be used to generate power for a 30-megawatt electricity plant.

From this year, Barbadians can expect to find Barbadian sugar back on local shelves. In addition 9,500 tonnes of high grade molasses will be produced to satisfy the local rum requirements for export to EU markets.

All efforts will be pursued to minimise any fallout from the restructuring of the sugarcane industry. This Government will continue to provide the necessary support, including deficiency payments, to the industry throughout the transition period, until the industry once again achieves sustainable growth.

To achieve these initiatives, I now propose to introduce the following measures:

- A capital injection amounting to \$2 million will be provided to the BAMC as funding to facilitate the various pre-investment activities related to the new plant
- Government will provide the BAMC with \$32 million, over a five year period to bring an additional 8,000 acres of idle land back into sugarcane production

- A framework will be put in place to enable the BAMC to secure long-term leases for agricultural land.
- The Cane Replanting Incentive Scheme will be recapitalised to the amount of \$2 million.
- Measures to stimulate the production of fuel cane varieties will be instituted. An annual amount of \$3 million will be used to provide incentives for the growing of fuel cane varieties in Barbados.
- Currently, producers receive \$80 per tonne when the support provided by the Government is taken into account. As part of the transformation process producers of approved varieties will be guaranteed a minimum payment of \$90. This amounts to an annual expenditure of \$3.56 million, beginning the next financial year. This measure will be subject to review after the implementation of the project.

Restructuring of the Dairy Industry

The local dairy industry, which has been identified as being capable of attaining self-sufficiency, has been experiencing certain difficulties in recent years, which has resulted in a steady decline in production.

Recognising the huge potential of the Dairy industry, the Government has committed itself to supporting the restructuring of the dairy industry.

I now propose to provide an upgraded incentive package for Dairy farmers. Specifically, these incentives are:

- (i) A rebate of 25% for the components of dairy housing up to a maximum of \$40,000

- (ii) A rebate of 40% of the cost of components for a milking parlour up to a maximum of \$60,000.

- (iii) The provision of initial capital funding for the establishment of the Dairy Board in the amount of \$250,000 through the ADF.

- (iv) The provision of \$250,000 to facilitate the development of a comprehensive business plan for the industry as well as a detailed business plan for the Board itself.

- (v) The provision of a capital injection of \$300,000 over 3 years for market research and development in the dairy industry. This fund would also facilitate the exposure of stakeholders to contemporary technology in the dairy industry.

Youth in Agriculture

There is no doubt that the survival of the agricultural sector in Barbados will depend on our ability to encourage the involvement of the youth in agriculture. The sector has seen positive signs of involvement from the youth as 23 young farmers are presently

enrolled in the Land for the Landless Programme, and several others have expressed an interest in enrolling. We therefore have to continue finding ways of providing the environment necessary to further stimulate the greater participation of our youth in agriculture.

The Government will therefore provide an initial capitalisation of \$2 million to meet the costs of administering a Youth Agricultural Programme.

Model Farms

In addition, the Government will pilot a project using the Home Agricultural Station of the Ministry of Agriculture as a site for the research, production and training in agricultural practices such as greenhouses and hydroponics.

An initial amount of \$2 million will be provided through the ADF for the capitalisation of this programme.

Cultivation Services Scheme

Farmers have reported the difficulties often experienced in accessing cultivation services. According to records of tractor operators servicing small farmers, there are some 27 tractors in operation in Barbados of which 15 of these are 20 years or older.

The Government will therefore provide \$2.7 million, which will facilitate the purchasing of 30 tractor units over a 3 year span for the use by tractor operators servicing small farmers under a Lease-Buy initiative to aid in cultivation services.

The Lease-Buy programme would be based on a contractual arrangement between the Government and the tractor operators.

The operation of a cultivation service scheme for small farmers needs to be supplemented by a facility providing equipment, such as boom sprayers, rotivators and other infrequently used, but vital pieces of equipment, on a rental basis, to those farmers that currently own tractors. This scheme will also facilitate the rental of equipment.

Government will provide \$1,000,000 towards the Cultivation Services Scheme to facilitate a Rent-a-Tool Programme which will provide a pool of machinery and equipment to aid small farmers in cultivation.

Incentive framework for the Scotland District

The Scotland District has been designated a special development area and has been earmarked for significant development aimed at maintaining the integrity of the land, as well as stimulating economic activity.

The majority of the land in the Scotland District is privately owned. Accordingly, meetings have been initiated with farmers of the Scotland District and persons have already expressed an interest in investing in the area, not only in agriculture, but also through the establishment of linkages with other sectors. Government therefore intends to provide the environment that would stimulate further investment in the area.

Plans are now underway to establish a Scotland District Development Authority by the second quarter of Financial Year 2006/2007.

To complement the activities of the Scotland District Authority, the Government is of the view that a series of well packaged incentives will be critical to the development of the sector.

These incentives will include the following:

- A ten-year tax holiday for investments in fruit production, processing and marketing.

