FINANCE (NO. 2) BILL

Order for second reading read.

The Minister of Finance (Hon. Winston Dookeran): Thank you, Mr. Speaker. I beg to move,

> That the Bill entitled, an Act to provide for the variation of certain duties and taxes, and to introduce provisions of a fiscal nature and for related matters, be now read a second time.

Mr. Speaker, it has been said that no island is an island. That statement could not have been more apt and appropriate to the current situation in which the entire world is placed; and that statement could not have been more relevant to us as we chart a new course forward so that we can move from the darkness that had descended on this land and begin to show some light for the future.

I want to bring to the attention of this honourable House a recent development that took place in Ireland, a country much larger than ours, but nonetheless, in the context of world economies, a small economy. After having exhibited strong economic growth between 1987 and 2001, Ireland's GDP peaked at 6 per cent in 2007, due to increased activity in the construction and financial intermediation sectors.

Nonetheless, during this time, the country's bank exposures to property lending, fuelled by the availability of easy credit and wholesale funding, were nearly unsustainable. In early 2008, housing construction slowed and the pace of economic growth faltered. As the housing bubble burst, domestic vulnerabilities interacted rapidly with the global financial crisis.

Stock prices of Irish banks declined sharply and extensive Government support was needed to maintain Ireland's financial stability. The extensive support measures by the Government resulted in a rising structural deficit. Consequently, in July 2010, Moody's downgraded Ireland's sovereign debt to Aa1, from Aaa, citing concerns over Ireland's budget deficit and the deteriorating asset quality of the country's banking system.

The downgrade followed similar moves by Standard & Poor's and Fitch, and also closely followed on the heels of the International Monetary Fund Article IV mission which warned of risk arising from continuing interaction of slowing growth, financial sector stress and the state of public finances, each threatening to pull the other down.

On November 11, 2010, Ireland finally succumbed and the Government requested financial aid from the European Union to shore up its troubled banking sector and restore investor confidence. It is estimated that a US $124 billion bailout deal is currently, as we speak, being negotiated with the European Union and the International Monetary Fund. According to reports, the Irish Government will present a four-year economic plan, today, Wednesday 24, 2010, and will unveil an austerity budget on December 07, 2010.

While the actual measures and instruments to be implemented are still being developed, there have already been some casualties. The Irish Prime Minister, Brian Cohen, has announced that he will dissolve the Government after the December 2010 budget. Further, the Green Party, a partner in the ruling coalition, has announced that it is withdrawing support for the coalition. One of the concerns regarding the proposed bailout is the possibility of raising the corporation tax rate, which currently stands at 12.5 per cent. The low rate has been one of the key factors which attracted numerous high-tech multinational corporations to Ireland.

Additionally, Mr. Speaker, concerns have been raised that the support being proposed for Ireland may not be enough, to prevent the need for more bailouts in Portugal and possibly Spain. The failure of the Celtic Tiger is being felt around the world, as stock indices on Wall Street and Asian markets fell on Tuesday November 23, 2010. That was yesterday and this was coupled with the decline of the Euro vis-á-vis the US dollar.

Mr. Speaker, I have brought this to the attention of this honourable House to see the context in which we are now interconnected, and to also see what are the dangers ahead of us if we do not keep our situation intact. Earlier on, over the last few years, there have been similar instances with respect to Greece, to Iceland, and coming nearer to home, to Jamaica. Mr. Speaker, these instances have brought lessons for us in little Trinidad and Tobago, as we, on the verge of a fragile recovery in the world, are faced with these possibilities.

What I said with respect to Ireland could well be said, given different numbers, to countries in the Caribbean. Indeed, Mr. Speaker, the Caribbean has not been in any way immune from these developments, and these developments continue. The fragile recovery in the world and the interconnected financial system pose global risk ahead of us. It is not insignificant that many of our Caribbean countries have had to seek specific facilities from the International Monetary Fund within the last two years. Jamaica, St. Vincent and the Grenadines, St. Lucia, Antigua and Bermuda, Grenada, as well as Haiti, have all accessed various facilities available through the international financial institutions.

Mr. Speaker, Jamaica recently concluded the standby lending facility between the International Monetary Fund, IADB, World Bank and the Caribbean Development Bank; to reform the public sector and reduce deficit; to restructure its debt and reform the financial sector to reduce risk. Haiti, as we are all aware, has received an extended credit facility, and an economic development policy operation, not only to assist in the aftermath of the devastating earthquake but to finance critical government expenditure and to instil confidence in the people of Haiti.

