



GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO
MINISTRY OF TRADE AND INDUSTRY

AmChamTT's Economic Outlook 2016 Business Meeting

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FEATURE ADDRESS

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A pleasant good morning to you all.

We are all aware of the facts: energy prices — of both oil and gas—are falling consistently and to unprecedented lows. In 2008, oil prices reached its peak at approximately US\$140 per barrel; only a couple days ago the price of West Texas Intermediate dropped below \$30 a barrel in New York for the first time in 12 years on concern that turmoil in China's markets will curb fuel demand. There are some estimates that commodity prices may rise slowly this and next year, but nothing is guaranteed. In addition to the 70% and 45% drop in prices for crude oil and natural gas respectively, levels of production have followed suit; crude oil production has declined from 90,000 barrels per day in 2010 to 80,000 barrels per day in 2015. Therefore, we must prepare for a challenge and accept that at the local, regional and international levels, this is now the new normal.

The state of affairs for energy producing countries—both price makers and price takers like Trinidad and Tobago—demands serious thought and swift action by governments, with the support and cooperation of the public and the private sector. It cannot be business as usual. This Government is committed to creating a framework in which Trinidad and Tobago can effectively, efficiently and equitably increase government revenues, lower expenditure and meet the demands of an ever changing global economy. The American Chamber of Commerce has been a steady partner with the Trinidad and Tobago government since its inception and will be an invaluable partner in ensuring that TT-USA relations are built upon mutually beneficial commercial interests despite the sea of change in energy, technology and global geopolitics.

In addition to outlining the various fiscal and policy measures used to increase revenue streams and reduce expenditure, I will describe those initiatives that the government intends to roll out to increase the inflow of foreign exchange, especially as it relates to trade and investment with our global and regional partners.

INCREASED REVENUE STREAMS

The Government's traditional revenue streams are severely constrained and there is a need to implement measures that not only bolster government income, but to do so in a way that does not inhibit firms from investing and expanding, especially small- and medium-sized firms, and also in a way that does not negatively affect our citizenry, especially the most vulnerable. One such example is the increase in the personal allowance to \$72,000 per annum, which means that persons earning up to \$6,000 per month will be exempt from income tax. Additionally, the increase of the VAT Registration threshold to \$500,000 gives some 1,000 small- and medium-sized business more expendable income to reinvest in their businesses. Other fiscal and policy measures that have become necessary include:

- the increase in the rate of the Business Levy to 0.6% from 0.2%;
- the increase in the rate of the Green Fund Levy to 0.3% up from 0.1%
- the reduction of VAT rate to 12.5%, coupled with a review and revision of the exempt and zero-rated items;
- the phased reintroduction of the Property Tax on the original basis at the original rates with special provisions for the aged and indigent;
- the introduction of the Trinidad and Tobago Revenue Authority by the end of fiscal 2016, which is well on its way
- the adjustment to earnings classes and contribution rates in the National Insurance System; and
- the increase of the cap of joint incomes received by retirees to \$5,000 in respect of National Insurance and Old Age Pensions.

These measures are directed to everyone – each citizen, business owner and employee, all with the objective of creating a stronger, more resilient economy that will benefit us for generations to come. So it is across the board.

REDUCED GOVERNMENT EXPENDITURE

For several years, the public sector has ballooned and become carefree in its spending. This administration is expected to and we will lead by example. We started by reducing the number of Ministries. The Prime Minister has instructed that the management of every State Enterprise, Statutory Board and each Ministry and the Tobago House of Assembly review their operations and make identifiable a reduction of 7% in proposed expenses. These cuts will not comprise jobs, but rather wasteful, unwarranted spending and inefficiencies.

Such measures are not specific to Trinidad and Tobago. If anything, this country is fortunate that we have several policy options with which we can work. Norway—the energy-rich Scandinavian county that is a model for its stability and prudent management of energy wealth, is not immune and too is feeling the pinch¹. Russia is hurting even more. With oil and gas accounting for 70% of export incomes, it loses about \$2bn in revenues for every dollar fall in the oil price. The World Bank has warned that Russia's economy would shrink by at least 2.5% in 2016 if oil prices do not recover.

Just as the Prime Minister unequivocally stated – jobs will **not** be cut. But given the present realities and future predictions, adjustments must be made.

