



GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO



# BUDGET STATEMENT 2018

“Changing the Paradigm: Putting the Economy on a Sustainable Path”

Presented by

The Honourable Colm Imbert, Minister of Finance  
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# 2018 Budget Statement



## Introduction

Madam Speaker, on behalf of the People’s National Movement Government, it is my honour and privilege to present the third Budget since our assumption of office in **September 2015**, under the leadership of the Prime Minister, Dr. the Honourable Keith Rowley.

Madam Speaker, getting a structurally unbalanced economy to adjust for a major external shock has been an enormous challenge. Implementation has not been easy. Every step of the way we have had to make hard and difficult choices; but we are doing so while improving the efficiency of resource allocation and protecting the most vulnerable from the dislocation of the reform process.

Despite the internal and external challenges stemming from very low energy prices and a steady decline in oil and gas production, we have come a long way since we assumed office in **September 2015**. We are now at a crossroads. We have formulated a practical and forward-looking agenda of policies and programmes encompassing all the major aspects of our economic life. A critical area is the nurturing and fostering of the private sector in an expanding role in all spheres of economic activities. This is a high priority for the Government as we ensure the involvement of the entire population in this journey of transformation.

Madam Speaker, it is appropriate at this juncture to give an account of our current financial situation. Only last week Wednesday, the Government, through the Office of the Prime Minister, hosted a historic pre-budget workshop entitled *Spotlight on Trinidad and Tobago’s Financial Circumstances* at the Hyatt Regency hotel in Port

of Spain, where technocrats from the Ministry of Finance and Central Bank laid bare the stark economic realities that we face as a country. In this ground-breaking forum, we invited persons representing business and labour organisations, the energy sector and the University of the West Indies to participate, make presentations and propose solutions to our current problems.

The workshop was a resounding success and on behalf of the Government, I wish to thank all those who attended, in particular those who made presentations and sought clarifications. There was a remarkable similarity in the views expressed, although there was no prior collaboration. The consensus was that in view of the catastrophic reduction in revenues from petroleum over the last **3 years**, which was close to **90 percent**, from **\$20.9 billion** in **2014** to **\$2.8 billion** in **2017**, it can no longer be business as usual. It was accepted by all concerned that we must all now come together, as a people and a country, in a process of fundamental transformation, in order to withstand and overcome the energy price shock that we have been subjected to since **2014**.

In so doing, it is necessary to understand where we have come from, in order to determine where we need to go. To achieve this understanding, as we go forward into **fiscal 2018**, it is critical to understand the changes that have taken place in global energy markets over the past decade or so, and how these have affected our public finances and our external accounts. These changes clearly indicate that we need to improve our revenue administration, re-think our expenditure patterns and intensify our efforts to diversify our economy.

## Overview of our Financial Situation

Madam Speaker, nine years ago in **July 2008**, when the price of oil peaked at **US\$145** per barrel and natural gas was at a record high of **\$13** per MMBtu, the Government's core revenue, which we can define as revenue from taxation, duties, royalties on oil, administrative fees and normal dividends from state enterprises, was a healthy **\$56.8 billion**. In that year 2008, total expenditure was **\$53.8 billion**, which yielded a fiscal surplus of **\$3 billion**, the last surplus the country has achieved. More importantly, the Balance of Trade in 2008 was **\$56.7 billion**, that is to say, that in **2008** the value of our exports of goods (**\$116.6 billion**) exceeded the value of our imports of goods (**\$59.9 billion**) by **\$56.7 billion**. Compare this to the present day, when the balance of trade in **2017** is now negative **\$5.2 billion**, in other words, our exports in **2017** (**\$33.1 billion**) are **\$5.2 billion** less than our imports (**\$38.3 billion**).

By **December 2008**, oil prices had crashed from **US\$145** per barrel to **US\$33** per barrel, forcing a re-evaluation of Government's spending plan. Although oil prices subsequently recovered to **US\$70** per barrel in **2009**, by **2010**, core revenue had dropped by **\$12.9 billion** to **\$43.9 billion**, a reduction of more than **20 percent** from the **2008** high. Consistent with this acute reduction in Government revenues, Government expenditure was accordingly reduced by the then PNM Government over the **2009-2010** period by **\$7.1 billion** to **\$46.7 billion**. The deficit in that year was relatively modest, at **\$2.8 billion**, or less than **2 percent** of Gross Domestic Product (GDP) and was financed by borrowing.

Unfortunately for those of us who now have the task of managing the country's finances, under the previous Government, spending escalated from **\$46.7 billion** in **2010** to **\$62.8 billion** in **2014**, an increase of **34 percent**, despite the fact that during the **2010** to **2014** period, core revenue never really recovered.

As spending escalated, core revenue stagnated. It is noteworthy that revenue from taxation dropped from a high of **\$51.6 billion** in **2008** to **\$42.3 billion** in **2015**.

In retrospect, it is clear that the **34 percent** increase in Government expenditure over the **2010** to **2014** period with no proportionate increase in core revenues was ill-advised. In fact, core revenues in **2015** were essentially the same as they were in **2011**, in the **\$43 billion** range, while annual expenditure increased by over **\$10 billion** in the same period. This pattern of Government expenditure was and is unsustainable, but it created a false expectation among the general public that the good times would never end.

In order to satisfy increasing expenditure demands, extraordinary sources of revenue had to be found, since revenue from taxation was simply not enough. Accordingly, the one major source of cash in the state sector, which was earmarked for productive investment in sustainable new and diversified industries, that is, the retained earnings in the National Gas Company (NGC), totalling **\$16 billion**, were withdrawn over the **2012** - **2015** period and used for budgetary support, with **\$6.8 billion** being taken out in the election year **2015** alone. It is noteworthy that prior to **2015**, NGC's dividend policy only allowed a maximum of **50 percent** of its profits to be paid out in dividends in any year, but this was changed in **2015** to allow up to **100 percent** of its profits to be withdrawn by the Government.

Further, to satisfy the craving for more and more spending by the previous Government, a sale of assets programme also commenced through sales of shares in First Citizens and Trinidad and Tobago National Gas Limited (TTNGL) through Initial Public Offerings on the Stock Exchange. But this was not enough. The growing deficits had to be financed by borrowings, so the public debt also increased by **69 percent** from **\$45.4 billion** in **2010** to **\$76.5 billion** in **2015**, thus increasing the Government's debt servicing burden. Interest payments on Government debt grew by over **\$500 million** per year over the period and debt servicing now accounts for **20 percent** of Government expenditure. Further, to finance increased Government spending, the cash balance in the Government's account at the Central Bank moved from **\$6 billion** in credit in **2010** to **\$9 billion** in debt by **2015**, using up **\$15 billion** in cash.



Much of this increased expenditure was wasted or unproductive. Project costs skyrocketed during this period, doubling and tripling in many instances. Simple building projects, such as fire stations and police stations exploded in price, moving from **\$40 million** per station to **\$400 million** in some cases; an increase in cost of **1,000 percent**, making some fortunate contractors instant millionaires. For example, the average cost to the Government of a housing unit constructed by the Housing Development Corporation (HDC) moved from **\$300,000** to over **\$1 million**. Taxpayers' money was also wasted in many other areas of Government.

In fact, since **2015**, as a result of the spending in the **2011** to **2015** period, the Government's current account has been in permanent overdraft, very close to the allowable limit on virtually a daily basis, making it difficult on many occasions since the **2015** Election for the present Government to pay public sector salaries and wages. Further, the public appetite for Government expenditure was cultivated and encouraged to such an extent that we are now being asked to support a *false economy* that expects and demands expenditure in the range of **\$55 - \$60 billion** per year with tax revenues of only **\$35 billion** a year.

Despite the fact that this PNM Government has been able to significantly reduce expenditure, from **\$63 billion** when we came in to less than **\$51 billion** in fiscal **2017**, a substantial reduction of **20 percent**, the gap between revenue and expenditure is still large. As a result, the Government was forced in **2017** to engage in unplanned borrowing to pay public servants' wages and salaries and meet inescapable expenditure commitments, simply to keep the country functioning. An astonishing statistic is the fact that tax revenue from oil companies dropped from **31 percent** of total revenue in **2010** to less than **3 percent** of total revenue in **2017**, down from a high of **45 percent** of total revenue in **2008**. Indeed, just over the last **3** years, total revenue from all sources in the energy sector has dropped from **\$28 billion** in **2014** to **\$9 billion** in **2017**, a loss of annual revenue of almost **\$20 billion** from that sector alone.

This catastrophic decline in revenue from the energy sector has had a serious adverse effect on foreign exchange inflows and our foreign reserves. At the present time, foreign exchange inflows from energy taxation are at an all-time low. The collapse of oil and gas prices, declining production, and changes in the oil and gas taxation regime have had the effect of reducing the Government's share of energy receipts. Annual inflows

of foreign exchange from the energy sector have thus dropped from **US\$3.2 billion** in **2011** to **US\$500 million** in **2017**. This is an **84 percent** reduction in foreign exchange inflows which has caused a loss to the country of **US\$2.7 billion** per year in foreign currency. To make up for this shortfall, and to make foreign exchange available to the public, especially the productive sectors, the Central Bank has injected a total of over **US\$7.5 billion** of our reserves into the commercial banking sector in just the last **4 years**.

Madam Speaker, it is little wonder therefore that our foreign reserves have declined from **US\$11.5 billion** in **2014**, or more than **12 months** of import cover, to **US\$8.6 billion** in **2017**, or **10 months** of import cover.

Despite this pressure on our reserves, this PNM Government has managed our country's **foreign reserves** prudently, and accessed alternative sources of foreign exchange, such as foreign commercial and multilateral loans and withdrawals from the Heritage and Stabilization Fund (HSF). As a consequence, the prediction of the alarmists among us that our foreign exchange would evaporate in a matter of months has not come to pass. It should also be noted that **10 months** of import cover is still very comfortable by international standards. However, the decline in reserves cannot be allowed to continue unabated, since as a country we are currently spending far more on imports than we earn from exports; an untenable situation.

For this reason, we have consistently made the point that until and unless we as a country change our taste for foreign goods, our exchange rate will continue to be under severe pressure and additional steps will have to be taken to dampen our appetite for imports.

Madam Speaker, you may wonder why I have used the term *false economy* to define the public's perception of the country's financial wealth and the exaggerated expectations that this has created for Government expenditure.

Allow me to explain. Even while we have reordered the Central Government finances by reducing expenditure by over **\$12 billion**, there remain chronic economic problems in our state enterprise sector. For example, Petrotrin, which produces almost **60 percent** of our country's **oil**, **does not pay** its taxes and royalties to the State and owes the Government, and by extension the public, billions of dollars in unpaid taxes. This is a ridiculous and highly irregular state of affairs, which perpetuates a false reality

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for this company. In this year alone, Petrotrin should have, by law, paid **\$600 million** in royalties to the State for the millions of barrels of the country's **oil that it** extracted from land and marine sources for use in its refinery. However, Petrotrin only paid **\$200 million** in royalties, a shortfall of **\$400 million**, which has contributed to the **2017** Budget deficit. This cannot and will not continue. Petrotrin must pay its taxes, like any other company.

Further, The Trinidad and Tobago Electricity Commission (T&TEC) does not pay the NGC for the gas that is used to generate electricity, although it is contractually obligated to do so. What is worse is that NGC has to pay the upstream producers, such as bpTT, for the gas, with a consequent loss of cash flow to NGC in the order of **\$750 million** per year. Because of this, the bill owed by T&TEC to NGC is now over **\$4 billion**, which affects the ability of the NGC to function effectively and deprives the Government and the country of dividend income from NGC. This multi-billion-dollar unpaid debt perpetuates another *false reality* that T&TEC has money in the bank and can afford to increase its operational expenditure. Similarly, T&TEC did not pay Trinidad Generation Unlimited (TGU) for the electricity it produces at its plant in South Trinidad for over **5 years**, causing the last Administration to take out a **\$1.6 billion** short-term loan just before the last election, which we had to scramble to refinance a few months into our term so that T&TEC could settle its arrears to TGU.

Another important utility, the Water and Sewage Authority (WASA), receives an average annual subsidy of over **\$2 billion** a year to assist it in paying salaries, servicing debt, paying suppliers, carrying out repairs and undertaking its development projects. However, despite such massive financial assistance from the State, WASA is financially challenged and struggles to pay its bills on a daily basis.

Madam Speaker, among these **3** state entities, therefore, over **3 billion** of taxpayers' dollars is being diverted or lost every year.

This level of subsidy might have been supportable if the country was running budget surpluses, as it did up to **2008**, but in the face of persistent budget deficits every year for the last 8 years, this is no longer affordable. As a country, therefore, we have to make choices as to how we distribute and spend our scarce financial resources. Should we continue to subsidize WASA and T&TEC to the tune of **\$3 billion** plus a year and should we continue to allow Petrotrin to avoid paying hundreds of millions per year in royalties and taxes? Or should we use this money to create jobs, to stimulate economic growth and to assist

the poor and vulnerable? We believe the answer is clear. We must all adjust.

Madam Speaker, the **2018** Budget Statement has been informed by recommendations offered in written documentation and in dialogue with major stakeholders and interested parties such as economists and public policy experts. Many of their suggestions have found their way into the budgetary plans and programmes. I wish to thank all those who contributed for their assistance in forging the national agenda and I also wish to thank my Cabinet colleagues for their support and cooperation in my preparation for this occasion.

Madam Speaker, once again, I wish to commend the outstanding professionalism and dedication of the public officials in the Ministry of Finance, and the other Ministries and Departments who assisted us, for their exceptional work beyond the call of duty.

Indeed, their support has not only been efficient but also effective as illustrated by the technical rigour and socio-economic assessments contained in the twelve documents which I have laid today in the Parliament.

In addition to the ten budget documents that I have laid, I also have the honour to lay the Vision 2030, National Performance Framework **2017 – 2020 and the National Development Strategy 2016 – 2030 (Vision 2030)**, both prepared by the Ministry of Planning and Development.

Madam Speaker, in overcoming the most challenging economic situation of our recent past, we are securing the foundation for achieving sustainable and robust growth. Our guiding principles are charted in the updated Vision **2030**, laid in the parliament today and grounded in the principles first outlined in Vision **2020**.

Madam Speaker, through the implementation of Vision **2030**, we envisage a society in which all our citizens will receive a fair share of our national resources. As such, they will be able to take advantage of all opportunities in an equitable manner and achieve their fullest potential in an enabling and fair environment.

For this Budget presentation we have chosen an unusual theme "**Changing the Paradigm**" as these are unusual times which call for major changes in our policies, institutions and in ourselves. This new paradigm will call for serious adjustment from all sectors of society.

I turn now briefly to the global economy.