St. Lucia, or rather, St. Vincent and the Grenadines, sought the facility to protect itself against exogenous shocks. St. Lucia, similar facility; Antigua and Bermuda, a standby arrangement; and Grenada, an extended credit facility. Mr. Speaker, this information I have brought to the House in the context of this Bill is to put the setting in which we are placed so that we can learn from the perils ahead of us, as no island is an island and, at the same time, to chart a course in which we can feel a greater sense of comfort.

You will recollect, Mr. Speaker, that on, I believe it was June 08, rather, June 11, 2010, shortly after this Government was given the mandate to chart the course of public policy in Trinidad and Tobago, I had indicated to this Parliament that the total cash balances declined steadily from $17.7 billion at the end of fiscal year 2008, to $9.7 billion at the end of fiscal year 2009; and further, to $5.43 billion as of June 2010; a dramatic reduction in our cash balances.

In the budget debate, I further updated this Parliament that the cash balances which stood at $5.4 billion at the end of June had, in fact, reduced further to $4.3 billion as of the end of September. Mr. Speaker, it was imperative that we took steps to do two things, not only to change direction of the financial trends that were emerging, but to also set the platform for new trends to begin to emerge; and that is what we have been engaged in for the last six months.

The current situation is that the Government's cash balances held at the Central Bank have begun to show a slight increase; now at the level of $5.4 billion.

11:30 a.m.

Had it not been, Mr. Speaker, for the careful husbanding of our financial resources, the slope that we inherited could have continued to decline, and it is through the prudence of this Government's programme to ensure that that slope does not continue to become the dominant characteristic of our financial landscape, that today I can say that while we are not out of the woods, I am beginning to see the blue in the sky again [*Desk thumping*].

Mr. Speaker, it is in that context that the 2011 Budget Statement attempted to further the platform for Trinidad and Tobago to move forward. And you would recollect that we outlined a number of measures in order to deal with this situation. Today we have been called upon to give legislative enactment to these measures, to provide the legal authority for the execution of the plan, and this Finance Bill that we are about to debate today is to do just that.

What are these measures that we had put into place and what are the measures that are now being transferred into legislative authority? Firstly, in terms of our attempt to set up a new growth platform, we said that we shall take measures to improve production of oil and gas and substantial changes in the energy tax regime. These were all dealt with in the budget and I need not repeat them today, but the Bill before us is to give legislative authority to these measures.

We also introduced special measures to support alternative energy use, and specific measures in this Bill, and their 26 such clauses are aimed to give us the necessary legislative authority to provide the quantum of incentive for the development of alternative energy.

Mr. Speaker, among the measures that we introduced were also the measure to increase the growth of the agricultural sector and to do that we indicated a number of measures, both with respect to financing and also with respect to expenditure in that regard; measures to clean up the environment, and in particular to expand this scope of the Green Fund so that it will be more accessible to the people of this country and will be used for the purposes of maintaining environmental standards to the highest level.

Mr. Speaker, we have included in our provisions the necessary legislative amendments to allow us to do just that, so that the Green Fund will not be closed up in a closet in the Treasury, but will now be open for use by all the people of Trinidad and Tobago. We also included measures to generate new investment, and in particular we looked at the manufacturing sector. A number of measures with respect to increase in the minimum wear and tear allowance and in the depreciation allowance were announced in the budget speech. It was important for us as one of the platforms for change that we provide the necessary environment for the manufacturing sector which we recognize will have to play a key role in taking us out of the woods into a different future.

We also introduced major measures with respect to increasing new investment, including provisions for ploughing back profits insensitive in the economy, and made it now friendly to investment, suggesting that the current accelerated depreciation allowance for 90 per cent, which we now propose, as well as the 25 per cent wear and tear allowance, will be applied to investment beyond the specific industries named in the Aid to Industry Act to include shipbuilding and recycling, among others.

Mr. Speaker, we are very conscious of creating an environment where the private sector can flourish, where we can have now an opportunity for them to develop a private sector investment programme to support the very ambitious public sector investment programme which this House has already approved.

We are very concerned about the issue of homeownership and included specific measures to allow first-time homeowners to have an encouragement with respect to tax credit. In addition to that, you will see in the Finance Bill before us additional measures to support homeownership. We recognize this for two reasons, Mr. Speaker; not only that it satisfies a major social need in this country, but also it provides the trigger that will put water in the battery for the resurgence of growth in Trinidad and Tobago. Mr. Speaker, the Bill before us will give legislative authority to these measures that we outlined in the budget.

With respect to the Employee Share Ownership Plan, given the policy direction of this Government to provide more opportunities for shareholding among the workers of this country, we redesigned the formula so that there will be greater access to share ownership by the workers of this country, and the ESOP proposal, as it is called, has now been adjusted in order to increase the participation of workers in share ownership programmes in their respective companies. Already we have had some effect in this regard, and as of yesterday I had a meeting with the ArcelorMittal Group and the Steelworkers' Union on this particular issue who had come to the agreement as to expand shareholding opportunities for the workers in that industry. Soon we hope to finalize that arrangement.