- The Government therefore proposes to support a private sector initiative for the establishment of a 30 acre demonstration fruit orchard within the Scotland District.

- An amended Orchard Development Subsidy to further promote the production of approved fruit trees and the

overall afforestation of the Scotland District will be introduced. This subsidy will be extended to \$5.00 per tree for a maximum of 1000 trees per farmer which will be payable at the end of each financial year, in respect of approved species of trees.

A dedicated land cultivation scheme for the Scotland District will be established. To facilitate this Scheme, this Government will allocate an initial investment of \$1,000,000 for this initiative.

These constitute the most significant new measures to support the agricultural sector. The full list, including support for fisheries, is shown at Appendix VI.

MANUFACTURING

We are pleased that the Manufacturing Industry has once again begun to grow.

The sector enjoys access to fiscal incentives, export rebates, and the concessions available under our International Business Legislation.

Recently, to address the decline in local production, the sector has been offered tariff protection, Technical Assistance Support, and the use of the financial facilities of the Industrial Investment and Employment Fund.

Established in 2001 the special Technical Assistance Fund has disbursed over \$10 million to one hundred and sixty-six companies.

In addition, the Industrial, Investment and Employment Fund also was established to provide funds for re-capitalization and retooling of the sector. To date twelve loans for a cumulative value of \$4.9 million have been made from the Fund.

Furthermore Mr. Speaker last year we introduced a “Basic Industries of Barbados” support programme and this is being targeted at the garments, furniture, food and beverages sectors. This year we will

provide an additional \$2 million to the Special Assistance Technical Fund for the above-mentioned manufacturing industries, but special emphasis will be placed on a programme for the garment sector. This will be aimed at stimulating the sector's production and the development of synergies with the local fashion designers and tourism industries.

The Special Technical Assistance Fund will also be expanded in the following areas.

- i. The provision of assistance for indebted companies through their participation in a turn around management programme. This programme, as envisioned, will allow the BIDC to provide technical assistance to companies who may be indebted to other government agencies.
- ii. The provision of assistance to enterprises wishing to modify their physical infrastructure to meet international environmental and quality standards.

- iii. The provision of limited grants for the acquisition of capital equipment defined as necessary in the diagnostic assessment of enterprises, whose balance sheets indicate their inability to finance such acquisitions on their own.

- iv. The provision of assistance in the preparation of blueprints for the establishment of new service/product sub-sectors.

Mr. Speaker, this sector has recently enjoyed protection in the form of a 60% surcharge on certain imports.

This policy was intended to be a temporary one, and some adjustment is now warranted.

In cases where there is no domestic production to be protected, the surcharge will be entirely removed.

We will retain the surcharge on certain products for which there is active domestic production and scope for growth but it will be phased out by 2008.

In such cases, the Government prefers to offer industrial support in the form of financial and technical assistance rather than protective tariffs to enable the manufacturing enterprises to survive and compete.

We have been witnessing the loss of our capital city's status as the shopping centre of the Southern Caribbean.

Mr. Speaker, we intend to change this!

The physical redevelopment of Bridgetown has started. Over the next four years it will be a most attractive city. Therefore against the backdrop of a physically enticing city there must be a commercial environment to enable our retail sector, small and large to seek to regain the city's trading status.

I am pleased to announce therefore, that after a series of consultations it has been determined that –

- (i) women's suits will continue to benefit from the protection of the surcharge;
- (ii) the revised list of items from which the surcharge will be removed is shown at Appendix VII and includes men's and boys' suits' men's and boy's blazers, men's and boys' jeans; kitchen towels and curtains;
- (iii) the surcharge of 60% will be retained on other garments and related products for a further eighteen months after which its retention will be discontinued.

The reversion of the tariff on the above-mentioned items to the CET rate of 20% effective April 1, 2006 should address some of the concerns of the tourism and retail sectors while the technical and

financial support being extended to the garment industry in the context of the continuation of the surcharge on the revised list of items should aid the industry's growth prospects.

Barbados' manufacturing sector continues to have limited success in penetrating the North American markets. We have therefore identified a need to bolster distribution networks to more effectively cover the southeastern seaboard where there is a large appetite for ethnic products. In this regard, the BIDC has identified a private sector partner in Miami who will establish a distribution centre in that city to both market and distribute Barbadian products.

We believe that the Barbadian Diaspora has a critical part to play in distributing Barbadian goods and the BIDC is working with the Barbadian communities in Connecticut and other states so that they can establish distributive networks not just to increase exports but also for their own economic benefit.

As a further fillip to the development of the Manufacturing Sector I further propose that the interest rates extended by the Industrial Investment and Employment Fund be reduced by 2 percentage points.