# The Global Economy

At the time of the Budget presentation in late **2016**, the outlook was for a strong pick-up in global economic activity in **2017**, after a marked slowdown in **2015-2016**. While a turnaround has materialized, it appears to be much slower than envisaged. The latest projections are for global real GDP growth of around **3.5 percent** in **2017** and **3.6 percent** in **2018**, up from an average of **3.2 percent** in **2016**; but a far cry from the pre-crisis levels, particularly for the advanced economies and the commodity-producing developing nations.

Real GDP growth in the United States has been revised downwards to **2.1 percent** in **2017**, primarily reflecting the assumption that fiscal policy will be less expansionary than previously anticipated. Expected economic growth in the United Kingdom has also been revised downwards due to policy uncertainties following the last general elections. In contrast, the cyclical rebound appears to be strong in the euro-area countries as a result of reduced concerns about the negative impact of Brexit and greater political stability in the region.

Commodity exporting economies, most of which were plunged into adjustment mode to offset the sharp decline in commodity prices, are expected to slowly exit their recessions because of the steady rise in commodity prices. The recovery, however, is likely to be slower for oil-producing economies as oil prices are expected to make a much slower rebound.

Inflation in the advanced economies remains generally subdued at or below the notional **2.0 percent** target. This level of price stability, notwithstanding relatively-easy monetary policy, has been attributed to the existence of significant spare capacity, the high level of private indebtedness which is contributing to cautious private sector borrowing and muted wages pressures.

It is in this global context of weak or modest economic growth in many countries that we must find our way.

## Changing the Paradigm

Madam Speaker, in many ways we are a typical, small, resource-based developing country. However, many external analysts see us as an exceptionally successful energy-based developing economy, which has used its oil and gas resources to significantly increase the living standards of our relatively small population - and the facts bear this out.

According to the World Bank Human Development Index, we have a High Level of Human Development when measured by conventional indicators such as per capita income, now at **US\$17,000** in Trinidad and Tobago, educational attainment and life expectancy.

Our economy can boast of strong economic fundamentals: low inflation, low unemployment, comfortable external reserves and a relatively low external debt burden. We have fairly well-developed infrastructure and we have utilized our energy resources to create a world-class petro-chemical sector.

Madam Speaker, many economists believe in the existence of what is called the Dutch Disease in Trinidad and Tobago, that is to say, a paradoxical situation where seemingly good news, such as the discovery of large oil reserves, turns out in the long run to have a negative impact on a country's broader economy. This is reflected in the local private sector's investment in non-tradables such as retail outlets and finished goods, rather than in manufacturing and export. It also manifests itself in the decline in agriculture and the dependence on imports, including imported food.

Other indicators of the old paradigm are:

- the failure to develop an efficient tax administration, which was overlooked in the past because we could depend on sizable energy taxes;
- a proliferation of poorly targeted subsidies: on fuel, which are currently being addressed, but as well, on electricity, water, transportation, education and

- housing;
- a highly staffed public sector, in terms of numbers, coexisting with staff shortages in key departments;
- inefficient capital expenditure management, characterized by inordinate delays and cost overruns in project execution, often overlooked in the past, since funding was not an issue;
- a tendency for wage increases to outpace productivity; and
- outdated institutions such as our procurement system.

Madam Speaker, you may recall that as a result of an oil shock in the **1980s** the then NAR Government chose to address the problem of reduced revenue by downsizing the public sector and cutting public sector salaries and allowances, thus requiring the population to reduce their real incomes. The present situation is quite similar but our approach will be not be the same.

This PNM Administration has already started to address the weaknesses in our economy as well as to create the new paradigm which is a precondition for the restoration of economic stability and long term growth.

Madam Speaker, the population has pulled through difficult times before and we will do it again. As the calypsonian Black Stalin told us in **1988**, almost 30 years ago, *"We Can Make It If We Try"*.

## Economic Data

Madam Speaker, one of the shortcomings of our system is the absence of reliable economic data. To address this, the United Nations Statistics Division (UNSD) has recommended that the base year for the production of GDP data at constant prices should be updated in five year cycles or, at a maximum, in **10 year** cycles. The use of cycles greater than ten years, as has been the custom in Trinidad and Tobago, distorts the input/output ratios and price structures and increases the margin of error of GDP estimates.

The current series for GDP at constant prices had a base year of **2000**, more than **17 years** ago. In that intervening period the structure of the Trinidad and Tobago economy changed drastically. After discussions with the IMF's regional institute CARTAC, the Central Statistical Office (CSO) decided to update its methodology and shift its base year to **2012**, consistent with the recommended

**5-year** cycle. The rebased series is represented in the **2017** Review of the Economy.

Madam Speaker, based on preliminary data for the first **six months** of the year, the CSO forecasts that real GDP could show a decline of **2.3 percent** in **2017**. However, this projection is preliminary and may not be giving sufficient weight to the turnaround in the energy sector in the second half of this year.

Partial data does, in fact, show that oil and gas output in the first six months of the year was around **5 percent** lower than in the corresponding period of **2016**. There was also a marked slowdown in activity in the petroleum services sector. In the non-energy sector, there is evidence of a slowdown in construction activity, led by a general reduction in Government spending and in manufacturing and distribution activities due to foreign exchange and productivity challenges.

On the other hand, there has been an increase in oil and gas output in the second half of the year. The Juniper project has started production, the rate of which is likely to be ramped up in the coming months. Also, there has been some pick-up in the implementation of the public sector investment programme towards the end of the fiscal year.

More importantly however, with other gas projects coming on stream in **2018 - 2019** and, given recent gas discoveries by bpTT, it is now safe to say that the rebound in oil and gas production over the medium-term will be stronger than originally anticipated.

Madam Speaker, the Central Bank has reported that domestic inflation continues to be under control, which is one of the key priorities for this Government. Core inflation is now down to **1.7 percent** year on year, with food inflation measuring just **0.5 percent** year on year. Further, based on the CSO's data, the unemployment rate at the end of **2016** was only **3.6 percent**. These are comforting figures.

Madam Speaker, as is to be expected, the persistent difficulties being faced by the energy sector are reflected in a reduction in foreign exchange availability. Purchases from the market by authorized dealers have fallen from **US\$4.9 billion** in **2015** to **US\$4.3 billion** in **2016**. Through **August 2017**, purchases have amounted to only **US\$2.9 billion**. To help meet the excess demand, the Central Bank interventions in the foreign exchange market doubled to **US\$2.6 billion** in **2015** but declined



to **US\$1.8 billion** in 2016. Up to the end of **August 2017**, the Central Bank had sold **US\$1.3 billion** to the authorized dealers, so once again in this calendar year, the injection of foreign exchange by the Central Bank may be in the order of **US\$1.8 billion**.

As they have done in past periods of foreign exchange difficulties, the banks have continued to give preference to manufacturing and trade in their allocation of foreign exchange.

## Fiscal Outturn: 2017

Madam Speaker, the **2017** Budget assumed an oil price of **US\$48.00** per barrel and a **netback** gas price of **US\$2.25** per MMBtu. In line with the adjustment path set out in the medium term consolidation plan, the **2017** Budget targeted an overall deficit of **\$6.0 billion**, the equivalent of **3.9 percent** of the GDP estimate at the time. The actual outturn in 2017 for oil and gas prices was **US\$48.03** for oil and a netback price of **US\$2.00** for gas.

Total revenue was budgeted to increase by about **\$2.5 billion** to **\$47.4 billion**, largely reflecting an increase in proceeds from the sale of assets. Core revenues were budgeted to remain at **\$33 billion**, as an expected increase in tax collections from the energy sector was to be roughly offset by lower profit transfers from state enterprises. Total expenditure was budgeted to increase by just **\$0.5 billion** to **\$53.5 billion**.

Current expenditure was budgeted to remain unchanged at around **\$48.4 billion** notwithstanding the inclusion of **\$1.8 billion** to cover the remainder of arrears to public servants and a further **\$1.8 billion** to reduce outstanding arrears to contractors. The Budget also provided for a small increase of about **\$0.5 billion** in capital expenditure over the **2016** estimates.

Preliminary data indicate that we will fall short of our **2017** revenue target.

This is largely because of delays in the receipt of certain one-off revenue flows, which we can call debt recovery, in particular the delay in recovering the **\$15 billion** plus of taxpayers' money still owed by CL Financial. As is now public knowledge, the delay in monetizing CLF's assets was caused by lack of co-operation on the part of the CL Financial shareholders and an attempted hostile takeover on the part of the company. This attempted takeover led

to an application to the Court to wind up the company, which became necessary to save and preserve taxpayers' assets. And now that the liquidators have been appointed by the Court, it will be far easier in **2018** to recover the billions of tax payers' dollars lent, to a private company, CLF.

A further revenue shortfall was caused by delays in the collection of property tax as a result of legal proceedings initiated by persons associated with the UNC Opposition. These proceedings had to be heard by the Court of Appeal before the Government was given the go ahead with the collection of the tax. An aspect of that court matter is still to be determined by the Court, but the Government can now proceed to value properties and populate the property valuation rolls, which is an essential prerequisite to the collection of property tax.

The expected receipts from the gambling and gaming sector were also not realized. The new gambling legislation, which seeks to regulate gambling and ensure that Government receives its fair share of revenue from this sector requires a special majority, and as such, it is making its way through a Joint Select Committee (JSC) of Parliament. Considerable progress has already been made in the JSC; however, all stakeholders who made submissions on the proposed Gambling Bill have been interviewed by the Committee, leaving just the clause-by-clause examination to be undertaken. Once the requisite amendments are made to the legislation, and the Opposition supports the required **3/5** majority, the new Gambling and Gaming Commission can be implemented.

Total Revenue in **2017** was thus roughly **\$10 billion** lower than envisaged largely because of the shortfall in the above mentioned areas.

On the other hand, due to prudent financial management, Total Expenditure was **\$3 billion** lower than expected. On this basis, the overall deficit turned out to be **\$12.6 billion**, almost twice the budgeted level.

**It is noteworthy that the entire increase in the deficit is explained by the non-receipt of the extraordinary revenues from CLF/Clico (debt recovery), due to legal challenges. Now that the legal issues have been largely resolved, in excess of \$10 billion from CLF/Clico would be available for future financing, including the 2018 Budget.**

## Revenue

Madam Speaker, an analysis of the **2017** revenue outturn indicates that the increase in oil prices beyond the **US\$50.00** per barrel threshold for three months early in fiscal **2017** triggered the payment of Supplemental Petroleum Tax (SPT). Since early **2016**, oil prices have fluctuated just below the **US\$50** threshold so that little, if any, Supplemental Petroleum Tax (SPT) was payable.

Preliminary data also suggest that there were nominal shortfalls in the collection of value-added taxes reflecting declining consumer demand and pervasive tax evasion.

Reduced foreign exchange availability also affected revenue collections from taxes on alcohol and cigarettes, while a pronounced shift in demand for hybrid vehicles that are tax-exempt resulted in lower motor vehicle tax collections. Poor revenue administration continues to impact the collection of taxes.

The **2017** Budget had also envisaged one-off revenues from asset sales through public offerings of shares of First Citizens and the Trinidad and Tobago National Gas Limited.

## Expenditure

Madam Speaker, preliminary data indicate that total expenditure in **2017** was in the order of **\$50.5 billion**, some **\$3 billion** below budget.

The implementation of the Public Sector Investment Programme is now more disciplined in order to avoid the wastage that occurred in previous years. Unfortunately, this new orderly approach has resulted in delays in getting some of our larger projects off the ground. We were also able to complete the planning and advance the procurement process in respect of some of the larger projects. This is important since it means that we can hit the ground running in the next fiscal year.

## Budget Financing and Public Debt

Madam Speaker, the overall deficit of **\$12.6 billion** was financed in the main through a drawdown of **US\$252 million** or approximately **TT\$1.7 billion** from the Heritage and Stabilization Fund (HSF), in **March 2017** and from domestic and foreign borrowing. Our foreign borrowing consisted mainly of a **US\$300.0 million** or **TT\$2.0 billion** loan from the Corporacion Andina de Fomento (CAF), also called the Andean Development Bank, and loan drawdowns of **\$280 million** from the Inter-American Development Bank (IDB).

Domestic financing in **2017** amounted to **\$6.6 billion** representing the proceeds from bond issues. As at **September 30th 2017**, net public sector debt outstanding totalled **\$93.7 billion**, the equivalent of **62.6 percent** of the revised GDP compared with **\$87.5 billion** or **58.8 percent** of GDP at the end of **September 2016**. External public sector debt as at **September 30th 2017** amounted to a still comfortable **16.9 percent** of GDP.

We do not anticipate a large fiscal deficit in **2018**, since our sale of assets programme and the recovery of money lent to CLF/Clico (debt recovery) will be far easier to execute in **2018** than in **2017**.

Madam Speaker, developments in the second half of **2017** confirm the assessment of the recently concluded IMF Article IV Consultation mission that the economy is on the cusp of a moderate recovery. To ensure and support this turnaround we need to redouble our efforts to reduce the large fiscal imbalance and to accelerate the structural reforms that are needed for economic diversification.

The medium-term recovery will again be driven by the energy sector. However, the policies being put in place are expected to elicit a stronger response from the non-energy export sector.



# Medium-Term Fiscal Policy

## Energy Sector

Madam Speaker, despite the challenges posed by the low price environment, the energy sector faces a very positive outlook based on a number of new gas projects which are scheduled to start production over the next two to three years. A new tax regime which is designed to provide incentives for increased exploration and production should also set the stage for increased oil and gas output.

Oil production for the first five months of **2017** has levelled off at **73,500 bpd** compared with **73,800 bpd** for the corresponding period of **2016**, although this is well below the rate of **100,851 bpd** in May **2010**.

Oil production is now expected to reach around **85,000 bpd** by **2020**, in the context of the plans and programmes now being undertaken by the industry.

Gas production has also been declining. In **2015**, gas production averaged **3.833 billion** standard cubic feet per day (scf); but this amount declined to **3.327 billion scf** in **2016** and the downward trend continued in **2017**. However, we are now firmly charting a way forward out of what was a potential gas crisis and taking steps to ensure that our gas production returns to the **2010** level of **4.3 billion scf**.

We expect to reach this target of **4.3 billion scf** as a result of a number of projects, most of which are already on stream:

- the bpTT Juniper Platform which commenced gas production in August 2017 would have peak output capacity of **590 million scf**;
- the bpTT – EOG Resources Sercan Phase 2 project which began in the second half of **2016** has a capacity to produce up to **275 million scf**;
- the bpTT’s Trinidad Region Onshore Compression

project which commenced production in **April 2017** is expected to add up to **200 million scf**;

- the Angelin project is expected to produce up to **600 million scf** beginning at the end of **2019**;
- Shell’s major work-programme on the redevelopment of the Starfish field, the use of infill drilling in the Dolphin field and the development of untapped reserves in the Bounty and Endeavour fields are expected to produce additional gas in **2019**, thereby reversing Shell’s declining output levels of recent years; and
- bpTT’s Cassia Offshore Compression project, which, once approved, will commence operations in **2020**.