It is an important plank of the platform for the future, for it is based not only on dealing with the fiscal situation before us, but it is based on changing the distribution of wealth and the distribution of income as we progress and move forward.

We also included measures to sustain small business development and innovation because we recognize that that is an area, Mr. Speaker, in which a new generation of entrepreneurs may wish to enter and have developed specific measures to do just that, including expansion with the research and development facility at the Business Development Company.

Again, with respect to manufacturing industries, we have expanded the list under "approved manufacturing industries" so that we can, in fact, increase the scope of that industry. For those in the private sector who have always complained that the fiscal regime was not supportive of the growth and development, I now say that there is a challenge ahead of them to utilize the fiscal measures that we have put into place, to continue the growth in Trinidad and Tobago and to bring about increased output in the manufacturing sector.

Mr. Speaker, we also included measures to promote the development poles, which included the removal of restrictions on free trade zones, and measures that will be able to allow expansion of the space of Trinidad and Tobago. We therefore have put into place fiscal measures that we believe will support a development objective, and in that sense we are building the buffers against future vulnerability, and at the same time we are hoping to deal with the current situation of fiscal challenge.

In this regard, as we began to look at the fiscal equation, we recognize that there are a number of areas in which there is need for increased efficiency, and we have always been concerned about the sense of lack of duty in Trinidad and Tobago by many regarding the question of paying their taxes. The measures before us are also aimed at giving vent to the proposals we have put forward to deal with the issue of tax arrears and provide an appropriate framework to encourage the paying of taxes in an amnesty arrangement which will allow us to improve tax collection.

I have said before and I say it again, if everyone were to pay their tax in Trinidad and Tobago as prescribed by law, there will be no deficit in the budget of Trinidad and Tobago. These measures are aimed at closing that gap, and the legislative measures here are supportive of that goal.

We did indicate, Mr. Speaker, that there will be some changes with respect to the property tax and the land and building taxes, and although the measures before us do not deal with that specifically, I am advised that we will have do so in a special piece of legislation very shortly.

We also introduced measures to support the special equity of Trinidad and Tobago. We are well aware of the debate taking place on the Senior

Citizens Pension, much of it uninformed, and much of it designed to create immediate populace sentiment. But the truth is, when something is right, it will always be right in Trinidad and Tobago.

Our commitment to the Senior Citizens Pension has been, in fact, established (a) by increasing the level of those eligible for pension to $3,000.00, and in that, in the context of what is taking place today in terms of public sector negotiations, it is important to remind ourselves that we have also increased the minimum pension to public servants appropriately. There are legislative measures here to give vent to all these measures of social support.

We included a measure, and as the Prime Minister spoke today and asked this nation to confront the truth, so too did we confront the truth by the establishment of the Children's Life Fund [*Desk thumping*] as we bring about a new social responsibility in our country.

That Act, as you know, was recently passed by Parliament, and the allowances of contribution to that fund should be tax deductible, and we have gone further to increase it to other relevant charitable organizations, all in the context of building a society that is socially secure, that is economically confident and a society that is politically stable.

We are very careful, Mr. Speaker, to include measures to increase arts and culture allowances in a number of specific provisions, and the Bill before us gives vent to the measures that we have outlined in the budget proposal. Let me just say that this package of fiscal measures has been far-reaching and responsible, has been the result of those who have looked at the policy prescriptions of Trinidad and Tobago and of this Government's policy prescription with a great sense of awe and admiration.

Recently, we had a number of international bodies looking at our policy prescriptions—and I will say something about that later. But what was comforting is that the international community at large, and those who have been watching carefully the vulnerabilities with which this country has been faced and the response to those vulnerabilities, have indicated their commitment to the confidence of Trinidad and Tobago, and the Inter-American Development Bank recently agreed to provide with us extensive support, within two months after this budget was presented, on the basis that they were in direct support of the policy direction which the People's Partnership Government has put into place. So, Mr. Speaker, the Bill before us is to deal with these issues and provide legislative framework.

I will not go into any great detail because they are all outlined in the budget speech and in the Finance Act before us but let me just quickly outline the clauses 2 to 12 and 16(e) deal with the issues of Senior Citizens Pension of which we have spoken. In this respect, it is important to remember that we have removed from the calculation of qualifying income those lump sum incomes that were calculated before, and those interest payments that were calculated as income, so that the level at which we shall have qualifying income would not include those and therefore increase the number of people eligible for senior citizens pensions. These are measures that are significant in terms of providing a wider net for senior citizens' pension, who were disqualified before on the basis of the definition of qualifying income.