International Business

Last fiscal year, Mr. Speaker, the international business sector contributed upwards of 51% of this country's corporate taxes. In our efforts to continue to boost the sector we successfully concluded in 2005 all requirements needed to sign and bring into force Double Taxation Agreements with the Kingdom of the Netherlands and Austria. When signed and ratified, these treaties will bring Barbados' complement of tax treaties to sixteen. Also in 2005 we started pre-negotiation talks with Mexico and Ireland and are awaiting confirmation of dates for first round negotiations with Chile, Brazil and South Africa.

Mr. Speaker, our research has revealed that in addition to the treaty network one of the key drivers that has enabled our competitor jurisdictions like Mauritius, Malta, Ireland and the like to successfully

transition to international business and financial services centres has been their ability to attract the required human capital. Barbados has not been able to replicate this, for notwithstanding the changes we have been making to our personal income tax structure, the comparatively large tax payments these individuals have to make on their salaries and allowances have been identified as a major issue in this regard.

Mr. Speaker, under the present Barbados system, a person earning US\$200,000 will pay US\$50,125 in tax, in Singapore however, that person will only pay US\$30,235, while the tax payable in Gibraltar may be fixed for all levels of income at US\$17,500. In the Bahamas and Cayman, as we all know, there is no tax levied on personal income.

From the outset, it was recognised that Barbados had to offer a special income tax regime to the sector. Hence since 1983 qualifying personnel in the sector has enjoyed special tax concessions.

The evidence suggests that attracting these world-class, highly productive and innovative wealth managers and other professionals will enable us to bring to our shores that international recognition and portfolio of clients that is presently lacking. We will then be able to offer wealth and investment services that are now largely outsourced to the major investment and wealth management consortiums. This we expect will not only attract new business to Barbados but will lead to the development of new skills among the Barbadian workforce.

To fuel the process, with effect from this income year the present 35% income tax and foreign exchange control exemption will be amended so that income not exceeding \$150,000 will have an exemption of 35%; over \$150,000 but less than \$500,000 an exemption of 50% and over \$500,000 an exemption of 60%.

The application of this concession will be automatic upon the grant of a work permit for an initial period of three years. Thereafter it can be renewed subject to the satisfaction by the permit holder of the single criterion of demonstrable evidence of skills transfer'. Satisfaction of

this criterion will also enable current permit holders working in the sector to seek renewal for a further three years on the same terms and conditions.

In addition, recognising the commercial realities of international business and to enhance the attractiveness of Barbados as a place for highly skilled professionals to work and live. Government will permit the transfer of the unexpired portion of a work permit from one international business entity to another.

Barbados Coalition of Service Providers

To support the Coalition as the institution that can do most to maximise Barbados' returns from the CSME, I now propose to double its annual subvention to \$1.2 million. It will also be supported in accessing the resources of the Export Marketing and Promotion Fund on the presentation of a Marketing Programme by its members.

Small Business Development

Each year we propose to support a Special Project to spur Small Business Development in Barbados.

This year I propose to make another \$1 million available to the Small Business Association, in addition to its subvention, to enable it to support a Marketing Programme to encourage Barbadians to do more shopping at home with the Small Business Sector and the Craft Industry.

Some of the proceeds will also be used to allow the Small Business Association to decentralise its services, and to establish offices in all of our urban centres beginning in Speightstown, to take the services to where they are most sorely needed.

Variation in the Cess

Last year I determined that Barbados should change its approach to export promotion and development and treat it as a specialist area with its own source of funding.

The use of a cess levied on extra-regional imports was proffered then as the most appropriate source of funds to be dedicated for such marketing and promotional activities. The cess therefore was introduced in September 2005.

More recently, the inability thus far of monetary policy to effect adjustments in our spending habits to reduce the deficit in our external current account balance prompts the need for fiscal measures to aid the process. The scope for adjustments in expenditure from the Consolidated Fund is marginal.

It is within this context that I propose to add to the monetary efforts to reduce consumption by increasing the Cess to 6% effective immediately. However, the Cess will be removed from those food items which are zero rated under the VAT Act, baby napkins, special foods for diabetics, and special health care articles needed by elderly persons.

The Cess will remain in place for 18 months as originally proposed.

TAX MATTERS

Mr. Speaker, parliamentary approval has already been obtained for a programme of adjustments to our Personal and Corporate taxes to ensure our rates are competitive with those of our CARICOM partners in advance of the advent of the CSME. This will be fully implemented. I only need emphasise therefore, that effective January 2006, the personal tax free allowance has moved from \$20,000 to \$22,500 and the marginal tax rate has been reduced from 37.5% to 35%.

The change in the tax-free allowance will relieve the burden of paying of income taxes from another 6,159 lower income earning citizens, Consequently all those Barbadians presently earning less than \$432.69 a week – maids, cooks, laundry workers, school meals assistants and orderlies are relieved of the payment of income tax.

Effective this income year 2006 also, Mr. Speaker, the Corporate Tax rate will be 25% compared to the 40% found on our return to office in 1994.