Madam Speaker, with the natural rate of decline in gas production and despite the increasing production from new projects, the uplift in gas availability would amount to **3.539 billion scf**. To supplement this, Government is working assiduously with the Venezuelan authorities and related companies to complete a gas sales agreement in the near future for access to across-the-border gas by the **2019 - 2020** period. With access to the Dragon Field, gas availability could be raised to around **3.839 billion scf** in **2020**, thereby bringing gas supply closer to gas demand.

Over the longer term, we envisage that the natural gas supply to the downstream sector will be sustained by the exploration activity of the major energy companies, which is expected to accelerate over the medium-term. We anticipate that production of natural gas from the recently-announced discovery of approximately **2 trillion cubic feet (tcf)** of natural gas at bpTT’s Savannah and Macadamia wells could begin around **2021** or **2022**. This development will ensure that gas supply will be able to meet projected gas demand.

Madam Speaker, further ahead, production from the **10 tcf** cross-border Loran-Manatee field between Venezuela and Trinidad and Tobago is expected to commence as early as **2023**, providing access to the **2.69 tcf** portion of

gas within Trinidad and Tobago's territory. It is also quite possible, once the current negotiations bear fruit that over **7 tcf** of gas on the Venezuelan side can be processed at this country's Atlantic LNG facility.

## Gas Master Plan

Madam Speaker, it is public knowledge that the future of our gas-based industries is being threatened by shortages in domestic gas production. Since **2002**, the gas reserve base has been steadily falling with the proven reserves to production ratio falling to **7.6 years** as at the end of **2015**. However, as noted earlier, several projects to improve the gas supply are underway and we are putting in place a road map to ensure the long-term stability of our natural gas sector.

In **2017**, we completed the technical work in the evaluation of the Gas Master Plan. We are committed to the policy framework as outlined in that Plan which has already been approved by the Standing Committee on Energy of Cabinet. We expect this Plan to be quickly adopted by the Joint Select Committee of Parliament on Energy, as national policy. The main elements of this Plan are:

- ensuring that new exploration efforts are undertaken to the maximum extent possible;
- ensuring that all suppliers develop and supply their gas resources to the market in an optimal manner;

- maximizing the Government take from the gas sector subject to ensuring that all producers along the value chain are sufficiently incentivized to perform optimally for the country;
- ensuring that sufficient gas supply is available to strategic downstream sectors; and
- ensuring that if gas supply curtailment is required it is applied in a transparent consistent and fair basis.

Madam Speaker, the work has already begun. As an initial step, we are addressing the inadequate benefits flowing to Trinidad and Tobago from the high global Liquefied Natural Gas (LNG) prices in recent years. The initial assessment is that the very low weighted netback prices for LNG in Trinidad and Tobago under existing commercial arrangements were completely inconsistent with the high prices of LNG then prevailing in global markets; by some estimates, Madam Speaker the country lost billions of US dollars annually in the **2011 - 2014** period from such irregular transfer pricing practices.

To address this, an international gas consultant has been engaged and is now working with the Government to establish mechanisms through which the Government can increase or maximise its share of the income generated through sales of our country's LNG, within the scope of the existing contractual arrangements.



# Fiscal Reforms

## Tax Compliance and Administration

Madam Speaker, the prolonged period of high energy prices that we experienced obscured many of the ills plaguing our fiscal regime. In fact, the decade and a half leading up to the collapse of oil and gas prices in **2014** institutionalized a mix of policies and behaviours, many of which are incompatible with the type of dynamic, diversified economy we want to create.

We thus need to introduce a number of fiscal reforms more in keeping with our goal of fiscal sustainability.

Madam Speaker, there are important issues to be addressed with our Energy Tax Regime. Given the long history of the sector and the way it has evolved over time, Government’s approach to the taxation of the sector has not always been consistent or holistic. Moreover, the proliferation of multiple tax systems in one sector raises questions about the efficiency of these arrangements and creates uncertainty regarding expected Government revenue. Against this background, we have started a review of the energy tax regime in order to simplify and rationalize the terms of both Exploration and Production licenses and Production Sharing Contracts. The main objectives of this reform are to encourage investment in the energy sector and to raise the Government’s revenue-take.

Critical areas being addressed are:

- making the Supplemental Petroleum Tax responsive not to price but to underlying profitability;
- extending the Supplemental Petroleum Tax to gas, which is now the country’s main petroleum product;
- reconciling and simplifying of the fiscal regimes applicable to the exploration and production and production sharing systems; and
- standardizing and uniformly applying appropriate royalty rates to all crude oil, condensate and gas.

Negotiations between the energy companies and the Government are well advanced and we expect to be in a position to present the new oil and gas fiscal regime before the end of this year.

However, Madam Speaker, the prolonged period of high energy taxes that this country has enjoyed, lulled significant sections of the population into believing that taxes from the non-oil sector were not needed to finance the provision of government services.

That seemed to be the Opposition’s rationale in suspending and later opposing the introduction of a modern property tax – a tax that is widely regarded as being equitable and progressive, while at the same time being efficient and simple to administer. We in this Government, however, recognise the urgent need to identify new revenue streams, and preparations are well-advanced towards populating the valuation and assessment rolls and training the personnel needed to facilitate the implementation of this tax.

Our tax reform strategy also involves a major improvement in Tax Administration. We must ensure that everyone pays his or her rightful share; not just the easily identified wage earners. The self-employed professionals need to pay their fair share; and businesses need to ensure that they collect and hand over value-added taxes as the law requires. In this context, Government plans to review the tax incentive regime to ensure that there are no companies still receiving incentives which should have expired or are no longer required.

Madam Speaker, experience in the region and elsewhere has demonstrated the benefits of having an integrated Revenue Authority as the centre-piece of the tax administration system, as it brings together the Board of Inland Revenue and the Customs and Excise Division under one administrative umbrella.

A well-structured Revenue Authority not only facilitates coordination and collaboration between the two main tax collection offices, but also allows for the recruitment of specialized staff which are not always available in the traditional public service.

# 2018 Budget Statement

This arrangement is conducive to greater administrative and operational efficiency since it facilitates the transfer of information between the two tax collection units. As we move ahead to more efficient revenue collection, we intend to present the legislation establishing the Revenue Authority to Parliament by **December 2017**.

Madam Speaker, currently, Trinidad and Tobago is home to a Gaming Industry worth an estimated **\$15 - 20 billion**, from which we collect little or no taxes. A Gambling (Gaming and Betting) Control Bill, which is identical to the one prepared by the last Administration, was presented to a Joint Select Committee of Parliament in **February** of this year, at the request of the Opposition. The Committee has already invited and received submissions from the public and all stakeholders in the gambling sector and interviewed all concerned. It is our expectation therefore, that the clause by clause examination of the Bill will be completed as quickly as possible, so that new comprehensive gaming legislation will be in place before the end of fiscal **2018**. In the meanwhile, in anticipation of the Bill receiving the required special majority, the Ministry of Finance is working diligently on the required regulatory and compliance structure.

Madam Speaker, there are also obvious unsustainable weaknesses in the structure of Central Government's expenditure. The Central Government's wage bill now consumes **31 percent** of core revenue receipts. In **2014**, before the collapse in oil and gas prices and before a **14 percent** wage increase to public servants and workers in many state enterprises, the wage bill only consumed **15 percent** of core revenues.

Madam Speaker, for years we have expressed concern about the explosive growth of transfers and subsidies, but we have done little about it, except in the area of reducing fuel subsidies. In this latter context, notwithstanding adjustments to fuel prices in **2016**, the fuel subsidy in **2017**, largely on diesel, still amounted to about **\$800.0 million**.

It is also important for me to emphasize and for our population to realize that our fiscal system is overrun with subsidies, many of which are unsustainable, though they are sometimes called by other names.

In **2017**, for example, the Water and Sewerage Authority (WASA), the Port Authority, Caribbean Airlines and the Public Transport Service Corporation (PTSC) received combined transfers of close to **\$3 billion** from the Central Government. These are in fact subsidies on water rates and transportation tariffs.

The Trinidad and Tobago Electricity Commission (T&TEC) also receives a subsidy of about **\$750 million** a year by not paying the National Gas Company for natural gas. This is why we have the lowest electricity tariffs in the Caribbean and in Latin America. But how much longer can we afford this Madam Speaker?

The Government Assistance for Tertiary Education (GATE) is another subsidy that takes up a large part of Government spending. Since its introduction by a previous PNM Administration in **2004**, successive Governments have spent **\$6.5 billion** on GATE. This subsidy has contributed to raising the student participation rate in higher education from **8 percent** in **2002** to **65 percent** in **2015**. But at current revenue levels, this rate of expenditure is not sustainable and must be subject to constant review.

In recognition of the fact that we can no longer afford to spend upwards of **\$700 million** a year on GATE, the Government, after consultations with the relevant stakeholders, has restructured the programme, such that GATE will remain open to all students but they will have to undergo a means test to determine the level of subsidy to which they would be entitled. The idea is to give maximum assistance to those most in need and to ask those who can afford, to make a contribution to their tertiary education. The GATE programme will be subject to further review and adjustment in **2018**, since a reasoned argument has been made that wealthy individuals should not benefit from any subsidy on tertiary education at all.

Madam Speaker, the Government currently spends close to **\$1 billion** annually on two employment-generation programmes – the Unemployment Relief Programme (URP) and the Community Environmental Protection and Enhancement Programme (CEPEP). We have already begun to review these programmes to return them to their original mandate and to ensure they are more productive and in the national interest.

Madam Speaker, consistent with the need to cut out waste and duplication, the Government has engaged the World Bank to conduct a Public Expenditure Review, starting with the major areas of expenditure. The study will focus on improving the efficiency of our spending on health, education and social services and developing systems to improve targeting and prevent overlapping of our social safety net. We expect that implementation of measures to improve the efficiency and targeting of these subsidies and transfers could produce significant savings without depriving the deserving beneficiaries of these programmes.





## Diversifying the Economy

Madam Speaker, in the ensuing Budget Debate, Ministers of Government will report in detail on the progress their ministries have made, their achievements in **2017**, as well as their plans for **2018**. This Government is a team and our Ministers are all worthy speakers. There is thus no need Madam Speaker to dilute the fiscal message in this Statement with unnecessary reporting on all Government departments and agencies.

This Budget Statement therefore will focus on those areas that we consider relevant to the new economic paradigm.

In that context, as is the case with our fiscal consolidation strategy we certainly need to change the paradigm if we are to be successful at long-term economic diversification. Consecutive administrations have recognized the need for economic diversification, but the lure of windfall revenues and the spending possibilities that they present have always come in the way of the best-laid plans. Perhaps more importantly, we have never been able to reach the level of stakeholder collaboration needed to successfully pursue diversification.

It is clear that the market mechanism by itself will not get us there. If business or labour pursue sectional interests it would not be sufficient and successive Governments are not without blame. Governments have too often been slow in taking the difficult decisions rather than acquiescing in short-term fixes. As an example, we have too often put off the kinds of public service reforms that are required to facilitate private sector activity and investment. Our present economic predicament provides us with yet another opportunity to get it right and we must seize and pursue it vigorously in order to protect our country's future.

### Business Facilitation

Madam Speaker, this Government has made progress in improving business facilitation. We have strengthened the Single Electronic Window and implemented a risk-management framework to alleviate bottlenecks at the

Customs Division level. We are well-advanced towards unveiling an automatic system for the approval of construction permits. We have reduced the time it takes to start a business, from seven days to three days, though much more needs to be done.

Madam Speaker, the latest Global Competitiveness Report, published just last week, ranked Trinidad and Tobago at **83** out of **137** countries. This represents a major improvement since we assumed Office. However, we need to be mindful that Global Competitiveness Reports have ranked poor work ethic, corruption and inefficient government bureaucracy as the three most problematic factors for doing business in Trinidad and Tobago. We all need to work together to address these issues and our focus in **2018** will be on efficient implementation.

Madam Speaker, it is also critical that we all work constructively and in a spirit of *give and take* to reduce the level of misunderstanding and dis-enchantment that currently exists between labour, business and Government. This is absolutely needed in the national interest.

Our efforts to intensify our diversification strategy will encompass the following sectoral initiatives:

### Export promotion

Madam Speaker, apart from import substitution, one of the main drivers of the new Trinidad and Tobago economy must be growth in exports in order to earn foreign exchange and penetrate new markets.

However, one of the major challenges for exporters at this time is access to foreign exchange for raw materials and other essential inputs into manufacturing.

To address this problem, we are establishing a facility to allow eligible exporters to access foreign exchange. In furtherance of this objective we will request the Central Bank to license the EximBank as a dealer in foreign

exchange and give the EximBank the responsibility to allocate foreign exchange to exporters. In the first instance, the facility would be capitalized at **US\$100 million** and will be available in fiscal **2018**. The facility will fund the operations and import requirements of our local manufacturers and exporters. To qualify, at least **30 percent** of a business's production must be for export. In the case of existing established manufacturers, to qualify, they must agree to repatriate a suitable amount of their foreign exchange earnings. Start-ups or fledgling manufacturers with a lower level of export production, but with a feasible export plan, will also be considered favourably.

The allocation of foreign exchange, the US 100 million facility, will be reviewed and adjusted as necessary, as more and more manufacturers join the new export promotion programme.

## Business Development Incentive Programme

Madam Speaker, another area of focus for the Government is the stimulation of small to medium sized businesses.

The large local businesses have made it clear that in their view, apart from issues with the ease of doing business and the disincentives created by Government bureaucracy, our current exchange rate is in their view uncompetitive. In order for them to grow their businesses and export their products, into what they describe as the **20 million** plus Caribbean free market, made up of CARICOM and CARIFORUM countries, they are of the view that our exchange rate should be managed for maximum economic benefit. To create more jobs, or to maintain existing jobs, they tell us we must allow the Trinidad and Tobago dollar to move to a level where goods produced in Trinidad and Tobago become cheaper than in other countries in the Region.

Madam Speaker, as a Government, while we listen to everyone, we cannot be driven only by the requests of big businesses and we must consider all of the social and economic impacts of a devaluation and not make hasty decisions or rush to judgement. We must consider the national good, in particular, the needs of the poor and vulnerable, and the effect on inflation of a change in the exchange rate. We must also weigh the pros and cons of the arguments made by our private sector, who we depend on to invest in this country and stimulate

economic activity. The management of our exchange rate will therefore continue to be within the purview of the Central Bank, with appropriate guidance from the Government. However, the exchange rate will move more in step with demand and supply and the availability of foreign exchange.