Mr. Speaker, with respect to public sector pensions to which I made reference, this involves amendments to a number of different pieces of legislation, including the Judges Salary and Pensions Act, which is incorporated in clause 2 of this Bill, the Prison Service Act, clause 3 of this Bill, the Retiring Allowances Diplomatic Service Act, clause 4 of this Bill, the Pension Act, clause 5 of this Bill, the Widows and Orphans Pension Act, clause 6 of this Bill, the Municipal Corporations Act, clause 7 of this Bill, the Fire Services Act, clause 10 of this Bill, the Teachers Pension Act, clause 11 of this Bill, the Assisted Secondary School Teachers Pension Act, clause 12 of this Bill. The Police Service Act and the Defence Act will also be affected. And it is in this context the different clauses in this Bill will deal with this issue.

On that score, may I also indicate to this honourable House that our programme on pension support has only just begun. After waiting for almost 20 years for pension reform, we have now began a comprehensive programme in order to provide for this country's next generation and this generation, an opportunity for security of pension and a harmonized universal pension plan is in the making. Recently the Cabinet authorized me to hold discussions with the World Bank technical people to accelerate this programme so that during the course of 2011 we shall be in a position to provide opportunities for our universal harmonized pension programme for all Trinidad and Tobago, at least in the feature.

So, Mr. Speaker, I make these points with respect to the expansion of the Green Fund Energy Sector alternative use of energy, et cetera, in order to reinforce the position that we cannot allow ourselves to succumb to the vulnerability of size nor must we allow ourselves to become the victims of external development. But more than all that, we must not allow ourselves to become imprisoned by our own fiscal position, so that we can make ourselves exposed to these possibilities in the future.

When we in this People's Partnership Government talk about public policy, we talk about public policy that would protect today's interest, but not at the expense of tomorrow's generation, and it is in that context that we hope to move forward. Many of the measures that we have outlined, therefore, are aimed to do just that.

Mr. Speaker, as we chart this new pathway, as we put some water into the batteries as we are advised to do, as we do that we have to clear the pathway; to clear the pathway so that the new vehicle would be able to work without too much obstacles and hindrances, and in so doing, we have to deal with many of the issues that were our inheritance.

It would have been better and it would have been more appropriate and it would have been really a great inheritance if, after all the monies that this country had received during the years of positive growth, during all the energy inflows that had taken place for many years, that we could have inherited a clean balance sheet with respect to the pathway ahead of us. Regrettably that was not so, and, therefore, it is our task now to clear the pathway so that the vehicle that we have proposed, in terms of our fiscal and development thrust, can move forward with a greater sense of confidence. In order to do that, Mr. Speaker, we recognize that we need to trigger this economy into a new confidence in growth and within recent times we have been looking carefully at how we can deal with some of these hurdles in our front.

Mr. Speaker, let me deal with one of the minor issues, but a significant issues; has to deal with the contractors' payouts. Sometime ago we met with the contractors organizations and indicated a commitment to try within our public finances to deal with that. I am advised that as at October 2010 or between the months of June to October 2010 in the last few months we have, in fact, spent $2.4 billion to deal with contractors' claims in the Ministry of Finance. There are other claims that have been dealt with in the Ministry of Housing and the Environment as well and that included a figure of $390 million in June, $377 million in August, $264 million in September and $911 million in October.

So, Mr. Speaker, we recognize that the validation process must continue, and we are taking steps to improve that but that is one of the hurdles that we had to deal with. It is not that that problem is over, but we have made a dent in that situation and, therefore, hope to remove that over time. Validation becomes an issue that must be dealt with.

Mr. Speaker, another issue that is of significance has to deal with the value added—VAT refunds. We recognize that we need to inject into this economy some purchasing power. That is the first stage in the resurgence of growth, which will then be followed with the conversion of the Public Sector Investment Programme into actual activity and construction.

We are very careful in designing this growth process to include in our Public Sector Investment Programme 75 per cent of our expenditure of $7 billion to be used in the construction industry. We expect, therefore, that 2011 will have ample space for the initiation of the construction industry in order to support the injection of purchasing power between now and then. This is a well designed and constructive approach and hopefully, Mr. Speaker, it will be supplemented and complemented by investments in the energy sector and by investments in the private sector; and I will say something about that in a little while. But, in order to help and facilitate those businesses that have been crying in great pain on the issue of VAT refund, we have looked at that situation very carefully. We have, within recent times, increased our payout on VAT refunds from a level of $350 million a month as of now to a level of $400 million a month. I am hoping that the VAT office can increase that to a level of $500 million a month so that we can inject some further purchasing power into the economy. Much of what I have said, however, is always subject to the proper verification and that, I am told, is a challenge before us.