Land Tax

A number of changes have been made to our system of taxing property in recent years as we have to ensure that the structure is fair and equitable to all concerned. This has led to our exempting the first \$125,000 of the value of all properties from the tax and a capping on the quantum on which the tax is payable.

The latest valuation review has seen increases on average of 25 – 30% in property values. This has led to a significant increase in the tax payable on properties with values ranging from \$350,000 to \$850,000. For example a property valued at \$425,000 before the revaluation exercise attracted a tax of \$712.50. The revaluation took the value to \$650,000 and the tax to \$2,175, an increase of \$1,462.50.

I have heard the complaints Mr. Speaker and propose to respond as I did in the case of “The Kelly Amendment” of 2004. I propose to reduce the rate of tax for properties valued between \$350,000 and \$850,000 from 0.65% to 0.45% with effect from the next land tax year. This will benefit about 9,300 residential properties and cost Government approximately \$3.7 million in lost land tax revenue.

HIRED CARS

The introduction of the Sustainable Tourism legislation has seen us provide incentives not only to the accommodation segment of the sector but to every other area apparently with the exception of hired cars.

In 1982 Mr. Speaker, hired cars paid a permit fee of \$500.00 and a renewal fee of \$250.00 with taxis paying \$500.00 and \$100.00, respectively. In 1985, the renewal fee was removed, but the permit fee in each case was increased to \$2,500.00 and the road tax standardised at \$1,200.00 for hired cars and \$500.00 for taxis.

Now, Mr. Speaker, under my watch in 1996 while the fees and taxes payable by the owners of hired cars were left untouched, I reduced the permit fee payable for a taxi to \$1,500.00; the road tax to \$250.00 and reintroduced a renewal fee of \$500.00 thereby lowering their tax burden from \$3000.00 to \$2250.00.

As stated earlier, Mr. Speaker, I have been listening and I propose to respond to the concerns of the owners of hired cars by reducing the cost of a permit by \$500.00 to \$2,000.00. Also, the practice of charging \$1,200 Road Tax for all vehicles will be discontinued and the new tax chargeable will be \$600 per vehicle.

Rental Income Concession

Mr. Speaker, a trend has been developing in our country over several years among young professionals and retirees which has seen an increase in the use of apartments and rental accommodation. When this party to which I have the honour to belong was last in office we recognised this trend and sought to encourage it by providing that –

“Where a person has in an income year in respect of a building that he owns, made a capital expenditure in the conversion of that building into units for rental as residences, then in calculating the assessable income of that person for an income year, an amount as an initial allowance of 40% at the option of that person can be claimed.”

It would appear that this incentive has indeed been successful given the numbers who have accessed it over the years. Nevertheless, I am proposing to amend it in two ways, firstly to assist those property owners among us who are interested in participating in the Home Accommodation Scheme for World Cup 2007 and secondly to relieve some of the burden on those among us who rent accommodation on a long term basis.

Those who are registered with the Barbados Tourism Authority to provide “Home Accommodation” for CWC 2007 by converting property to accommodate visitors to the island will be permitted to claim an initial allowance of 50% on capital expenditure incurred.

The remainder may be claimed at the rate of 4% annually thereafter.

The previous rate of the initial allowance will also be adjusted to 50%.

I am proposing also Mr. Speaker to introduce effective this income year a flat rate of tax of 15% on all income derived from rental of home accommodation. The person renting the premises will be allowed to claim an amount of 20% of the assessable income or \$3,000 which ever is lesser against the tax payable in any income year.

Pensions and Poverty Eradication

Mr. Speaker, I reminded this Parliament in my last presentation of Economic and Financial Policies of the Government of Barbados that we had agreed in reforming our Social Security System that future increases in NIS pensions would be actuarially determined using a prescribed formula.

I therefore do not propose to address that issue here today. My concern is that having determined the poverty line for Barbados, the state is still making payments to its nationals which do not approximate to this level of income. An Inter-American Development Bank funded study had concluded in 1996/7 that our poverty line was \$5,503.00 per annum or \$105.82 per week. Allowing for inflation, this figure has been estimated at \$6,032.00 per year or \$116.00 per week at the end of 2004.

Our minimum NIS pension is presently \$110 weekly and the non-contributory pension is \$90. The Welfare Department also provides monetary and in-kind assistance to individuals and families whose income is inadequate to meet their daily living expenses. These assistance grants are not pensions but forms of temporary aid to needy families with the maximum stipend being \$38.00 per week.

Clearly Mr. Speaker this is an untenable situation and needs redressing though our approach will have to be a phased one starting with NIS pensioners and the disabled community. In addition to the

6,675 persons who receive the minimum NIS pension of \$110 weekly there are a further 1,124 persons whose NIS pensions are less than \$116 a week. I now propose that all of these be increased to \$116 weekly with effect from February 6, 2006 when all other NIS pensions above the minimum will also be increased by 1.06% in accordance with the prescribed formula.