We believe that in order to survive and grow in this challenging new financial environment, we must learn from other countries that have been successful. Small businesses and medium sized businesses are the mainstay of Europe's economy, contributing **98 percent** of business activity and **67 percent** of total private employment in the European Community. If European economies can depend on small and medium sized businesses for economic growth, why can't ours?

Thus, we see the encouragement of small and medium businesses as crucial to our future development. As they succeed, many successful small businesses will grow and expand and even become big businesses.

However, small businesses face a different range of problems than their larger counterparts, due to their inability to enjoy some of the same advantages in the marketplace. Most of these problems are due to revenue and cash-on-hand availability when the bills become due.

Madam Speaker, the most important issue to any small business entrepreneur is cash flow. It does not help a small business to have a potentially profitable upcoming year or a great business idea if they don't **have enough cash to meet their rent and utility bills or pay their current employees**.

Further, start-up companies and small businesses frequently run on small margins and may be profitable only so long as unplanned events never occur or capital investments are required to keep abreast of the competition, such as new equipment or new accommodation. In many cases, all a small business needs to expand or maintain its operations is relatively small amounts of seed capital to purchase machinery, raw materials, market its products, or to establish a suitable place of business.

Likewise, a natural disaster, industrial accident or other major disruption can close a small business for weeks or months.

Recognising the constraints that face small businesses, and borrowing from the experiences of other countries,



the Government will continue to expand, simplify and expedite the provision of concessional loans and loan guarantees through state agencies, and will establish a new business development fund, aimed at providing working capital and/or seed capital through grant funding, both to start-ups and existing small businesses.

Access to the fund will be through a process of evaluation and interview by a group of successful Trinidad and Tobago entrepreneurs and self-made businessmen and women, in similar fashion to the acclaimed *Shark Tank* and *Planting Seeds* reality shows, but with the seed capital provided by the Government. Once our panel of experts deems an application from a small local business to be worthy of grant funding, it will be forwarded to a Ministerial Committee for a final decision and disbursement.

Every effort will be made to fashion the programme in such a way that it is simple and easy to access, without cumbersome bureaucracy. In the first instance, grants to successful small business applicants will be up to a maximum of **\$100,000**. This limit will be reviewed as the programme develops and adjusted, if required.

A provision of **\$50 million** has been made in the **2018** budget for the New Business Development Programme, which will assist at least **500** small businesses in Trinidad and Tobago to grow and develop. This allocation will be supplemented if necessary.

## Tourism

Madam Speaker, independent analysts, both local and international, tend to be full of praise for the tremendous potential of Trinidad and Tobago's tourism industry. However, they are equally quick to lament that the sector has grossly under-performed. The factors underpinning this under-performance have also been well-documented; and are still to be addressed comprehensively. The Government is taking some bold steps to rectify the sector's shortcomings by first addressing the governance arrangements in the sector.

Madam Speaker, we have dissolved the Tourism Development Company Limited (TDC) which has been replaced by two new companies, one with oversight for Trinidad and the other with oversight for Tobago, bearing in mind that the two destinations have unique characteristics.

The *Tourism Trinidad Company*, in collaboration with the Ministry of Tourism will market the Trinidad tourism product, such as meetings, conferences, exhibitions and cultural tourism.

The *Tobago Tourism Agency* will market and develop the Tobago tourism product as a leisure-based location under the remit of the Tobago House of Assembly.

Madam Speaker, the combined destination of both locations - Trinidad and Tobago will provide opportunities for both experiences through strategic marketing and promotion. We are establishing for the first time, a Regulatory Authority: The *Trinidad and Tobago Tourism Regulatory and Licensing Authority* to ensure that the tourism product in both Trinidad and Tobago meets and maintains international best practices, adherence to which will be monitored.

Madam Speaker, we have already started to forge closer links with cruise lines and to strengthen our marketing efforts to increase the number of port calls to our destination. We are working to provide an enhanced visitor experience for our cruise ship visitors.

Madam Speaker, with the closure of the Tourism Development Company, the Ministry of Tourism has assumed responsibility for tourism investments and incentives, cruise passenger visitor services, airport visitor information services, sites and attractions at the facilities at Maracas, Las Cuevas, Vessigny, Manzanilla and at the La Brea Pitch Lake, among others. We are moving rapidly to complete the facility upgrade at Maracas Beach by **January 2018**, so that visitors will be able to access Maracas Beach in an eye-catching, attractive and healthy environment.

Madam Speaker, discussions have been progressing satisfactorily on the establishment of Sandals Resort at the Golden Grove Estate in Tobago. Sandals, with its twenty-two hotels based in the Caribbean, will contribute significantly to the branding and marketing of Tobago as a tourism destination.

It will also catalyse the expansion of good quality five-star rooms, provide a boost to stay-over arrivals and in the process generate employment opportunities and spill over activity both in Tobago and Trinidad. The Sandals brand will also lead to an expansion in air and sea traffic to Trinidad and Tobago. We expect the negotiations with the Sandals Group to be concluded shortly.

## Agriculture

Madam Speaker, Agriculture has been targeted as one of the sectors earmarked for special focus within the Government's diversification strategy because of the sector's inherent potential, the realization of which will, *inter alia*:

- boost the health of our nation;
- contribute to food security and exports;
- displace food imports, saving foreign exchange;
- present spill-offs through agro-processing; and
- enhance agricultural incomes.

In **2003**, the contribution of the agricultural sector to the Gross Domestic Product (GDP) dipped below **1.0 percent** and has languished at below **0.5 percent** of GDP since **2012**. Commensurately, our food import bill expanded, consuming a considerable proportion of our foreign exchange earnings. Over the period **2003** to **2016**, our food import bill was an estimated **US\$8.91 billion** or **\$56.9 billion**.

Madam Speaker, our **2015** Manifesto which is now public policy, committed this PNM Administration to improve our food security through the creation of a strong, modern, and competitive agricultural sector. We are targeting a doubling of output of the agricultural sector over the next two years, thereby raising the sector's contribution to gross domestic product to just over **1.0 percent** of GDP, and in the process, reducing food imports.

We are adopting modernized production methods throughout the sector. We are improving the quality of agricultural infrastructure to help boost farm output.

Farming knowledge and interest in farming are being promoted through training programmes and other initiatives. During the last fiscal year alone Madame Speaker:

- **1,400** persons were trained in **85** farming courses;
- **482,100** nursery plants and planting material for crops such as cocoa, citrus and other fruits were produced and distributed to farmers and the general public;
- **1,900** applications were processed under the Agricultural Incentives Programme;

- the Coconut Rehabilitation and Re-Planting Programme is developing sustainable coconut-based enterprises: coconut growers are being trained in new technologies, appropriate agronomic practices are being implemented, coconut estates are being rehabilitated and a coconut seedling garden using superior nuts has been established;
- the Cocoa Rehabilitation Programme is ongoing and is developing twelve cocoa clusters; with the upgrade of fermentation and drying facility at La Reunion Estate, the highest-quality of beans is being produced and they have already achieved global recognition. We are supporting local businesses wishing to venture into high-end export markets. We are positioning the locally produced cocoa beans for greater penetration of the European Market; and
- the Community Environmental Protection and Enhancement Programme (CEPEP) participation in agriculture, which will commence shortly in the targeted areas of reforestation, preservation, planting and rejuvenation of terrain. When synchronized with targeted needs analyses, on-going evaluation and feedback, there will be significant productivity gains utilizing CEPEP labour. This programme will also serve as an incubator for workers to develop their skills in the agriculture sector.

Madam Speaker, the agro-processing and light industrial park in Moruga will house five factory shells on more than eighteen acres of lands. It will be dedicated to processing and manufacturing products which originate from agriculture, forestry and fisheries. Rehabilitation works will proceed on access roads for priority agricultural commodities and upgrade works will commence at fishing facilities throughout Trinidad.

## New Incentives for Farmers

Madam Speaker, at the present time the agriculture sector in Trinidad and Tobago benefits from a myriad of incentives, including exemption from income tax for approved agricultural holdings, tax concessions on vehicles, equipment, raw materials and other inputs, subsidised loan programmes, purpose built markets, planting materials, access roads, state land leases and the like.

However, despite all of these incentives, which have been in place for years, the number of persons engaging in



full-time agriculture and agro-processing continues to decline. Full time agriculture is no longer attractive to many people and is seen by many as unviable. Madam Speaker, we just don't have enough farmers!

However, to increase local food production, we need many more full-time dedicated farmers and we therefore need to encourage persons to take up farming as a career and as a business. We also need to encourage existing farmers to upgrade their skills and to educate themselves about the latest techniques in farming, so that they can approach this business in a structured manner, for maximum efficiency.

Accordingly, in similar fashion to our small business incentive programme, we shall establish an agricultural financial support programme, with grants for new and existing farmers of up to **\$100,000**.

Appropriate training or certification in farming will be a prerequisite for applicants for this financial assistance since the objective is to encourage rational, efficient and methodical participation in agriculture.

Applications will be reviewed by a panel of experienced and successful farmers and agricultural entrepreneurs, who will make recommendations to a Ministerial Committee. The grants will be directed to financing the purchase of seeds, planting materials, livestock, tools, feed, chemicals, equipment, engines and other essential inputs into farming, to provide the necessary start up or working capital for farmers, but will not be available for the purchase of vehicles or other non-essentials.

To start the programme, an allocation of **\$20 million** has been put into the 2018 Budget.

## Business Process Outsourcing

Madam Speaker, financial services is one of the sectors around which our diversification strategy is centred. In this area we are pursuing a two-pronged approach:

- taking the necessary steps to make Trinidad and Tobago a preferred location for “**Business Process Outsourcing**” (BPO); and
- making Trinidad and Tobago an International Financial Centre, offering a broader range of services

and serving as a financial gateway to Latin America and the Caribbean.

We have chosen to focus on business outsourcing services for two main reasons:

Firstly, it is among the fastest growing industries in the world. In the Caribbean, the business outsourcing industry has already reached a level of **US\$3 - \$5 billion**. Many U.S. and European investors are now keen to set up regional headquarters and shared service centres in the Caribbean region, in particular for financing and accounting services. The demand seems to be greatest for finance and accounting and we wish to benefit from these latest international trends.

Secondly, Trinidad and Tobago has many, if not more, of the strengths which many successful BPO centres possess:

- we are English-speaking with a first rate education system;
- we have a sizable pool of finance and accounting talent with almost 6,000 persons enrolled in the ACCA foundation and professional level accounting courses;
- we have competitive telecommunications infrastructure in terms of reliability, cost and bandwidth; and
- we are signatories to several bilateral trade agreements and double taxation treaties.

Madam Speaker, we already have a nascent BPO industry that is providing services to local and regional clients. Currently, the sector provides employment for about **1400** persons and earns a modest amount of foreign exchange.

Accordingly, The Trinidad and Tobago International Financial Centre (TTIFC) is in the process of expanding its BPO operations by attracting foreign BPO firms, who would use local labour to serve their offshore clients. One large energy company has already made the decision to relocate its North American Petroleum Accounting and Reporting functions from Houston to Port of Spain. During **2017**, the TTIFC facilitated the registration of two large international BPO firms interested in providing high-end accounting services to foreign clients.

The, TTIFC is in discussion with other prospective clients who are interested in a wide range of services, including Information Technology (IT), legal and call-centre services.

The TTIFC is also continuing discussions with various interested parties on the establishment of an International Financial Centre. The focus is on attracting international banks which are interested in expanding their lending and other financial services to Latin America. This is clearly a longer-term proposition as it would entail far-reaching changes in the regulatory environment as well as possible investment in costly infrastructure.

## Yachting

Madam Speaker, we already have a striving yachting sub-sector comprising approximately **180** firms. We are outside of the hurricane belt, and while it is not something to be happy about, the terrible natural disasters in the northern Caribbean will result in increased visits to our shores as yacht owners seek to avoid future damage from hurricanes. Thank you to citizens, National Helicopter Services Limited and The Trinidad and Tobago Coast Guard for extending assistance to those affected by Hurricane Irma and Maria. This has happened before when destructive hurricanes caused massive property damage in the Leeward and Windward islands, most notably in **2005** when Hurricane Ivan hit Grenada.

Approximately **1,700** individuals have good quality jobs in this industry. We are rolling out a new yachting policy which will establish a foundation to improve the competitiveness of the industry, with a view to establishing Trinidad and Tobago as the premier destination for yacht repair services. We are supporting this sector by:

- developing yachting specific legislation to provide a clear distinction from commercial maritime laws and to provide regulations and operating procedures, through engagement of the relevant stakeholders;
- introducing the Single Harmonized Form which will reduce entry and departure times for cruisers visiting Trinidad and Tobago;
- developing a comprehensive marketing and promotion plan for the yachting sub-sector; and

- marina development through public-private-partnership arrangements in Tobago.

## Creative Industries

Madam Speaker, we are stimulating and facilitating the development of our creative industries, in particular music, film and fashion. In the Music Sector, we will implement an Artiste Portfolio Development Programme which will support artistes who are on the verge of becoming *export ready* by leveraging their creative talents on the worldwide market.

An Export Ready Academy will assist local artistes with producing, marketing and exporting their music. The establishment of a Live Music District, similar to other international music districts, will provide the appropriate space for live music and other musical activities year-round.

Madam Speaker, we are establishing a strategic plan for the Film Industry as a guide to enabling Government to make informed decisions on the development of this sub-sector. Local production crews will be given the opportunity to improve their film production talent and ensure more high quality productions. In support of this process there will be training and certification programmes which will be on par with international standards.

We will also launch a Production Assistance and Script Development Programme which will provide funding to film makers to produce high quality films. The return of TTT will be an outlet for regularly broadcasting local films produced under this programme to a wider audience.

Madam Speaker, we are also justifiably proud of our Fashion Industry. We are now establishing, in collaboration with the University of Trinidad and Tobago (UTT), a Garment Production Facility which would be located at the John Donaldson Campus of the UTT. A Tailoring Certification Programme will also be introduced at this facility.



# Building Human Capital and Quality of Life

## Housing

Madam Speaker, good affordable housing is one of the most urgent requirements of our population. Further, the construction of appropriate housing units has many benefits for the economy and for society. The immediate obvious benefits are job creation, consumer spending and stimulation of economic activity and growth, with backward linkages to the production of building materials and the provision of a multitude of services associated with the construction industry. Affordable housing construction also encourages savings and provides homeowners with more disposable income and leads to the creation of strong and vibrant communities. It can also increase productivity in the workplace as workers are settled in terms of their place of abode, rather than moving from place to place.

Madam Speaker, it is well known that there are currently over **150,000** applications for housing on the HDC's **waiting list** and that this high level of demand has existed for years. However, with the best will in the world, and all available financial and human resources, the HDC can construct at most **2,000** new houses per year, which means that with the current arrangements, the waiting list will never be fully satisfied.