With respect to the foreign exchange issues, we are very fortunate, Mr. Speaker, that our situation at the level of foreign reserves continues to be good, but we cannot be complacent because the trend is not always in the right direction. Having said that, we recognize that there is a shortage, and we support the Central Bank's recent initiative to increase their commitment to the foreign exchange market from the current level, I believe, of U.S. $150 million per month to U.S. $200 million per month, and to try to deal with some of the queues that to have developed and, in so doing, add more purchasing power into the system.

We are also hoping, Mr. Speaker, that we will be able the handle, very clinically, the issues pertaining to the public sector wage negotiation, and I am still optimistic that we can come to an early conclusion on that matter so that we can get that behind us. What is necessary in creating this pathway forward is to deal some of this inheritance; inheritance that was not created on our part; inheritance that has to be dealt with, and I give you the assurance in terms of where we are moving that the inheritance we give to the next generation will not be the inheritance that we received in this generation. That is the objective in which we are moving in terms of our economic strategy—clearing the clouds to see the blue sky.

Mr. Speaker, the measures that are outlined in this Finance Act are all done in that context. And I want to deal with one of the most thorny issues; perhaps the issue that has engaged the public's attention, and perhaps the issue that has engaged the international community as to how Trinidad and Tobago will confront the issue with respect to the failure of one of its largest finance and insurance companies. You know the history. You know the history in this Parliament, because you recognize that we have had to deal with this problem, and it is not as easy a problem as some would like to make it out to be.

That is why I put the context, the international context, and the actual experiences of others who are grappling with the issues of macro stability and the issues of financial stability. It is in that context, Mr. Speaker, we must recognize that fiscal deficits of today become the debt of tomorrow. So it is not an easy solution and, therefore, we began to deal with this issue.

In the first instance, we have begun immediately to put the administrative measures in place to deal with the Hindu Credit Union, and there are 144,000 thousand HCU Depositors, I am told. Immediately, the deposit insurance corporation is engaged in setting in place the mechanics to support those depositors about whom I spoke on the last occasion; a large number of depositors will be provided with some support for that failed institution.

Mr. Speaker, let me deal now with the issue with respect to what has been described as the Clico matter. In the first instance—and I want to reiterate—this situation was large in all its manifestation. It amounted to almost 10 per cent of the gross domestic product and it involved, in the first instance, an allocation of about TT $5 billion to stem what was seen as a confidence risk and subsequently, when this Government began to look into this matter, we got into the depths of the crisis. I had referred this to the understanding— the Clico fiasco was understanding a bubble cycle that had gone sour. In economic systems that is what happens. That is what happened in the United States. That is what happened in ramifications beyond the United States. That is what we are told has happened in Ireland and, therefore, it is important for us to ensure that we diagnose this problem properly.

A large part of the continuing problems we face was based on the wrong diagnosis and the laxity in regulatory management, but that has been the inheritance that we have had to deal with. On previous occasions I indicated that this Clico bubble cycle should have been treated differently and should have been able to contain the risk and let the economy move on; contain the risk that had emerged in the Clico Investment Bank, and contain the risk that had emerged in the statutory funding of the Clico Insurance Company. That was not the course that was taken. The course of not containing the risk was not accepted in preference to a course that expanded the risk; expanded the risk not only in terms of the financial situation of Trinidad and Tobago but expanded the risk to its ramifications in the rest of the Caribbean and today, many of our Caribbean sister countries have had to succumb to the financial support of those numbers that I mentioned to you earlier have had to bear the burden of the Clico fiasco.

In simple terms, if this situation were to be contained and the two risks that emerged, one a cashflow risk in the Clico Investment Bank and the other a statutory fund risk in Clico, each one could have been treated. There was an orderly exit policy that is part of the armory of the Central Bank regulatory framework for the exit of institutions that are no longer viable or at risk. And if they are indeed not relatively significant in the macro sense, it can be dealt with.

I maintain that we paid the colossal price as a nation, as a people, and we continue to pay a colossal price because of the ineptitude of the past regime in dealing with this matter of Clico. But we cannot simply sit back and say that that is the solution. We have to find the appropriate solution.

So the Clico bubble was allowed to burst, and allowed to begin to reflect itself, firstly in our own situation and secondly in the Caribbean situation and today we have had to face the solution. What has been the premises of this solution? How did we intend to approach it?. Well some had argued that, strictly speaking, this was a problem of a financial institution that had gone sour and, therefore, the market should deal with that situation. And the 225,000 Clico policyholders who have life insurances and annuities will simply have to face the fact that the company in which they invested had become insolvent and had become a risk. The Government's intervention accelerated that process.