I have been advised that though this represents a deviation from the prescribed formula for adjusting NIS pensions, the Fund should be able to carry the additional cost of \$2.4 million. It is expected that greater flexibility in its investment portfolio together with access locally to more attractive investment products should go some way as well in allowing the Fund to cover the increased costs.

Any increases in non-contributory pensions are the responsibility of Central Government and will be met from the Consolidated Fund.

There are presently 10,143 persons receiving non-contributory pension of \$90 weekly. This represents approximately 80% of the minimum NIS contributory pension.

We are aware that an insignificant number of this category of persons have other sources of income but since no means test is carried out, these are difficult to identify. I therefore propose to keep the level of this benefit for the time being at 80% of that of the minimum NIS contributory pension. Effective February 6, 2006 therefore, this benefit will be increased to \$93 per week with the cost of \$1.64 million to be met from the Consolidated Fund. The Welfare Department will continue to provide in kind assistance including payment of water and electricity bills for all in-need non-contributory pensioners.

Since 1981 Mr. Speaker, certain segments of the disabled population have not benefited from the general improvement in economic condition insofar as access to non-contributory pensions has been for the deaf and blind only. Other members of the community with certified severe disabilities presently numbering 2,417 have been forced to exist on Welfare stipends currently at the rate of \$33.00 per

week though those between the ages of fifty-five and sixty-five receive \$38.00 weekly.

Whereas the intention is to equalise these payments in the final analysis, a two-phase approach is being taken to achieve that goal. I now propose to increase these weekly payments by \$30.00 and \$25.00 respectively to \$63.00 with effect from February 6, 2006 with responsibility for these payments remaining with the Welfare Department. The cost of \$3.6 million approximately will be met from the Consolidated Fund.

The intention is to move them up to an income level where they are no longer below the poverty line as soon as practicable.

Mr. Speaker, there is one other category of welfare recipients that I intend to deal with in this phase of adjustment. There are a number of Barbadians who during their working lives did not contribute to the National Insurance Scheme and therefore have not qualified for a

contributory pension nor, under the new rules, for a non-contributory pension.

Investigation by the Welfare Department has revealed that some of these persons are indeed destitute with a small number of them being persons living with AIDS. The Department currently provides them with a weekly stipend of \$38.00 along with assistance in kind where necessary. I propose that the stipend to this category of persons, presently numbering 80, be increased as well by \$25.00 to \$63.00 weekly at a total annual cost of \$104,000 as from February 6, 2006.

Before I leave matters relating to our social welfare system I wish to announce that with effect from February 6, 2006 the Funeral and Maternity Grants payable by the National Insurance Board shall be increased to \$1,485 and \$850 respectively.

The increases represent the results from the application of the prescribed formula for indexing pensions -in-payment as well as funeral and maternity grants.

IMPLEMENTATION AND THE WAY AHEAD

In keeping with Government commitment to operate in accordance with the highest standards of transparency and accountability, a Report of the implementation status of the Economic and Financial Policies set out in the last Presentation to Parliament have been laid, and constitutes an integral part of this presentation. I will dwell on one issue especially – our preparation to host the 2007 Cricket World Cup Finals.

We have already put in place all of the financing and planning arrangements to support the completion of work at Kensington Oval on schedule.

We have already had to accept the need for extraordinary measures to be put in place to assure the employment of required personnel.

The Government will, in short, use all of its offices and the means at its disposal to ensure that Kensington Oval is ready to host the World Cup.

Equally, we are putting in place all of the other arrangements, ranging from Security, to the provision of accommodation to the improvements of our attractions and infrastructure not only to showcase Barbados in the best possible light, but to create legacy assets from which we can continue to draw significant returns in the years ahead.

In relation to the year ahead, the country should expect that we will carry out a review of the Solid Waste Management Programme, including the retrofitting at Greenland, and the introduction of a Comprehensive new recycling policy and programme as an essential companion piece.

We will set the stage for the substantial reform of our fiscal affairs by creating a framework under which a project such as the West Coast

Sewerage Project could be carried out, after 2007, as a private investment with the State setting the standards and the regulatory environment.

The Income Tax and the Property Transfer Tax Acts were enacted several years ago. Although amended on many occasions to reflect the changing economic and financial circumstances, these Acts are now in need of revision and updating. Some of the revenue provisions of these Acts are being easily rendered ineffective by tax avoidance and tax evasions.

A Committee will be established to review and make recommendations for the updating of both Acts together with the incorporation of the taxing provisions contained in many of our existing pieces of international business legislation.

We will accelerate our highway rehabilitation programme, including the construction of new roundabouts at a number of dangerous junctions across Barbados.

The programme to relieve gridlock on the highways will be initiated.

Legislation will be introduced to extend the jurisdiction of the Fair Trading Commission to cover the BWA and the Transport sector.

Approval will be sought for the Building Legislation to give effect to the Barbados Building Code which will be part of our prevention efforts to minimise the physical impact of any disaster.

And there will be national consultations early in the year to review government's Housing Policies and Programmes as well as the national Poverty Eradication Programme.