Additionally, the cost to the Government of housing construction is way out of sync with reality. The HDC's **records over the last 15 years** indicate that the cost of construction of an HDC housing unit, inclusive of infrastructure and administrative costs, has moved from **\$100,000** in **2002** to as much as **\$1.2 million** in **2015**. Over the years, the HDC also drifted away from lower income housing and into the middle and upper income market. Accordingly, with sale prices for the majority of HDC units now ranging between **\$500,000** and **\$700,000**, this means that the HDC is losing up to **\$500,000** for each houses now under construction.

Madam Speaker, this translates into billions of dollars in the subsidy of housing constructed by the State, just to produce at most a few thousand houses per year. In

our current financial situation, this approach to housing construction is no longer feasible.

In addition, the greatest demand at the lower end of the scale is for rental accommodation or rent-to-own arrangements, where a portion of the rent is allocated to the eventual purchase over time of the unit. Accordingly, this market is where the Government should focus its efforts.

However, in order to generate the required cash flow to pay for ongoing and new housing projects, the HDC has been constrained over the years in terms of the number of rental units that it can make available, since it desperately requires the proceeds of housing sales just to keep its head above water. Madam Speaker, rental income is a fraction of the income from sales and the HDC cannot finance a major housing construction programme based primarily on rental income. Significant Government subsidy is thus essential for the provision of rental units.

In the context of the demand for rental units, therefore, the Government intends to shift the HDC's focus away from the middle and upper income construction market, and to return the HDC to its original moorings to provide affordable housing for lower and lower middle income families, with an emphasis on rental accommodation. This is where the Government's scarce resources will now be focused.

However, to fill the space in the housing market that will occur with this shift, and to also stimulate the private construction sector, the Government will in **2018** initiate a Housing Construction Incentive Programme to encourage private developers to construct houses to satisfy the current demand for affordable housing.

The income from the sales of houses under this programme will be tax free, as currently obtains for large traders in housing, and as an added incentive, the Government will contribute a cash bonus or state land, as appropriate, to all approved developers who construct housing units in accordance with designs, specifications and prices fixed by the Government.

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Madam Speaker, by way of example, the price of a standard 3-bedroom 2-bathroom unit, with a floor area of **1,100** square feet, could be fixed at **\$750,000**. Private developers will be required to acquire their own land, raise their own financing and mobilise their own resources to construct these units.

However, upon successful completion and sale to qualified applicants on the HDC list, (approximately 30,000 - 40,000) in the first instance, a cash incentive of up to **\$100,000** per unit, depending on the degree of difficulty of construction, will be paid by the Government to developers. Alternatively, developers will be provided by the State with suitable land at no cost in lieu of the cash payment per unit. With these incentives, it is expected that private developers will expedite the construction process in order to take advantage of the incentives, allowing for completion and sale of approved housing units in nine months or less.

Madam Speaker, you should note that with the current **2 percent** subsidised mortgage interest rates at Trinidad and Tobago Mortgage Finance (TTMF), with a **10 percent** deposit and a **25-year** mortgage, a typical purchaser in this new housing programme will only pay a monthly mortgage loan payment of **\$2,865** for a house or apartment costing **\$750,000**, which is well within the reach of most households.

To make access to mortgage loans even easier, we shall engage in discussions with the commercial banks to design a suitable housing loan regime, with Government input, including if necessary mortgage loan interest subsidy.

It will be apparent that in this way, the State and by extension taxpayers, can save the Treasury **\$400,000** per housing unit, since the cost to the State will now be in the vicinity of **\$100,000** per unit, instead of the current net cost to the HDC of **\$500,000** per unit. This should allow us to quadruple the current production of affordable housing, once fully implemented.

However, Madam Speaker, the Government is very conscious of the fact that many well-intentioned fiscal incentives and developmental programmes are frustrated by excessive bureaucracy and lengthy delays in obtaining approvals.

To ensure the success of this new programme, the Government will establish a Ministerial Oversight Committee, chaired in the first instance by the Prime Minister, to monitor and expedite the process of obtaining

building approvals from all regulatory agencies, including the Town and Country Planning Division, the Drainage, Construction and Highways Divisions of the Ministry of Works and Transport, WASA, T&TEC, the Fire Service, the Environmental Management Agency and the Regional and Municipal Corporations. The fact that the designs of the approved housing units will be standardised and based on existing models should also speed up the approvals process.

In addition, the process for registering approved housing developers will be simplified, monitored for efficiency and fast-tracked.

Madam Speaker, to further stimulate housing construction, the Town and Country Planning Division will be requested to relax existing guidelines for the allowable density of housing developments, particularly in urban and suburban areas, and along main roads and thoroughfares. A typical example of the new approach will be approval in appropriate areas of the construction of four apartments on a standard building lot in a two-storey building, with two apartments on each floor.

In this way, the new housing construction incentive programme will be available to small and large developers. It will not be confined to wealthy contractors and large landowners, but open to all citizens who are willing to participate in this programme and are capable of financing, constructing and selling approved units, with the support of the cash or land incentive - from the small man who can mobilise resources to construct just **4** approved units on one lot, to the big developers who can construct **400** units in a large development.

Our target for the start-up of this programme is **January 1st 2018**, and for fiscal **2018**, assuming a split between cash incentives and/ or the provision of state land, we have allocated **\$50 million** to provide the cash incentives for approximately **1,000** additional new private sector financed and constructed affordable houses. This allocation will be reviewed and appropriately supplemented as the programme kicks off.

Madam Speaker, you should note that the provision by Governments or state bodies of cash incentives and/ or fiscal incentives to stimulate the construction of affordable public housing by the private sector is a feature of modern democracies the world over, and is a tried and tested solution to public housing demand.





## Transportation

Madam Speaker, the rapid growth in incomes and living standards outpaced the rate of expansion of our transportation infrastructure. The tremendous growth in automobile imports and the huge subsidies on motor fuel also contributed to this widening gap. Madam Speaker, it should be noted that in a depressed economy, citizens of Trinidad and Tobago imported 35,000 vehicles for the year thus far.

Currently, the limited road network and the deficiencies in the public transportation system have become the main causes of traffic congestion and a principal contributor to the low level of labour productivity in the country.

In an attempt to address this imbalance, our Public Sector Investment Programme places focus on road infrastructure and initiatives to ease traffic congestion. We are currently implementing a number of initiatives over the medium to long term, including:

- *the planned removal of all traffic lights* from Port of Spain to Arima through the construction of Interchanges. The programme has started with the award of a contract for the Curepe interchange at the intersection of the Churchill Roosevelt Highway and the Southern Main Road, which is scheduled to be completed by 2019;
- the widening of several main arteries, including the Churchill Roosevelt Highway and the Beetham Highway from Uriah Butler Highway to Port of Spain; and
- the expansion of the traffic surveillance and control system and the corridor traffic management system, which will improve traffic monitoring.

Madam Speaker, in terms of institutional strengthening, the Government has passed legislation to enforce breaches of road traffic regulations, reform the fixed penalty traffic system and introduce a demerit point system as part of the traffic regulation system.

We will also reform and modernize the motor vehicle registration system and replace the ageing fleet of the Public Transport Service Corporation, initially with the purchase of thirty-five new buses in **2018**.

We have also improved citizens' access to motor vehicle licensing offices with four principal offices now available to the public at Port of Spain, San Fernando, Caroni and in Tobago.

Madam Speaker, we are pleased to announce that we are removing all restrictions on banded Maxi Taxis in order to open up the public transportation system.

## Public Utilities

Madam Speaker, it cannot be business as usual for our public utilities. It is obvious to the taxpayers of this country that the business models adopted by our utilities have not been very successful. As an initial step, we are strengthening the governance and managerial structures for our public utilities system.

We are ensuring that the delivery of services by the public utilities system meets best standard utility practice in order to improve the level and quality of the standard of living of our citizens. We are making the delivery system much more efficient. We are ensuring that water and waste water services and electricity supply remain reliable and cost-effective.

The national grid is being expanded to ensure that bulk power generated at power stations is delivered to the various load centres. Upgrades of sub-stations have taken place or are taking place at Pinto Road in Arima, at St. James in Port of Spain, at Bamboo in St. Joseph, at Westmoorings and at Union in San Fernando. Additionally, the generating capacity for Tobago is being expanded from **75** megawatts to **95** megawatts.

We will also seek to improve the efficiency of existing power plants through the upgrading and modernizing of their equipment in order to reduce the consumption of natural gas.

Madam Speaker, we have been improving the transmission network for water production with a view to reducing water loss from leakages. We have installed forty-five kilometres of new mains from the Caroni Water Treatment Plant to the San Fernando Booster Pump Station as well as five kilometres of mains from Maloney Street in San Juan to the Santa Cruz Booster Station. The water transmission and distribution network in Tobago is being expanded with the installation of **27 kilometres** of transmission pipelines. We are rehabilitating our service

reservoirs: at Guanapo, Hololo, Quare and Four Roads, Diego Martin.

Madam Speaker, consistent with the need to understand the level of subsidy that is presently given in respect of electricity and water supply, the Regulated Industries Commission (RIC) has exercised its authority under its governing legislation and signalled its intention to conduct a rate determination exercise for both T&TEC and WASA to be completed in **2018**. It should be pointed out that the last rate reviews for WASA and T&TEC were in **1993** and **2006** respectively. We look forward to an early completion of the RIC rate review, so that appropriate decisions can be made on this pressing matter.

## Hospital Construction Programme

Madam Speaker, in keeping with Government's continued thrust to improve the availability of quality health care in Trinidad and Tobago, construction of the Arima Hospital is ongoing. To date, the project is more than **35 percent** completed. Financing for the remainder of the project in the amount of **\$1.2 billion** will be sourced through borrowing on the domestic market. The original projected cost of the Arima Hospital was **\$1.85 billion**; but this Government, in an effort to save your tax dollars and achieve value for money, was able to reduce the cost to **\$1.6 billion**, saving **\$250 million** without changing the infrastructural design of the hospital. The new **150-bed** hospital is expected to be completed and be operational in **2019**.

The construction of the new Point Fortin Hospital is ongoing with financing to be sourced through an Export Credit Agreement with the Unicredit Bank of Austria. However, pending the execution of that Agreement, the project is being funded through budgetary allocations as well as a short-term loan raised on the domestic market. The Point Fortin Hospital project is scheduled to be completed in **2019**.

Madam Speaker, we will continue our search for a suitable operator for the Couva Medical and Training Facility and to that end, we expect that the facility will be commissioned in **2018**.

It should be noted that the operational cost of each of these new hospitals will run into several hundred million dollars per year for each hospital and funding for this will

have to be provided, with the operational costs of the Couva Hospital alone being **\$430 million** per year.

## Social Agenda

Madam Speaker, the creation of a fair and equitable society was one of the guiding principles of our developmental planning in **1956** when the PNM was founded. Since that time, under successive PNM Administrations, this policy has remained intact.

We have established a modern social safety network which has been protecting the most vulnerable and defenceless in our society. At present, our investment in social services accounts for more than **30 percent** of public expenditure and despite the fiscal constraints, the most vulnerable and defenceless continue to receive support, both in cash and in kind.

For example, in fiscal **2017**:

- **26,000** differently-abled persons were supported at a cost of **\$550 million**;
- **70,000** poor and vulnerable families received financial support at a cost of **\$700 million**; and
- **90,800** senior citizens received pensions at a cost of **\$3.4 billion**. Of this amount, **\$139 million** was directed to **9,000** new pensioners who were added to the system as a result of our decision to increase the statutory limit to **\$4,500** per month to qualify for the senior citizens' pension.

We are ensuring that the social expenditure is well-targeted. We are improving the delivery systems and processes in the suite of social sector programmes:

- a re-certification exercise of the Financial Assistance Programme, also known as the food card, for food security has reduced the number of eligible households by **18,900**, bringing the household base to **26,600**. We have generated through this rigorous re-certification exercise a monthly savings of **\$13.3 million**;
- a high-level Committee is reviewing the rationalization of social programs across the Ministries and an interim report has already disclosed that duplication and overlap were found among **17** of the **53** grants



offered through several Ministries;

- a universal means test for programme eligibility is being put in place to ensure more effective targeting of direct resources to those individuals and families in need; and
- a new Single Intake Form for all social programmes is not only improving timely approval of grants but is also eliminating unauthorized usage by reducing the instances of one individual accessing multiple grants.

Madam Speaker, we will continue to adopt approaches and methods aimed at improving the social service delivery. The Government will insist on value for money and on ensuring that allocated resources generate greater benefits for a larger number of vulnerable and defenceless individuals and families. During the new fiscal year, we will implement a number of programmes to improve the delivery of social services to the most vulnerable in the society.

## Sports

Madam Speaker, we view our sport sector as being vital for contributing to youth and economic development. Our recently-commissioned world class sport facilities, in aquatics, cycling, tennis, hockey and cricket have joined our football stadia as the foundation for the country becoming a hub in sports tourism.

We are now positioning sports tourism as a viable incipient industry for economic diversification. We have already won international acclaim and positive reviews from the sporting fraternity for hosting a series of major competitive domestic and international sporting events at these facilities. We are continuing to secure such sporting events.

Madam Speaker, we are putting in place attractive user rates for these facilities. The revenue generated, including through the introduction of naming rights, will ensure their adequate maintenance.

We plan to focus on three major revenue generating avenues: sport services, sport events and sport infrastructure, given that those areas require very little capital investment, as a result of the already existing infrastructure.

These facilities will serve as the foundation for our youth as they strive for excellence on the international stage and bring the international spotlight on our country. Our national community, with events to celebrate on a continual basis, will benefit from the outflow of patriotism and pride and in the process serve as a cohesive force for nation building.

The recent performance of our athletic teams at the 16th IAAF World Championships and the World Para Athletics Championships in London, England is illustrative. We were given the opportunity to listen to our national anthem with our national flag being raised in victory for all the world to see.

We will continue with our strategies geared towards the development of sports, such as the Elite Athlete and Coach Development Programme, as well as to implement a new talent identification framework for high performance athletes; but we would appeal to the private sector and to our citizens to expand their support for our sporting activities on a sustained basis, whether through attendance at events or financing activities and programmes, in order to play their part in this national effort.

We are now reviewing the governance structures and systemic arrangements for the delivery of sport services with a view to increasing efficiency and streamlining processes. We are putting in place the Sports Commission for Trinidad and Tobago and developing requisite legislation which will address issues such as sports events management, sport dispute resolution and management of national sporting bodies.

## National Security

Madam Speaker, addressing crime and criminality will continue to be our number one priority for this country, given its implications for the quality of life of our citizens and for the safety and security of persons wishing to visit or do business here. The current rate of crime in Trinidad and Tobago also has a deleterious effect on foreign and local investment and business activity. It affects our economy and is an issue that comes to the fore in discussions with the business sector and the general population.