Some had argued that if that were so, that you can, as a Government, walk away from the problem, because, strictly speaking, it was not a problem emanating in the hearts of the public finances but there were certain obligatory commitments that were made, both by the Central Bank and by the then Minister of Finance. In the interest of retaining the confidence of the system, those statements became issues that we had to contend with. But more important was that any attempt to walk away from this problem, as some had suggested we should do, would have created what I call a disorderly liquidation of a major institution in this country. As a responsible Government, we had to get into the act. As dirty as the waters appeared to be, we had to walk in and swim in these dirty waters so that one day we can come to the clean waters ahead of us. [*Desk thumping*] So we opted for that approach.

The first aspect of that had to deal with the issue of how do we maintain the stability of our finance macroeconomic framework, because we can find a solution that puts at risk that very macroeconomic framework, which in the end will turn around and become our problem. As I said, and in public life I have always said it, I am prepared to take the tears today so that I will get the applause tomorrow [*Desk thumping*] and it is in that context that I was not tempted in our deliberation to simply respond to measures that will put at risk other issues. So, Mr. Speaker, we recognize, that as the major issue and; therefore, we began a plan of action that will allow us as a country to navigate through these waters with the minimum of pain.

The first and most important aspect was to find the necessary funding to deal with this problem. I indicated to you it was large. When the problem came in our hands, there were commitments to the order of 12 or $13 billion that had to be met. Some argued that that could be met from the assets that belonged to Clico, and perhaps to CL Financial. We went through that analysis. We went through it clinically and we recognized that there was no basis upon which that argument can stand financial scrutiny and therefore, we had to find Government funding. It would have been easier for the state of finances of this country, instead of putting the public sector debt, raising it from the current level of 52 per cent to a further 15 per cent in one shot if we could have found that funds from the shareholders.

In any event, what we noticed is that the solvency of the operations were such that that prospect remained dim. Maybe in years to come there may be a change market conditions may change but as of now, it is not a prospect that we can look into. And therefore, it is in that context of having dealt with that issue we recognized that the Government had to get involved and had to provide the support.

In so doing, Mr. Speaker, we also recognized that it was important to do so and protect all those who, in fact, will be affected by this. Mr. Speaker, it was in that context that the model that was developed firstly to resuscitate the company, solvent as it may well be, but it involved 225,000 policy holders, it involved directly 500 workers and it involved a number of other agents in Trinidad and Tobago, and there are two companies. I am talking about them collectively.

So the first plank of our strategy to deal with this issue was to resuscitate the companies; protect the 225,000 policyholders, put the statutory fund in place so that we remove that risk for the future and begin the growth of this industry, with the hope that we can do so in a reasonable space of time, and perhaps open it up for some form of intervention by the local or foreign capital in the country.

It is not that the Government intends to stay in the insurance business. The Government intends to be the catalyst for economic change, but cannot sit back and do nothing when a situation is before us; a situation, Mr.

Speaker, which would have brought about a disorderly liquidation had we not intervened. But I think it is important for public information to recognize that we rejected, deliberately, the disorderly liquidation model, which was the easier was and least costly way, but in our view was high in social cost and strong social dangers ahead of us and therefore, that was an important plank.

And when those who have been commenting on this issue—and I have listened quietly; I have listened carefully. There is always the absence to distinguish between the Clico policyholders and annuity holders, and the 225,000 of them, I say here today to those that what we have done, we have given new life to the possibilities of Clico emerging and becoming an institution that can be sold, divested or participated in. I was even prepared at one time to say, "Are you willing to take shares in the company?" At that point I got no bidders—in lieu of the Government finding the funds.

So, Mr. Speaker, that's an important plank and that's the core, the traditional business that had to be protected. The Member for Diego Martin North/East tells us on many occasions, at one o'clock in the night at times, and forced me to respond to the same issues every time. I respond the same way, and he comes back with the same argument. I respond again, and today I am expecting him to come back with the same argument and I shall respond again. [Desk thumping]

The second aspect, Mr. Speaker, had to deal with the short-term depositors, and they have been placed in the position that I believe the numbers were in the order of 25,000. What we have found, as we get into this situation, is that the numbers needed to be tallied. There are tremendous challenges on the data side. I could tell you that now—tremendous challenges, but they have been worked on. So the numbers I have is 28,000 people with both groups. They are the short-term depositors. Some of them have small deposits, some of them have large deposits. We felt that it was a primary responsibility on the part of the Government to protect, at the minimum, the small depositors, which amounted to 11,000 up to 28 or 25,000 people. But we also felt in the game of equity we should not exclude from that facility those large depositors, because we have to have an equitable approach to this problem. In fact, the criteria that we used were well articulated when we began to evaluate other options and I will probably come to that in a minute.