It is also worthy of special mention that the Government intends to adopt a new relationship with LIAT.

LIAT is currently the second largest airline flying into the Grantley Adams International Airport (GAIA). The airline is currently

experiencing tremendous financial difficulties, which are threatening its survival. The loss of LIAT would result in a reduction of capacity; fewer regional arrivals recorded at Barbados, reduced competition, increase in ticket prices for intra regional travel and reduced service quality. There will also be a consequential loss in revenue for GAIA Inc.

Additionally, any reduction in regional capacity at this time will significantly hamper preparations for World Cup 2007 and will negatively impact regional travel during the games, particularly in light of the Local Organising Committee's plans to use Barbados as an accommodation base.

It is clear that losing the intra-regional air services provided by LIAT cannot be in Barbados' best interest. It is therefore imperative that Barbados continues to support the airline because of its economic benefits to the country in particular and to the region in general in the context of the World Cup and the CSME.

The Government of Barbados has therefore sought to obtain additional equity in LIAT with the understanding that the progress made with the restructuring of LIAT would continue and the economic benefits to Barbados would increase.

The year 2006 promises to be an excellent year for Barbados.

CONCLUSION

Mr. Speaker, I am sure that my friend, the Honourable Leader of the Opposition will join with me in agreeing that we live in an age when it is becoming increasingly difficult to hold and maintain political, social and economic progress.

It is important therefore that we do not take significant achievements for granted.

The evidence is that, as a society we are beginning to do so.

A few years ago, there was a fierce outcry from the Opposition benches and some sections of the society when Government divested itself of its majority shareholding in the Barbados National Bank. We said we were doing it to build a stronger financial institution.

It is to our country's credit that the new Barbados National Bank has been voted Bank of the year for two successive years, and is significantly changing the financial landscape by the dynamism of its innovation.

We were criticised for building the new Hilton Hotel. Today it is ranked top in the Hilton chain for the quality of its service.

Similarly, the manner in which Barbados has proceeded with the financing and corporatisation of the Grantley Adams Airport has been cited internationally as a model that others should follow.

On November 23rd, 2005, the Commonwealth Business Council made a presentation to Foreign Ministers on Business Conditions in the Commonwealth. The United Kingdom was ranked first with a score of 88 out of 100. Next was Canada with 78%. Barbados and Australia were next tied at 77%, followed by Singapore at 73%.

This reputation and fame rest on solid foundations, not the least being the striking economic and social progress about which I have reported today and the sterling quality of the policies we have used to transform our nation.

They especially tell us that we must stop doubting ourselves and let the results of our handiwork speak for themselves.

I, in no way underestimate the challenges we face.

But I ask you, which other little nation in the world in the course of the next eighteen months will be in a position to be the stage for two World Cup events?

Barbados is now more ready than ever to show itself capable of dealing with all of the small things that make the lives of the ordinary man and woman worth living.

But we are equally capable of showing that we are now more ready than ever to display world class standards when performing on a global stage.

Those who have assisted me in preparing the policies I have presented believe this with all of their hearts and I thank them for it.

This is a difficult time for our Parliament. But I trust that God will lend his divine guidance to the Debate we are about to embark upon,

and that he will, through the work of this Parliament, continue to bless
our fair land, now and forever.

-----000-----

SUMMARY OF PROPOSALS

Exchange Control Liberalisation

Effective February 1, 2006 Barbadian residents and CARICOM Nationals resident in Barbados who earn foreign exchange may hold foreign currency accounts with a limit up to the equivalent of Bds \$20,000.00 without exchange control permission provided the accounts are funded by foreign exchange of at least Bds \$50,000.00 annually. For limits in excess of Bds\$20,000.00 exchange control permission will be required.

Effective February 1, 2006 Returning Barbadian Nationals may hold foreign currency accounts with a limit up to the equivalent of Bds \$100,000.00 provided the funds credited to such accounts represent foreign currency earnings from abroad in the form of pensions, rental income, interest, dividends or other foreign income.

Full authority will be delegated to commercial banks to provide foreign exchange to Barbadians for traveling within CARICOM. In addition to the reserve ratio currently held by commercial banks with the Central Bank, commercial banks will be required to sell 6% of their holdings of foreign currency to the Central Bank of Barbados.

Capital Market Development

To respond to the growing demand for long-term securities 30 year bonds will be added to the Government's range of debt instruments to cater to the demand.

Insurance companies will be allowed to sell products denominated in other currencies provided the risks are in the region and the coverage is of the health care type, namely major medical care where the procedure or treatment is not available locally. This policy will be implemented on a case by case basis and insurance companies will have to demonstrate that the requisite foreign exchange earnings will be available to them to meet claims that may arise.

Energy Strategy

Effective April 1, 2006 there will be a separate excise tax tariff for diesel vehicles (See Appendix IV).

To mitigate the effects of rising energy prices the Government will implement a Public Sector Energy Conservation Programme (See details in Appendix II).