We maintain that those who have chosen to promote lawlessness and barbarism among us are in the minority; however, the high murder rate, the preponderance of

gang culture, the continuing issue of domestic violence and the heinous attacks on our women and children remain as constant reminders of the need to intensify our efforts to address this disturbing trend. We must return our citizens to the tranquility and peace of mind that they all deserve and which are so essential for generating economic prosperity.

To this end, this Government is placing even greater effort in the upcoming year into crime reduction. Given our economic realities, we recognize the need for stronger collaboration between the Governmental and Non-Governmental sectors, law enforcement agencies and the population.

Madam Speaker, the Ministry of National Security received approximately **\$8.4 billion** per year in the last three years. These allocations are sufficiently adequate to support crime prevention and detection in a country of **1.3 million** people. However, our security personnel is challenged in identifying persons responsible for these criminal activities.

Madam Speaker, we propose to launch a key initiative: the National Crime Prevention Programme. This programme will constitute a holistic approach to crime fighting. It will impact crime prevention through community empowerment which is a key factor to returning safety and security to the national community. It will employ resources in law enforcement, Government Ministries and communities across Trinidad and Tobago.

Madam Speaker, it is clear that any approach to deal with crime and violence must include the broad spectrum of prediction, deterrence, detection, prosecution and rehabilitation.

It is against this background that over the last two years, we have focused on strengthening our intelligence-gathering capacity, enhancing our border control efforts and on strengthening our crime detection capability. We have advanced the rehabilitative thrust within our prison system. We are ensuring that the revolving door syndrome is put to an end and that issues of prison security management and inmate rehabilitation are adequately addressed.

In our bid to fulfil our safety and security mandate we have strengthened our border protection capacity. All of our new naval vessels are now in operation, with the last of the Damen vessels acquired in **December 2016**. These

assets allow for increased surveillance and protection of our maritime domain.

Madam Speaker, we have signed a Memorandum of Intent (MOI) with the U.S. Government for the establishment of a state-of-the-art border control system that will document the arrival and departure of international travellers at airports and seaports in Trinidad and Tobago. This system allows for more precise identification of passengers, so that customs and immigration officials can make more informed decisions on the threat to public security posed by incoming passengers.

In **January 2017**, Madam Speaker we established a Police Manpower Audit Committee. This Committee is examining the current operational environment of the Trinidad and Tobago Police Service to determine the maximum benefits to be derived from our resources. The work of this Committee is due to be completed by **December 31st 2017**.

We have advanced the establishment of a Video Conferencing Facility at the Remand Yard Prison, Golden Grove. This facility will allow for case management hearings by video link, thereby reducing the number of non-appearances by inmates and, in the process, enhancing the efficiency of the judicial system. We are also upgrading the Remand Yard Facility.

Madam Speaker, we are continuing to refine our national security strategy, which are either in the planning or implementation phase. These include:

- strengthening national security operations in Tobago: the construction/refurbishment of two fire stations, one at Roxborough and the other in Moriah;
- upgrading the Immigration Detention Centre: when completed, the facility will satisfy international detention centre standards; and
- establishing an Offender Management Programme which will manage the inmate population and allow information to be shared with other agencies as well as improve the accountability of the Trinidad and Tobago Prison Service.

Madam Speaker, we are optimistic that our efforts have begun to bear fruit. We stand committed to continue to invest resources strategically and work with our partners in making our crime-reduction goal a reality.



## Building Institutions

### Trinidad and Tobago Revenue Authority

Madam Speaker, all modern societies have in place a tax administration system aimed at collecting revenue in order to deliver services to the national community, as well as to resource social and developmental initiatives, as appropriate. For general acceptance by tax-payers, the tax administration system must be equitable, transparent and fair. The objective is to ensure optimality in the collection of taxes.

Madam Speaker, our internal revenue collecting agencies: the Inland Revenue and the Customs and Excise Divisions have long been struggling to function in an efficient and effective manner. The leakages and loopholes are well-documented. The two institutions have not been able to achieve optimal staffing levels. A perennially high number of vacant positions and inadequate operating budgets exist. Allegations of extensive corruption have dogged the two organizations.

The Revenue Authority model was adopted in **2009** but the initiative was brought to an abrupt end by the decision of the then Government in **2010** to abandon the Model. Substantial time, extensive effort and considerable resources had been spent with no result.

Madam Speaker, we are now completing the legislative requirements for the establishment of a Revenue Authority. The new public institution will bring together into one entity the Customs and Tax Administration. Under the oversight of a Board of Management, with a degree of autonomy, the Authority will be empowered to develop its own human resource policies, including appropriate compensation packages and financial management regimes.

Madam Speaker, we will engage the national community, including labour and business organizations, in an outreach and educational programme, with a view to sharing with them all aspects relating to the new institution. We are designing an organizational structure

with clear lines of authority and responsibility and we will determine the question of how to migrate personnel already in the system to the new Revenue Authority. We propose to have the Revenue Authority operational in **2018**.

### Office of Procurement Regulation

Madam Speaker, immediately upon our assumption of office and consistent with the commitment in our Manifesto, we moved rapidly to improve the procurement framework as established in the *Public Procurement and Disposal of Property Act No.15 of 2015*. Through two major amendments – Act No.5 of 2016 and Act No.3 of 2016 – we are now assured that procurement transactions will meet the best practice and highest standards of governance.

Publicly accountable procurement units within our ministerial structure will ensure that society reaps the dividends from a legal framework which is fair and transparent and the scope for arbitrary decisions and corruption minimized, if not eliminated. The now-ingrained integrity of the procurement system will bring with it value for money in all our procurement transactions.

Madam Speaker, the Office of the President is at an advanced stage of securing a Procurement Regulator for the Office of Procurement Regulation. The position of Regulator has been advertised by the Office of the President and applications closed on **August 25th 2017**. We are advised that the Office of the President is working assiduously on evaluating the applications and that in the not too distant future, a decision will be made by His Excellency, after the required consultations, with respect to the appointment of the Procurement Regulator. Accordingly, we envisage that by early **2018** the legislation will be operational.

## The Gambling Commission

Madam Speaker, we are progressing the Gambling (Gaming and Betting) Control Bill 2016 and supporting regulations. With the soon-to-be concluded review of the Legislation now being undertaken by a Joint Select Committee of Parliament, we expect the Legislation to be fully operational in **2018**.

Despite the Government's **thrust** towards the establishment of a Gambling Control Commission, the non-enforcement of the current law has led to a considerable rise in non-compliance in respect of the remittance of taxes by the sectors of the gambling industry. The rate of compliance Madam Speaker, with Members Clubs and Amusement Gaming operators upon investigation are recorded to be less than **10 percent** and **7 percent**, respectively. This will no longer be tolerated as this Government intends to enforce the current laws of the land.

The totally unregulated and buoyant gambling sector and the emergence of online gambling are absorbing significant foreign exchange resources. Some estimates put the annual outflow from Trinidad and Tobago at approximately **US\$200 million**.

Madam Speaker, we also need to address the undesirable activities associated with the proliferation of unregulated gambling in this country through the establishment of a framework which facilitates betting and gambling within a structured, controlled and legitimate environment that allows a cluster of employers to generate high-quality jobs.

There is existing legislation which stipulates limitations under which various gambling and betting entities may operate: the Registration of Clubs Act for Private Members Clubs, the Liquor License Act for bar owners who operate amusement gaming machines and the Betting and Levy Board Act for all betting establishments. We propose to strictly enforce the provisions of these pieces of legislations to ensure that all Private Member Clubs, bar owners and betting establishments meet their prescribed tax liabilities

## The Property Tax

Madam Speaker, property values in Trinidad and Tobago have increased significantly since an attempt was made

in **2009** to implement a modern property tax. Over the years, as property values increased, as reflected in various transactions such as the sale, lease, development, disposal and acquisitions generally, property taxes did not keep pace with these updated property values. The time has come when property owners must begin to contribute a share of these benefits to assist in financing the country's development.

In addressing this obvious mismatch, we have begun the process of building a comprehensive list of all properties in Trinidad and Tobago and to this end a data gathering process is being implemented. On completion, this would form the basis for meaningful assessments to be made and for property taxes to be paid by all property owners commensurate with the rental values of their properties.

Madam Speaker, in **2015**, the payment of Property Tax under the Property Tax Act was waived for the period **January 1st 2010 to January 1st 2016**. This means that absolutely no revenue was collected from property owners for the period 2010 - 2015. With urgent need for additional sources of revenue, particularly from the non-oil sector, in order to maintain the level of goods and services provided by Government and to continue to provide subsidies where they are needed, we intend to have a fully implemented property tax system in **2018**.

## State-Owned Enterprises

Madam Speaker, we are now reviewing and reforming, as appropriate, our portfolio of State Enterprises. We recognize that the State, through a state enterprise sector, has been playing a distinctive and instrumental role in the development and industrial successes of this country.

Madam Speaker, we can no longer justify the retention of state-owned enterprises which are not strategic in nature. In the context of this framework, we have closed a number of enterprises which were commercially oriented or which had deviated from their mandates or whose mandates were no longer required. The reform represents an important component in our efforts to rebalance and strengthen our economy.

We are enforcing governance and accountability guidelines in the state enterprise sector and we are clarifying where appropriate their development mandates. We expect that with sound governance at the Board and managerial levels, the state enterprise sector



will discharge its mandate in growing the productive capacity and infrastructure of our economy.

Madam Speaker, financial audits assist in the recognition of financial irregularities and are a very important control mechanism for Government spending. In **2018**, the Ministry of Finance, through its Central Audit Committee, will partner with personnel with auditing expertise to give the Government additional oversight in ensuring financial compliance and efficiency at all State Enterprises and Statutory Authorities. This will involve a coordinated approach with all stakeholders.

To ensure that we are getting value for money, we have allocated the sum of **\$50 million** for special audits of state enterprises and Government departments in **2018** and this exercise will commence immediately.

## Petroleum Company of Trinidad and Tobago (Petrotrin)

Madam Speaker, the Petroleum Company of Trinidad and Tobago (Petrotrin) has been instrumental not only in generating resources for financing the growth and development of Trinidad and Tobago, but also in building for the country a capability in energy affairs which was so critical during the transformation of our oil economy into a gas-based economy. However, Petrotrin can no longer discharge its mandate in its current corporate form.

Madam Speaker, Petrotrin faces both challenges and opportunities. Among Petrotrin's major strengths are its significant assets and oil reserves.

However, the Company's continued economic viability demands that it makes up for the policy mistakes of the past and adjusts to the new reality of global energy markets. Petrotrin requires fundamental restructuring which it cannot put off any longer.

Earlier this year, a Cabinet-appointed high-powered Team conducted a review of the operations of Petrotrin and made recommendations for the restructuring of the Company. The Team identified the following structural problems: an unwieldy structure and poor governance; declining crude oil production; declining productivity; escalating manpower costs; steadily increasing maintenance and capital costs; low refinery margins; and poor asset quality.

These factors are reflected in Petrotrin's financial indicators and the Company's overall financial performance. The significant decline in crude oil prices since **2014** has resulted in a more than **50 percent** decrease in the company's revenues: from **\$37 billion** in **2012** to **\$16 billion** in **2016**. This has seriously affected Petrotrin's net working capital position which has turned negative, forcing the Company to resort to Government-guaranteed revolving credit facilities to assist in the purchase of imported crude.

The combined effect of the underlying weaknesses and the reduced revenues resulted in a net loss of **\$819 million** in **2015**. Based on unaudited accounts, there were further losses of **\$387 million** in **2016** and **\$393 million** for the first nine months of **2017**. In addition, Petrotrin has accumulated tax arrears of some **\$3.2 billion**.

Petrotrin's debt burden now stands at close to **\$12 billion**, which includes two large US dollar loans of **US\$850 million** and **US\$750 million** due to mature in **2019** and **2022** respectively. Petrotrin and the Ministry of Finance are currently discussing possible refinancing options with both local and foreign financial institutions.

Madam Speaker, there is no doubt that Petrotrin still has great potential, including an excellent portfolio of land and marine acreage. The issue requires transformative change in order to ground sustainability and success. In the new fiscal year, we will be appointing an implementation team with a view to effecting the relevant recommendations of the report of the Review Team in the context of Governance and Structure; Exploration and Production; Refining and Marketing; Health, Safety and the Environment (HSE)/ Asset Integrity; Debt Servicing; and Industrial Relations/Cost structure.

## CLF/Clico Repayment Plan

Madam Speaker, as you are aware CL Financial is the parent company of the CL Financial Group of Companies. The Group includes companies operating in many sectors and was the largest privately held conglomerate in Trinidad and Tobago and one of the largest in the Caribbean. One particularly significant member of the Group is Colonial Life Insurance Company (Trinidad and Tobago) Limited (Clico), which is regulated as an insurance company under the Insurance Act.

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In addition to the network of other companies in the Caribbean, the Group included several other financial service providers based in Trinidad and Tobago. Clico Investment Bank (CIB), was one of Group's companies which was frequently used to provide intragroup funding. Its subsidiary, Caribbean Money Market Brokers (CMMB), now called First Citizens Investment Services (FCIS), provided asset and portfolio management, bond and equity trading and brokerage services. On **January 13th 2009**, Madam Speaker, the management of CLF Group informed the Central Bank that the Group was experiencing financial difficulties as a result of the global financial crisis.

On **January 30th 2009**, the Government and CLF entered into a Memorandum of Understanding in order to set out the steps which CLF would take to correct the financial condition of the Financial Subsidiaries.

The Central Bank took control of CIB on **January 31st 2009** and of Clico and the British American Company (Trinidad) Limited (BAT) on the **February 13th 2009** pursuant to its powers under section 44D of the Central Bank Act. The Central Bank's control of CIB ended on **October 17th 2011** when CIB was placed in compulsory liquidation and the Deposit Insurance Corporation (DIC) was appointed liquidator.

In order to protect its depositors and investors, the Government transferred CMMB from CIB to First Citizens Bank Limited and provided liquidity support to First Citizens and FCIS through a Liquidity Support Agreement dated **May 15th 2009**. This Liquidity Support Agreement has been extended by various Governments since then, from time to time. The Government also provided financial support directly to the CL Financial Subsidiaries to support the Central Bank's emergency intervention and to ensure the Government's policy objectives could be achieved.

Following further discussions, the Government, CLF, the directors of CLF and a majority of the CLF shareholders entered into a Shareholders Agreement on **June 12th 2009**, which was extended on **17** occasions. However, in **2017**, when the Government sent the 18th extension of the Shareholders Agreement to the relevant parties, it was not signed by the non-government shareholders.

Madam Speaker, the international accounting firm Ernst & Young (EY) established the full amount in Trinidad and Tobago dollars expended by successive Governments in connection with the Memorandum of Understanding

and the Shareholders Agreement as **\$23.1 billion**.

This figure of **\$23.1 billion** does not include other costs incurred by the Government in giving effect to its obligations. Further, there are prospective liabilities owed by CLF to the Government.