So we have taken steps to put into place the administrative arrangements, to make available and to offer to the 25,000 depositors a minimum payment—and I use the word "offer"—$75,000.00 to the 25,000 depositors.

Mr. C. Imbert: It is not 28?

Hon. W. Dookeran: I said it depends. If you include BICO you do not include it. The figures materially do not change the argument. We are including them in one and, therefore, that is the second step, in order to protect those depositors. Eleven thousand of them would have had deposits of less than $75,000.00, so therefore they will have further risk. They will have no further exposure, and the small depositors will be protected by the Government's proposals in this matter, consistent with a philosophy of social equity. But we have extended it to all, and steps are underway to make this offering within weeks from today. That will also help to inject new purchasing power into the economy, which is what I said earlier is the first plank of the new growth process ahead of us and that is motion. Whether we could complete all this before the end of the year or not will depend on the administrative capacity but what I can say, we will deal with all those who have had less than $75,000.00 in deposits before the end of the year.

Mr. Imbert: I thank the Member for giving way—very gentlemanly of you. Would the payment of $75,000.00, which you have described as an offer, would there be conditions attached to that offer of a minimum payment of $75,000.00 for persons who have more than $75,000.00 in policies?

Hon. W. Dookeran: Well, it is an offer, and there will be normal conditions that are attached to an offer that you may have to agree that you accept this offer in lieu of your other rights.

Mr. Imbert: Any claim you may have?

Hon. W. Dookeran: That is right. And those things are being worked out. The legal people are working on that. It is a question you asked twice already.

Mr. Imbert: You answered for the first time.

Hon. W. Dookeran: Now, Mr. Speaker [*Interruption*]

Mr. Imbert: So it is take it or leave it.

Hon. W. Dookeran: The other category—before I go there the Prime Minister in her wisdom said this involved a lot of people and their lives and although I had made this announcement in the budget debate as a model that will be adopted, let us listen to the people's concerns and the committee that was established by the Cabinet went on to do just that. The deliberations of that committee, we assessed and we recognized that there are two areas that ought to be given immediate concern, because, in this situation, as we began to look at the people's problems, there were first those who were dependent on the Clico investment for their immediate needs, whether in health or otherwise. So what we proposed, having investigated the way this is done in other jurisdictions that faced this problem, I have worked out some criteria to underpin a policy to have an open door for such persons to have access. So that those who may wish to apply for immediate financial need, for whatever reason, may have an opportunity to do so. I recognize there is an exposure to do that but I recognize, in the interest of the humane consideration, we should put that in place and we looked carefully at what had happened in the Canadian jurisdiction that had faced a similar situation and had worked out some rules, which are still being finalized, to allow those up to the limit of $250,000 to access that part of the window.

Remember, Mr. Speaker, there is a limit. There is no such thing like a free lunch. So therefore, we cannot extend this to its full amount but it will deal with those who have the need for cash for nondiscretionary purposes, including for necessaries of life, and who has the need that is immediate. I believe it is similar to the philosophical underpinnings of this Government to deal with the problems of the people at the level of their own desires, whether it is in the Children's Life Fund or it is in the policy proposals in Clico. So that such a window is being worked out and will soon be put into place.

The third area, Mr. Speaker, has to deal with the very thorny issue of the credit unions. In the first instance, I think it is important to note that the credit unions had, in fact, invested in this via personalties on behalf of the credit unions, because the rules did not allow the institutions to invest in these annuities. But notwithstanding the legal position, which is to deal with those who invested on behalf of the credit unions, we thought we should acknowledge that the credit union is the group that has a stake in this matter, and therefore, in designing our adjusted programme, we have given very careful consideration to the credit union movement.

We also recognize that there is a stability issue at risk here, because the credit unions as a whole will have some consideration that they will have to make. [*Interruption*] Thank you, thank you. I am sorry. So I will try to rush. I was actually hoping that I would have 30 minutes, but, I was told I just have 10 more minutes, thank you. This is the essential point. So we looked at the credit unions in particular. We recognize some trade unions. not too many are involved and we recognize there are some educational institutions, not too many, that have also been involved and we believe, as institutional investors in the name of the membership, that we should open a special window for them. In that respect, I could just give you quickly what our investigations have suggested. The credit union movement in general has been exposed from a stability position, but not as large as it is made out to be. We used a methodology to determine the extent of high-risk exposure and we have found that it is exposed, especially I believe, some 10 credit unions may exceed the hurdle that of 15 per cent of capital invested, and amounting to $422 million and there are four other credit unions which are higher. I will not go into details, except to say that we have looked carefully about the stability of the credit union issue. And therefore, we have agreed to have a special liquidity support window that will make available funds—and I am in discussions right now with the Central Bank to source those funds—to make it available to the credit unions in a manner that is in agreement with them, but to be able to deal with all their commitments, which, as of now, are in the order of $758 million. So that a major adjustment within the model, but it deals with a specific case of credit unions.