A project unit will be established within the BAMC to prepare a Pre-investment Plan and Budget for funding of a fuel cane power generation project. It is proposed that this investment will come on stream by 2008.

Import Duty will be waived on energy systems referenced in Appendix III.

Energy efficient systems / components consisting of materials which keep houses cooler such as radiant barriers; roof / wall insulation; window tint ; ceramic coatings for roofs and attic ventilation fans / whole house fans will now attract an Import Duty of 5%.

From Income Year 2006 it is proposed that the cost of household energy audit recommended conservation systems / materials of up to \$2000. will be allowed as a deduction from assessable income under the Income Tax Home Allowance Scheme. The Ministry of Energy and Public Utilities will develop criteria for approval/ certification of auditors.

Effective April 1, 2006 fluorescent light bulbs and fittings will attract an Import Duty rate of 5%.

Effective September 1, 2006 all taxis owners and operators of vehicles for approved tourism ventures desiro us of accessing duty-free concessions under Part II B of the Customs Tariff can only do so by purchasing diesel powered vehicles with an engine capacity of 1600 cc's or greater.

Effective April 1, 2006 hybrid vehicles as well as those powered by solar energy, LPG and Compressed Natural Gas will attract an excise tax at a flat rate of 20%.

The management of the Transport Board will undertake a technical and economic feasibility study of using alternative fuels to power the Board's fleet.

An Energy Efficiency Audit and Retrofit Fund of \$10 million dollars will be established as a revolving loan fund for the tourism industry for the purchase of energy efficient devices and equipment including solar systems. The Fund will be managed by the Enterprise Growth Fund.

Disaster Prevention, Mitigation and Recovery

Effective January 2006 in order to obtain a licence to operate in

Barbados all hotels and places of accommodation must be adequately insured for property damage and public liability.

Effective Financial Year 2006 / 2007 a Catastrophe Fund will be established to provide relief or assistance to persons receiving income of less than the income tax limit of \$22,500.00 per annum in respect of damage to owner-occupied chattel dwellings or dwelling units of wood / concrete block construction.

The Programme will be funded on the following basis:

- a. The Government will make annual contributions of \$2.5 million for five (5) years in the first instance.
- b. Contributions from the working force will take the form of a deduction of 0.1% of earnings up to the national insurance limit.

Telecommunications

To attract more international companies and help existing companies become more competitive internationally a Voice Over Internet Protocol (VOIP) policy will be in place before the start of the 2006 / 2007 Financial Year.

E- Government

The Barbados Integrated Government Portal Project and its use by the general public in a limited sense will commence by September 2006 with members of the public being able to perform online transactions in the full range of services offered by the Land Tax Department; Land Registry and the Registration Department. The services offered by the Customs Department and the Inland Revenue department are slated to come on stream by September 2007. The system will be fully operational by 2008.

Education and Training

Changes will be made to the curricula of secondary schools to allow children to pursue a pre-vocational programme. Options will be provided on a pilot basis in six schools – Combermere; Coleridge and Parry; St. George; Grantley Adams Memorial; St. Lucy; and St. Leonard's Boys' for students to choose careers in carpentry, masonry, painting, tiling, electrical installation, steel bending, and other similar skilled work areas. Skills will be certified by the Samuel Jackman Prescod Polytechnic Artisan Certificate.

The Ministry of Labour through its agencies the Barbados Vocational training Board, the TVET Council and the National Employment

Bureau will develop and implement training programmes that focus on those skills sets which are in short supply (See Appendix V).

To provide for re-training of persons who are beneficiaries of the Unemployment Scheme a \$10 million Fund will be established.

The National Insurance Board will manage the Fund in collaboration with the Ministry of Labour and the Ministry of Education in order to determine the nature and content of the programmes to be funded.

Effective Academic Year 2006 the number of nurses to be trained at the Barbados Community College will be increased from ninety (90) to one hundred and twenty (120).

To meet the growing demand for skilled workers in the Hospitality sector, the Hospitality Institute will be utilized to undertake training in Tourism and Hospitality in nine (9) parishes to complement training, which is currently undertaken in Christ Church and at the All Saints' Unit.

An Education Savings Plan will be established to assist those students who may have to avail themselves of other educational opportunities requiring them to pay high tuition fees.

Beneficiaries under the Education Savings Plan will be exempt

from the payment of withholding tax payable in respect of interest earned, once the resources are used in the pursuit of tertiary level education, as the Plan will be facilitated via savings accounts.

Cess

With immediate effect the Cess on extra-regional imports will be increased by three (3) percentage points to 6%. The increase will not apply to those food items, which are zero rated under the VAT Act, nor to baby napkins nor special foods for diabetics and special healthcare articles for the elderly.

Agriculture

To minimize the fall-out from the restructuring of the sugarcane industry the Government will continue to provide support, including deficiency payments, to the industry throughout the transition period.