Madam Speaker, to date the only member of the Group that has repaid the money lent by the Government is Clico, in the sum of **\$8 billion**, and that is only because Clico is under the control of the Central Bank, and thus free from interference by vested interests. If Clico was not being managed by the Central bank, it is quite possible that the Government would have received nothing. However, CL Financial has since the date of the first Shareholders Agreement sold a number of assets and has paid no part of the proceeds from these sales to the Government. In other words, this private company, after receiving over **\$23 billion** of taxpayers' funds, they sold assets and kept the proceeds for themselves. As such, the net debt of CLF to the Government and by extension the people of Trinidad and Tobago is now **\$15.6 billion** exclusive of the amounts stated earlier.

Madam Speaker, it is now on public record, by letter dated **June 2nd 2017**, a group called United Shareholders Limited, through its attorneys, wrote to the Minister of Finance stating that United Shareholders Limited represents the shareholders of CLF and the rights and interests of individual shareholders of CLF and that it is seeking to take back the company, without providing any firm assurance that taxpayers' funds would be repaid.

However, after **8 years** of 'intervention' into the affairs of CLF, this Government formed the reasonable view that this was untenable and further that CLF could not recover to a position of solvency. As a consequence, to protect the interest of the taxpayers of this country, the Government applied to the Court to wind up CLF, so that its assets could be liquidated for the repayment of billions of dollars of taxpayers' funds lent to this private company.

In all this, it is important to underscore that the Government is keenly aware of the emotional attachment that the citizens of Trinidad and Tobago have to the Clico group of companies, because of its history as a major indigenous conglomerate that prospered and flourished and affected and influenced many areas of national life before bad decisions and greed led to its undoing.





The Government is also aware of the fear and perception that the assets of CL Financial and Clico will be sold to wealthy private concerns, which may not be in the best interests of the national population.

Accordingly, the Government has decided that major strategic assets of the Group, as they become available from the Liquidators, will be divested either by public offerings on the Stock Exchange or through placement in a new National Mutual Fund. Through these means, the assets will be available for purchase by the general public and institutional investors, such as pension funds, the NIB and the UTC, in the form of units which will pay dividends. In this way, all of the CL Financial group of companies will be not sold to the highest bidder, but instead, the various companies, as considered appropriate, will be continued as going concerns with proper management and oversight.

I wish to advise that the preparation for the creation of the new National Mutual Fund has already begun, with the transfer by Clico to the Corporation Sole of **29.9 percent** of the shares of Angostura and **16 percent** of the shares of Home Construction. These two shareholdings are together worth **\$1.4 billion**, and the transfer will go towards reduction of the debt owed by CLF/Clico to the Government.

## The Heritage and Stabilization Fund (HSF)

Madam Speaker, the Heritage and Stabilization Fund (HSF) formalized through legislation in March 2007 was specifically designed to:

- support fiscal policy at times of adverse swings in international oil and gas prices- the stabilization objective; and
- accumulate savings from the countries exhaustible assets of oil and gas for future generations- the heritage element.

Over the **10-year** period, the value of the Fund has increased by close to **US\$4 billion** from **US\$1.77 billion** to **US\$5.73 billion** as at **August 31st 2017**. Over the period, net contributions, that is, transfers to the Fund net of withdrawals, amounted to **US\$1.9 million**, while returns and capital gains yielded **US\$2.1 billion**.

There have been two withdrawals from the Fund, in **2016** and **2017**, amounting to **US\$628 million**. However, the withdrawals were less than the returns accumulated over the two-year period and as a result, there was a net increase in the Fund between **September 2015** and **August 2017**.

Madam Speaker, we have held discussions with relevant local stakeholders and with the International Monetary Fund on possible amendments to the HSF Act and in a seminar held in **September 2016**, attended by representatives of labour, business and civil society, there was general agreement on the principles that should underpin the reform of the HSF.

There was broad agreement:

- that the HSF should be segregated into two separate funds; one for stabilization and one for heritage; and
- that, in this separation, the bulk of the funds should go to Heritage.

Madam Speaker, it is both paradoxical and counterintuitive that over the last **9 years**, deposits have been made to the HSF while the country has been running budget deficits, financed by borrowings. In other words, we have borrowed to save, which makes no sense.

It is our intention, therefore, to change the manner in which withdrawals can be made from the Fund, to assist in financing Government expenditure, so that in the face of persistent budget deficits in periods of economic recession, there can be planned and orderly withdrawals from the Stabilisation component of the Fund, while preserving and protecting the Heritage component of the Fund. This will also provide a guaranteed source of much needed foreign exchange to bolster our foreign reserves

Appropriate amendments to the HSF Act will therefore be laid in Parliament in **early 2018**.

## Tobago

Madam Speaker, I now turn my attention to Tobago.

Madam Speaker, the budgetary proposals of the Tobago House of Assembly (THA) for fiscal **2018** were submitted to the Ministry of Finance towards the end of June this year in conformity with the requirements of the THA Act. Over the last few weeks, the Ministry of Finance has been in extensive discussions with the THA regarding the Assembly's budgetary proposals. I wish to extend my sincere gratitude to the Chief Secretary and his team for their invaluable input in these discussions.

Madam Speaker, Tobago has the potential to contribute significantly to the diversification of the national economy and to earn much needed foreign exchange.

The development of the tourism sector in Tobago remains a critical priority for this Administration. Tobago's budgetary allocation will enhance its tourism product, boost its marketing thrust and finance the upgrading and expansion of its room stock. We will continue to work with the Tobago House of Assembly towards the development of a Sandals Resort in Tobago. The construction of this resort will simultaneously address three critical problems which have stymied the expansion of the tourism sector, namely, marketing, airlift and room stock. In addition, we will encourage the tourism stakeholders in Tobago to access the Tourism Business Development Fund.

Madam Speaker, the development and revitalization of the agricultural sector in Tobago is of critical importance. The THA will expand its Agricultural Access Road Programme thereby creating further linkages between the agricultural sector and other sectors in Tobago, inclusive of tourism and health; adopt modern agricultural practices and technologies and enhance its focus on agro-processing to increase the value-added from this sub-sector.

The THA will also accelerate its housing programme to address the existing mismatch between demand and supply for public housing. The Assembly will develop several estates, inclusive of Shirvan and Friendship and expand several grant programmes and initiatives to improve the existing quality of the housing stock. To support land ownership in Tobago, legislation will be brought to Parliament in the new fiscal year to address the longstanding issue of land titles affecting residents in Tobago.

Madam Speaker, as Central Government, we recognize that many of our developmental initiatives for Tobago could be seriously compromised if existing inefficiencies in the air and sea bridge are not addressed in a sustainable manner. We remain committed to working with the Tobago House of Assembly and stakeholders in Tobago to find permanent solutions to the persistent problems experienced in inter-island travel. Our ultimate objective is to develop an efficient service which guarantees travel between the two islands in a safe, predictable and dignified manner. As it relates to the sea bridge, the Port Authority of Trinidad and Tobago has been mandated to find a resolution to the existing problems in the quickest possible time.

Madam Speaker, I am delighted to report to the Honourable House that the draft legislation to grant self-government and a greater devolution of powers to Tobago is before Cabinet and in the upcoming fiscal year we will table the legislation before Parliament.

Madam Speaker, the budgetary allocation to the Tobago House of Assembly for fiscal **2018** is **\$2.1936 billion**, of which **\$1.86 billion** will be for recurrent expenditure, **\$315.683 million** for capital expenditure and **\$18 million** for the unemployment relief programme. This allocation to the Assembly represents **4.34 percent** of the national Budget.



But Madam Speaker, that is not all, further, the THA has, of its own accord, obtained an international credit rating. Therefore, to supplement the **2018** allocation, we are presently in discussions with the THA with respect to giving approval to the Assembly to borrow money in **2018** to accelerate its development programme.

In addition to the direct allocation to the Assembly, a further **\$1.09 billion** is allocated to facilitate work in Tobago by Government Ministries, in keeping with their responsibilities under the Sixth Schedule of the THA Act. This will cater for ongoing construction works on the Old Grange and Roxborough Police Stations, the construction of a Desalination Plant and the expansion of the power generating capacity at the Cove Power Plant.

## Estimates of Revenue and Expenditure: 2017-2018

Madam Speaker, responsible fiscal management is central to our public policy agenda for achieving prosperity and improving the lives of our citizens. The fiscal consolidation process continues in this Budget, as we bring expenditures into better alignment with available revenues, yet at the same time ensuring that the capital expenditure programme is maintained to underpin the process for stimulating economic activity. For fiscal 2018, therefore:

- Total Revenue has been budgeted at **\$45.74 billion**, up from **\$37.84 billion** or **\$7.91 billion** from the estimated outturn in 2017;
- Total Expenditure for fiscal 2018 has been budgeted at **\$50.5 billion**, or roughly the same as in the fiscal 2017 outturn; but significantly lower than the peak expenditure of **\$62.8 billion** achieved in 2014. This is a substantial reduction in expenditure from the unsustainable 2014 level of **\$12.3 billion** or **24.3 percent**; and
- the fiscal deficit for 2018 is estimated at **\$4.76 billion** or **3.1 percent** of Gross Domestic Product; this compared with a fiscal deficit of **\$12.643 billion** or **8.4 percent** of GDP in fiscal 2017.

The budgeted revenue for 2018 is predicated on an oil price of **US\$52.00** and a gas price of **\$2.75** per MMBtu. It should be noted that our assumed oil price is below the International Monetary Fund forecast of **\$56.20** per barrel for 2018, and lower than the current oil price forecasts made by the World Bank, United States Energy Information Administration (USEIA) and International Energy Agency (IEA).

Madam Speaker, based on these assumptions we are projecting:

Total revenue	<b>\$45.741 billion</b>
Oil revenue	<b>\$ 6.412 billion</b>
Non-oil revenue	<b>\$32.910 billion</b>
Capital revenue	<b>\$ 6.419 billion</b>

Total expenditure net of capital Repayments and sinking fund contribution **\$50.501 billion**

Madam Speaker, we are continuing to build an inclusive society with major allocations of expenditure for 2018 on Security, Education and Health.

- Education and Training **\$7.2905 billion**
- National Security **\$6.2371 billion**
- Health **\$6.0278 billion**
- Public Utilities **\$3.5454 billion**
- Works and Transport **\$3.0912 billion**
- Rural Development and Local Government **\$1.8494 billion**
- Housing **\$1.0052 billion**
- Agriculture **\$0.5446 billion**

Madam Speaker, as we move towards rebalancing our fiscal accounts and ensuring that our expenditure is brought in broad alignment with our revenue, while at the same time creating the necessary conditions for putting the economy on a path of sustainable growth and development, we are utilizing all available financing options for transitioning the economy.

We are able to tap into the domestic capital market for an amount equivalent to **\$4.5 billion** or **3 percent** of GDP; yet there would remain a fiscal gap between planned expenditure and our core revenue of **\$37.3 billion** which is generated from taxation, royalties and customs duties.

Madam Speaker, with domestic financing of **\$4.5 billion**, an additional fiscal shortage is therefore required to be financed. We will continue with our *Sale of Assets Programme*, including repayments relating to the CLF/ Clico rescue plan and withdrawals from the restructured HSF, inter alia, to generate an amount of approximately **\$7.5 billion** or **4.4 percent** of GDP. Accordingly, the following fiscal measures are proposed for 2018.



## Fiscal and Other Measures

### Vehicles using Clean or Alternative Fuels

Madam Speaker, we have provided a range of incentives for increasing usage of alternative fuel vehicles. We have provided exemptions in respect of duty, motor vehicle tax and VAT for electric vehicles with engine sizes less than **179 kilowatts** and for hybrid vehicles with engine sizes less than **1999cc**. These incentives have encouraged a significant amount of these types of vehicles to enter the country. However, whereas the incentives have had the desired effect of increasing the supply of fuel efficient and clean energy vehicles, there has been an unintended consequence whereby individuals have taken advantage of the tax waivers on hybrids to import luxury vehicles. This has caused a significant leakage of tax revenue.

Further, notwithstanding our current financial challenges as a country, the importation of motor vehicles has remained unabated, with **35,000** vehicles imported in **2017**, the same amount more or less as **2016**. It should be noted that the importation of these **35,000** vehicles has cost the country **US\$500 million** in foreign exchange in **2017** alone.

In this context, I propose to rationalize these incentives by maintaining the removal of all taxes and duties on hybrid passenger vehicles and extending these concessions to CNG passenger vehicles, both with engine sizes under **1599 cc**.

Further, I propose to remove all incentives currently available to passenger vehicles with engine sizes exceeding **1599cc**. The incentives will only now apply to CNG and hybrid vehicles with engines less than 1599cc.

To encourage the use of smaller, more fuel efficient vehicles, and to reduce the loss of foreign exchange from motor vehicle imports, I propose to increase by **25 percent** the motor vehicle tax and customs duty on

private passenger vehicles with engine sizes exceeding **1599cc** and not exceeding **1999cc**. The increase in taxes imposed last year on vehicles with engine sizes exceeding **1999cc** will remain.

These measures will take effect from **October 20th 2017**.

However, there will be a moratorium up to **December 31st 2017** for private passenger vehicles already in transit or already landed in Trinidad and Tobago.

Madam Speaker, motorcycles are a popular mode of transport internationally and in many cities, they are a preferred option. They are fuel efficient and do not create traffic congestion. Accordingly, in order to encourage greater use of this type of transport, I propose to exempt all motorcycles with engine sizes under **300cc** from all duties and taxes.

This measure will take effect from **October 20th 2017**

### Motor Vehicle Inspection

Madam Speaker, we believe that the proprietors of the vehicle inspection stations have been providing services to our motoring public at very low fees. These fees established in **2003, 14 years** ago, have not kept pace with the cost of administering the service.

In light of this, I propose to increase the inspection fee for motor vehicles from **\$165** to **\$300.00** and to enforce the law.

This measure will take effect from **December 1st 2017**.

### Import Duty on Tyres

Madam Speaker, we have noticed irregularities between the duties charged on the importation of new and

foreign used tyres. Currently, new tyres utilized on motor cars attract a customs duty of **30 percent**, while used pneumatic tyres do not incur customs duties. This has led to mislabelling and tax evasion, where new tyres are sometimes wrongly described as used tyres, thus avoiding the payment of customs duty.

In order to correct this discrepancy, I propose to harmonise the customs duty on all tyres at **30 percent**, whether new or used.

However, the customs duty on the importation of new tyres utilized on buses and lorries will remain at **15 percent**.

This measure will be implemented on **October 20th 2017**.

Madam Speaker, I further propose to implement an environmental tax of **\$20.00** per tyre on all tyres imported into Trinidad and Tobago. This tax will cover the cost of proper disposal of used tyres, which is a major headache.