The other issue, the one that has really created the largest, the loudest noise, and the one that has created a lot of public attention, has to deal with the rest; those depositors who have deposits of greater than $75,000.00 and are asking for some form of immediate or delayed payment, and we looked carefully at all the proposals that had been submitted to the committee under the chairmanship of the Minister of Food Production. We actually analyzed them and found that they could not stand the scrutiny of proposals coming from the groups, and that in the end the Government will have to find the funds. The bottom line is that.

One aspect that has emerged has been the aspect of the 20-year zero-rated bond. There are many in this country who believe that they will have to wait for 20 years. The truth is that that is not so. Anyone can exercise his right to go into the secondary market and discount his 21-year bonds at any time. I will expect people will make prudent decisions as to whether to discount it for liquidity purposes and reinvest it for their own benefit, or whether they allow it to mature at the end of each year where they will get the 100 per cent. That is a prudent decision. I do not think the Government is expected to make that decision on behalf of the investors.

The question really is, at what discount rate. That is the question. So let me dissuade anyone who believe they have to wait for 20 years. If they wish to do so, they will get at par value. If they do not wish to do so they can go to the secondary market and we have had discussions with all the banks in the country, and all the financial institutions that will perform such a role. And we provided them with what we consider to be a yield curve. That is the rate of discount.

There is an important proviso that market conditions change so one cannot agree too much in the future today, and that is a normal thing, because you are dealing with the market conditions. But having said that, it was generally agreed that within the first five years the discount rate will average 90 cents to the dollar. I can say that because I have got verbal and written confirmation from the banking community that within the first five years the discount rate for those bonds will be discounted within the range of 90 cents to the dollar.

A haircut is, in fact, part of the scheme, but "you cannot have no haircut" in this situation. But it is a small haircut, because we have protected, in this measure, the principal. In many countries, Mr. Speaker, the principals have not been protected.

With respect to the subsequent period of the next 15 years, we are still engaged in discussions with the financial institutions to see what kind of incentives they may wish to have to improve the discount rate. Now, this will not happen overnight, but what I can tell you, in the first five years, for the first five-year bonds you can get a rate in the order of 90 cents. In fact, it may be more it may be less—not less, it may be more.

So the issue that was at debate, really—and people did not understand the core issue; the core issue is what is the discount rate. People wanted a discount rate that will provide 100 per cent and provide it all at the beginning. That's essentially what they wanted.

12.30 p.m.

If we were to do that, then what I explained to you happened in Ireland, Jamaica, Iceland and Greece would be on our doorsteps, perhaps. I am not saying it will, but it was such a large problem. Remember $13 billion is large, compared to our budgetary revenue of $42 million. That is something people have to understand. What we are playing with here is $13 billion out of $24 billion, having already put in $5 billion or $7 billion, depending on how you measure it before, in a previous government. It was not a simple situation; that you could have paid them 100 per cent at the beginning and pay it now, or even pay it on the deferred basis.

The argument for the 20-year bonds, let me make it clear, has nothing to do with the issue of the people. It has to do with smoothening the debt curve of the country to ensure that we have a manageable debt situation over 20 years. The Government is committed to paying $500 million a year for 20 years, to meet this commitment. If we had gone on a shorter term, we would have had to increase it. If we had gone to 10 years, we would have had to commit ourselves to $1 billion per year for 10 years. We felt that strain would have crowded out the possibility of borrowing for the purposes of resuscitating the economy and financing the development of this nation, at the expense of the depositors who had gained in the past and must pay some risk, in terms of this Government having the generosity, in terms of our approach in dealing with the problem to prevent a disorderly liquidation and provide a solution for the future and call upon those to come forward now and use the investment acumen to regain what they believe they have lost, if they feel they have lost it. I do not believe they have.

Mr. Speaker, I know time is against me. Let me conclude by saying that careful thought went into all this. A lot of assessment was done. Jamaica attempted to pay off the banks, at the expense of the country. Iceland forced the banks to become bankrupt, at the expense of the country. Greece decided to hide their debts for the future, at the expense of today, and Ireland now is in the situation where it has allowed the emergence of both the fiscal deficit and the debt position to get out of control and now they have to call an election to decide that. I can assure you, Mr. Speaker, when our situation is resolved, we shall be in a position to win the next election.

Mr. Speaker, I beg to move.