A capital injection amounting to \$2.0 million will be provided to the BAMC to grant the necessary funding to facilitate the various pre-investment activities during the transitional period for restructuring the sugarcane industry.

To bring an additional 8,000 acres of idle land back into sugarcane production the Government will provide the BAMC with \$32 million over a two year period.

The Cane Replanting Incentive Scheme will be recapitalised to the amount of \$2 million. In addition it will be re-tooled and linked to environmental considerations.

An annual amount of \$3 million will be used to provide incentives for the growing of fuel cane varieties.

Producers of Approved Varieties will be guaranteed a minimum payment of \$90 per tonne as part of the transformation process.

The scope of the BADMC in its capacity as a State Trading Enterprise, will be expanded to make the Corporation solely responsible for the importation of those commodities for which the country has identified a capability to achieve self-sufficiency (see Appendix VI)

A rebate of 25% for the components of dairy housing up to a maximum of \$40,000 to address problems associated with heat stress will now be granted.

A rebate of 40% of the cost of components for a milking parlour up to a maximum of \$60,000 in order to encourage the increase of milk supply to satisfy domestic and export needs.

An appropriate moratorium which takes into account the production cycle for dairy, will be given on the principal for loans received from the ADF for the purpose of farm improvement.

Initial capital funding through the ADF in the amount of \$250,000 will be provided to establish a Dairy Board.

The provision of \$250,000 will be made to facilitate the development of a comprehensive business plan for the dairy industry as well as a detailed business plan for the Dairy Board itself.

A capital injection of \$300,000 over 3 years for market research and development in the dairy industry will be provided.

The Government will provide an initial capitalization of \$2 million to meet the costs of administering a Youth Agricultural Programme.

The Government will be piloting a project using the Home Agricultural Station of the Ministry of Agriculture as a site for research, production and training in agricultural practices. An initial amount of \$2 million will be provided through the ADF for the capitalization of this programme.

Government will provide \$1 million towards the cultivation Services Scheme to facilitate a Rent-a-Tool Programme to provide a pool of machinery and equipment to aid small farmers in cultivation.

A Scotland District Development Authority will be established by the second quarter of Financial Year 2006 / 2007.

To complement the activities of the Scotland District Authority a ten year tax holiday for investments in fruit production, processing and marketing will be granted.

An annual subvention of \$75,000 will be provided to the BADMC to facilitate the management of the fruit orchards at Haggatts and Turners Hall.

An amended Orchard development Subsidy to promote the

production of approved fruit trees and the overall afforestation of the Scotland District will be introduced.

An initial investment of \$1 million will be allocated for a dedicated land cultivation scheme to be established for the Scotland District.

Manufacturing

An additional \$2 million will be provided to the Special Assistance Technical Fund for the garments, furniture, food and beverages sectors with special emphasis being placed on a programme for the garment sector aimed at stimulating the sector's production and the development of synergies with the local fashion design and tourism industries.

Effective April 1, 2006 the Surcharge will be removed from those items for which there is no local production (See Appendix 7).

The surcharge of 60% will be retained on other garments and related products for a further period of 18 months after which its retention will be reviewed.

International Business

Effective this Income Year the present 35% income tax and foreign exchange control exemption granted to skilled non-nationals will be amended so that income not exceeding \$150,000 will have an exemption of 35%; over \$150,000 but less than \$500,000 an exemption of 50% and over \$500,000, an exemption of 60%. The application of this concession will be automatic upon the grant of a work permit for an initial period of three years.

Small Business

To spur business development in Barbados the sum of \$1 million will be made available to the Small Business Association to enable it to support a Marketing programme.

Tax Matters

The rate of land tax for properties valued between \$350,000 and \$850,000 will be reduced from 0.65% to 0.45%.

Hired Cars

Effective immediately the cost of a hired car permit will be reduced by \$500.00 from \$2500.00 to \$2000.00. The Road Tax of \$1200.00 will be reduced to \$600.00.

Rental Income

Effective this Income Year individuals converting property to rental units will be permitted an initial allowance of 50% on capital expenditure incurred. The remainder may be claimed at an annual rate of 4% annually thereafter.

Effective this Income year a flat rate of tax of 15% on all income derived from rental of home accommodation. The person renting will be allowed to allow claim an amount of 20% of the assessable income or \$3000 which ever is lesser against the tax payable in any income year.

Pensions

Minimum NIS contributory pension will be increased to \$116.00 per week with effect from February 6, 2006.

Effective February 6, 2006 non- contributory pensions will

increase to \$93.00 per week.

Weekly Welfare payments for individuals with severe disabilities will be increased to \$63.00 effective February 6, 2006.

Weekly welfare payments for individuals considered destitute will be increased to \$63.00 effective February 6, 2006.

The Funeral and Maternity Grants will be increased to \$1485.00 and \$850.00 respectively effective February 6, 2006.

A Committee will be established to review the Income tax and Property Transfer Tax Acts.