This measure will be implemented on **December 1st 2017**.

## Fuel Subsidy

Madam Speaker, as stated in my last two Budget Statements, it is necessary to eliminate the fuel subsidy, since it is not a good or efficient use of taxpayers' funds. The wealthy man who drives a diesel BMW X5 receives the same subsidy, or more, as the working man who drives a Nissan pickup. It should also be noted that as recently as **2014**, the fuel subsidy was as high as **\$7 billion**, which could have been used to create jobs, pay for health care and assist the poor and underprivileged.

I therefore propose to adjust the fuel subsidy, as indicated early in this Budget Statement in order to ensure a degree of stability in fuel prices within the national economy. In due course, later in **2018** the Ministry of Energy and Energy Industries will be required to publish on a monthly basis the wholesale and retail product prices for the five categories of fuel. In this way, fuel prices will in the future fluctuate with the prices of oil and the prices of refined products.

Madam Speaker, in this new framework I also propose to address the present difficulties faced by both wholesalers and retailers.

## Margins for Fuels

Madam Speaker, the Liquid Petroleum Fuel Industry currently remains the only industry within the private sector operating under a system of controlled prices. Over the last decade and in the wake of inflation and rising operational costs, unadjusted gross margins have placed a severe burden on the profitability of the wholesaling, retailing and peddling sectors of the Industry. These margins, last reviewed in **2009**, are insufficient to keep the industry in operation, simultaneously hindering competition and dissuading new entrants into the market.

An increase in these existing margins will improve cash flow and profitability for those within the Liquid Petroleum Fuel Industry and promote competition among service stations and create enhanced and sustainable jobs.

Within the existing price structure, wholesale margins for Premium, Super, and Regular gasoline are set at **14.5 cents** and since **2009** have remained constant at **9.5 cents** for both Diesel and Kerosene. I propose to increase all wholesale margins; for premium, super and regular from **14.5 cents** to **19.5 cents** and for diesel and kerosene from **9.5 cents** to **14.5 cents**.

Madam Speaker, the adjustment to the subsidy plus the increase in Gross Margins will increase the price of Super Gasoline from **\$3.58** per litre to **\$3.97** per litre and the price of Diesel from **\$2.30** per litre to **\$3.41** per litre.

**These measures will be implemented with immediate effect.**

## Fiscal Regime for the Energy Sector

Madam Speaker, with the decline in oil and gas production, it is imperative that the oil- and gas- producing industry be incentivized to maintain exploration activity in key petroleum provinces, including shallow water and new fields in deep water areas. Such an activity would require significant capital investment by international oil companies. In pursuing foreign direct investment, Trinidad and Tobago must compete with investment opportunities in other countries to attract a share of the limited exploration and development funds available.



Madam Speaker, with the existence of unsanctioned projects and untapped resources, it has become imperative to increase investments in the oil and gas sector to address supply concerns. We are simplifying and modernizing the existing oil and gas fiscal regime and to that end we are guided by a number of principles:

- the oil and gas fiscal regimes must incorporate a balance among the objectives of providing terms attractive for investment while securing for the country a substantial share of the value of the petroleum resources;
- while the Government seeks to promote investment by reducing fiscal obstacles to low-profit activities that nonetheless increase supply, it will also seek to assure the public that extraction of the country's natural resources always results in some appropriate payment to the Government, usually a royalty and minimum production share or amount of tax, unless a strong policy reason requires exceptions;
- where oil and gas production generates a surplus over the total costs of production, including profit necessary for initial and continuing investment, the Government should share substantially in that surplus; and
- Government also attaches priority to a degree of stability in petroleum revenue flows. Petroleum companies attach high value to stability and predictability in terms of the fiscal regime they face.

Madam Speaker, substantial amendments to the basic set of laws governing the oil and gas sector will be effected. In order to ensure that the competing demands of maximizing revenue and encouraging investment are achieved, a gradual move to the new oil and gas fiscal regime would be required through a transitional period in which both the existing and the new regimes would operate.

However, at this time, the Government and by extension the people of Trinidad and Tobago, receive very little by way of taxes from the oil and gas industry. Indeed, while our natural gas is being extracted at a rate of over 3 billion standard cubic feet per day, to be converted into LNG and/or petrochemicals and exported, and our oil is extracted at a rate of over **70,000** barrels per day, to be converted into petroleum products and exported, the tax collected from the oil and gas companies has dropped by over **90 percent**.

In fact, at this time, because of changes to the oil and gas fiscal regime that were introduced in **2013** and **2014**, the energy companies are not paying any corporation tax, also known as petroleum profits tax, only some royalties and supplementary petroleum tax whenever the price of oil exceeds **\$50**, which is not often.

We have been told by the companies that this situation has been occurring because of the high level of investment in exploration and production that is taking place in the energy sector, which has led to huge capital allowance write-offs. However, this cannot continue, since while the grass is growing, the horse is starving.

With the present arrangements, we are unlikely to get corporation tax from the oil and gas companies for the next 7 years.

We consider it untenable that our hydrocarbon resources are being extracted to this extent with little or any benefit to the country. Indeed, in the present very difficult financial circumstances, all must share in the burden of adjustment.

Accordingly, to ensure that taxpayers get some benefit from the extraction of our country's hydrocarbon resources, I propose to rationalize the royalty regime applicable to the extraction of oil and gas. Accordingly, a **12.5 percent** royalty rate would now be applicable across the board on the extraction of all gas, condensate and oil. Further, to avoid revenue leakage and to avoid cheating, the fair market values for our oil and gas for the computation of royalty will be fixed by the Petroleum Pricing Committee a feature of statute that has not been used for many years. This measure will take effect from **December 1st 2017**.

## Corporation Tax

Madam Speaker, among the fiscal measures which became applicable in **2017** was the introduction of a new tax bracket of **30.0 percent** on companies with chargeable profits in excess of **\$1.0 million** per annum. The base tax rate bracket for companies remained at **25.0 percent**. To spread the burden of adjustment, I now propose to increase the base tax rate bracket for companies which were previously subjected to a tax rate of **25 percent** to **30 percent**. Harmonising the corporation tax rate.

This measure will take effect from **January 1st 2018**.

## Corporation Tax for Commercial Banks

Madam Speaker, consistent with the need to spread the burden of adjustment across all sectors, including wealthy corporations, I propose to introduce a new tax bracket of **35.0 percent** for commercial banks. This new tax bracket on chargeable profits for commercial banks will take effect from **January 1st 2018**.

## Gambling Industry

Madam Speaker, in respect of the gambling industry, in view of the extremely low level of compliance and the endemic tax evasion in the sector, in the interim as we move to finalize and enact new gambling legislation, I propose the following:

- the existing rate of duty on all mechanical games of chance for gambling of **20 percent** be increased to **40 percent**. This measure will take effect from **October 20th 2017**;
- the introduction of a **10 percent** tax on all cash winnings by the National Lotteries Control Board. This measure will take effect from **December 1st 2017**;
- electronic roulette devices operating in bars throughout the country, under the Liquor Licence Act, Chap 84:10 will now attract a flat device tax of **\$120,000** annually;
- the gaming tax which shall be payable annually under the Liquor Licence Act, Chap 84:10 will be increased from **\$3,000** to **\$6,000** in respect of each amusement game;
- the taxes on gaming tables and other devices by private members' clubs would be increased as follows:
  - for every Baccarat Table **\$100,000** per annum;
  - for every Black Jack Table **\$120,000** per annum;
  - for every Caribbean Stud Poker Table **\$150,000** per annum;
  - for every Dice Table **\$70,000** per annum;
  - for every Poker Table **\$60,000** per annum;
  - for every Roulette Table **\$120,000** per annum;
  - for every Electronic Roulette Device **\$120,000**

- per annum;
- for every Rum 32 Table **\$150,000** per annum;
- for every Sip Sam Table **\$150,000** per annum;
- for every Slot Machine **\$24,000** per annum; and
- for every other table or device not mentioned above **\$60,000** per annum.

These measures will take effect on **January 1st 2018** and they will be strictly enforced in **2018**. The present tax payment compliance rate of only **10 percent** by industry participants in the gambling industry is unacceptable and can no longer be tolerated

## License Fee for Private Hospitals

Madam Speaker, private hospitals are governed under the Private Hospitals Act. This Act mandates that a written application for a licence to operate a private hospital be made to the Minister of Health and be accompanied by the appropriate licence fee based on the classification of the private institution. Currently all private hospitals pay a standard flat fee of **\$150** per year.

Madam Speaker, we are of the view that the licensing fees to operate a private hospital and the penalties for offences under the Private Hospitals Act are too low, given the high cost of private health care in Trinidad and Tobago. In light of this, I propose to increase the licenses fees for the different categories of private hospitals as follows:

For institutions classified as Medical or Surgical Hospital, Medical, Surgical and Maternity Hospital or Maternity Hospital:

Less than 30 beds	<b>\$25,000</b> per year
30 beds but less than 60 beds	<b>\$50,000</b> per year
60 beds and over	<b>\$100,000</b> per year

This measure will not be applicable to institutions classified as Hospitals for the Convalescent or Chronically-ill, Home for the Elderly or Hospital for any designated disease, or specified disease or disorder or illness. These institutions will continue to pay the existing fee of **\$150** a year.

I also propose to increase in the penalty for persons found guilty of an offence under the Private Hospitals Act from **\$10,000 to \$100,000** and increase in the penalty for a continuing offence, from **\$200 per day to \$1500 per day**.





These measures will require amendments to the Private Hospitals Act Chapter 29:03 and will take effect from **January 1st 2018**.

## Upgrade Programme for Hotel and Guest Rooms

Madam Speaker, to stimulate and re-energise the Tourism Sector, Cabinet has approved a number of new fiscal incentives for this sector. Accordingly, I propose to continue the Trinidad and Tobago Hotel and Guest Room Stock Upgrade programme and increase the reimbursement of the expenditure on the cost of work per room from **25 percent to 50 percent** and increase the maximum reimbursement limit from **\$750,000 to \$1.5 million**.

I also propose to continue the Small Approved Tourism Properties Programme by increasing the reimbursement of the expenditure on the cost of work per room from **20 percent to 40 percent** as well as by increasing the maximum reimbursement limit for Small Approved Tourism Properties from **\$75,000 to \$150,000**.

I propose to encourage greater and better usage by clients in Tobago in particular of the loan guarantee programme administered by the Trinidad and Tobago Tourism Business Development Limited. This will be effected by increasing the subsidy by the Government of the interest charged by financial institutions for new and restructured loans from 2 percent to 5 percent. The commercial banks have also been requested to extend the maturity periods for new loans and refinancing for the tourism sector under this Government guaranteed programme from **7 years to 15 years**.

These measures will take effect from **December 1st 2017**.

## Promoting Exports

Madam Speaker, I propose to establish a facility to allow eligible exporters to access foreign exchange. In the first instance, the facility would be capitalized at **US\$100 million**.

This measure will take effect from **January 1st 2018**.

## Export Allowance for the Manufacturing Sector

Madam Speaker, I propose to re-establish export allowances to manufacturers. We will establish a framework that would allow a reduction on tax for revenues generated from incremental exports to existing markets. Further details will be provided in the Finance Act 2018.

This measure will take effect from **January 1st 2018**.

## Expanding Local Food Production

Madam Speaker, to expand local food production, I propose to establish an agricultural financial support programme, with grants for new and existing farmers of up to **\$100,000**.

This measure will take effect from **December 1st 2017**.

To encourage the establishment of larger farms, I also propose to amend Section 14 of the Income Tax Act to remove the restriction of 100 acres of land to receive exemptions from tax on income from approved agricultural holdings.

This measure will take effect from **January 1st 2018**.

## Stimulating Private Construction in the Housing Sector

Madam Speaker, I propose to introduce a housing construction incentive programme to encourage private developers to construct houses to satisfy the current demand for affordable housing. This programme will provide a cash incentive of up to \$100,000 to all approved developers who construct housing units in accordance with designs, specifications and prices fixed by the Government.

This measure will take effect from **January 1st 2018**.

## Conclusion

Madam Speaker, this Budget Statement represents a major step in our call for the collective support and commitment of our citizens to effect a behavioural and cultural shift to put our economy on a renewed path of sustainable growth. As a Government, we cannot pursue this transformation on our own. We are open to new ideas and solutions and collectively, we are fully capable of overcoming the present difficult economic circumstances and to navigate the country back to the socio-economic prosperity to which we have long been accustomed.

Madam Speaker, the Budget Statement continues our prudent development agenda which is anchored in Vision **2030**. This principal strategic planning document is guiding our orderly long-term development process for achieving development country status by **2030**. We have established our priorities and programmes within that framework. All Ministries and Departments now have responsibility and will be held accountable for the delivery of the strategy which falls within their mandates.

Madam Speaker, we now have a window of opportunity for restructuring our economy and making it more resilient to internal and external shocks. We are leveraging our oil and gas sectors. We are improving their efficiency and they are becoming the foundation on which we are re-directing resources to the strengthening of our existing non-oil sector and creating other sectors of growth.

Madam Speaker, we are now moving Vision 2030 implementation to centre-stage. It is essential that we work together through the building of partnerships, in particular among Government, business organizations and the labour movement. We must reinforce our commitment to co-operation and consensus building. This is the only way that we can maximize the benefits from the emerging growth process and create opportunities for our citizens.

This Administration is committed to this effort; we must ensure that the present turnaround in economic activity is sustained, becomes stronger and generates benefits for the entire population, in particular the low-income groups, the vulnerable and the defenceless. As I said earlier we are *Changing the Paradigm: and Putting the Economy on a Sustainable Path*.

To succeed as a nation, we must diversify our economy and focus on the sectors where we are competitive or have a real chance of success, such as export manufacturing, financial services, tourism, ship repair and the creative arts, among others. We must restart the engine of the economy, as we plan to do with our new housing construction incentive package and the incentives for small businesses and farmers. We must move away from overdependence on oil and gas. We must all together create the conditions for investment and growth and put our shoulders to the wheel to meet the challenge of balancing the national budget.

We must all adjust, cut our cloth to suit our coat, as the proverb says, curb wasteful expenditure, demand value for money and seek to improve national productivity and accountability and make the required sacrifices, since we cannot continue to live on borrowed money or continue to run large budget deficits, as has been practice for the last 8 years.

Madam Speaker, I am certain that if everyone plays their part, we will emerge from our current difficult financial situation more productive and efficient as a people and as a country, more resilient and better able to withstand external economic shocks, as the economic powerhouse of the Caribbean, ready to meet any challenge that the outside world throws at us

I thank you and I beg to move.



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Finance Building  
Eric Williams Financial Complex  
Independence Square  
Port of Spain  
Tel : (868) 612-9700 ext. 2805-9  
[www.finance.gov.tt](http://www.finance.gov.tt)

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