COMPETITIVENESS

Let's face it—Trinidad and Tobago is not competitive. We are ranked 89th out of 140 countries according to the World Economic Forum's 2015-2016 Global Competitiveness Index (GCI), just beating out countries such as Cambodia, Cote d'Ivoire and Tunisia. The most problematic factors for doing business in Trinidad and Tobago according to the 2015-2016 GCI include: poor work ethic in labour force; corruption; inefficient government bureaucracy; and crime and theft. For far too long we have known, and even been complicit, in creating and promulgating these problems. However, with high energy prices a thing of the past, they can no longer be ignored. **At the foundation of competitiveness is productivity and the importance of producing more in terms of quality and quantity, with less.**

Education and training—at all levels—are essential to improve work ethic. To tackle work ethic, the Government will continue to institute programmes that exploit the talent and build the skills and knowledge of our people, as well as provide opportunities for training and recruitment of new graduates and those now entering the labour force. For example, the Government intends to introduce a 20% increase in the stipends paid to On the Job Trainees (OJT) and an introduction of a Graduate Recruitment Programme that will employ 500 university graduates. The Government is committed to leaving GATE untouched so that all our young people have equal opportunity in developing their human capacity.

I appreciate the fact that wages are a major cost to businesses, but let's not forget the value that employees bring and the importance of their employment to the overall economy. Tripartite discussions are

¹ <http://theconversation.com/why-norway-is-not-panicking-about-the-oil-price-collapse-37392>.

essential to ensuring that the labour movement and the business community are in partnership and that a mutually beneficial balance can be reached between demands for wage increases and firms' profits.

We need to be competitive. With less resources and inputs, we must realize and accept the fact that we must change and adapt in order to meet future demands. It is not enough simply to be known as one of the wealthiest countries in the region—we need to be known globally as one of the most competitive.

REMOVING BUREAUCRACIES

Even before we speak of external markets and trade, we must consider the cost and ease of doing business locally—in other words, what does it take to start and operate a business in Trinidad and Tobago. Trinidad and Tobago is ranked 88th out of 189 economies in the most recent 2016 Doing Business (DB) Report (which reflects 2015 data) – a drop of 3 spots when compared to the previous Report. Bureaucracy and costly procedures continue to inhibit investment and business activities in the country, with reforms being recorded in one indicator. Before any good is manufactured, before any service is offered, this is the first critical step that must be realized. You see, the easier it is to start a business, the more businesses there will be; the more businesses there are, the more people that will be employed; the more employed people there are, the more money people have to save, invest and spend. This is a priority for the Government. The Ministry of Trade will lead the charge and prioritize specific improvements in strategic indicators, such as Dealing with Construction Permits and Trading across Borders, so that Trinidad and Tobago becomes a place in which entrepreneurs and innovation can be facilitated and encouraged.

The Government's most effective weapon in cutting red tape is TTBizLink, which AMCHAM was a key stakeholder in developing. It focuses on "Business Made Easy" by providing a secure, user friendly IT platform that gives the user access to trade and business services online anytime, anywhere in the world once connected to the internet. TTBizLink now provides (from end-to-end) forty six (46) e-government services across twenty five (25) government departments in ten (10) ministries. Over forty (40) business and trade e-services can be accessed through TTBizLink, some of which deal with: Company Registration; Work Permit; Import/Export Permits & Licenses; Certificates of Origin; Fiscal Incentives; Import Duty Concessions; and Goods Declaration.

Despite efforts by the government to expand and improve TTBizLink, businesses are oftentimes hesitant to change, even in the face of lower costs and improved efficiency.

STIMULATING THE ECONOMY

The Government intends to use housing construction as a major economic driver, using as much as possible local contractors, local equipment and local material. There is urgent need to find means and ways in which the surplus of private capital can be used for productive means, whilst creating jobs and space for families. The government is also pushing forward discussion with Venezuela to develop the Loran-Manatee gas field which will definitely be a boon to our energy industry, as well as with other multilateral institutions such as the Inter-American Development Bank and the World Bank.

EXPORT MARKETS

Of the world's five worst performing economies expected in 2016, according to Bloomberg Business, three hail from Latin America—Venezuela, Brazil and Argentina. Despite these cases, there are several opportunities in the region—Panama and the Dominican Republic are expected to expand by as much as 6.1% and 5.4% respectively in 2016, while Nicaragua, Bolivia, Guatemala, Paraguay and Peru should post

growth rates anywhere between 3.8 and 4.2%. Trinidad and Tobago has engaged several countries in the region and it is time that these be put to use—the private sector, though, are the ones to lead the way.

These include Partial Scope Trade Agreements with Panama, Guatemala, and El Salvador; CARICOM Bilateral Trade Agreements with Colombia, Venezuela, the Dominican Republic, Costa Rica, Cuba, and Canada; and the CARIFORUM-European Union Economic Partnership Agreement.

Trade agreements provide the potential for diversification through the expansion of services exports. In the CARIFORUM-EC Economic Partnership Agreement (EPA), services were negotiated allowing access to 90% of the EU's services sectors, ranging from Business Services, Communications, Construction, Distribution, Environmental, Financial, Transport, Tourism and Recreation services. The Ministry of Trade and Industry is working through its Trade Implementation Unit, to ensure that the EPA is implemented so that service providers here can access the European markets.

At this time the Government is reviewing the requests for bilateral agreements from countries such as Chile, as well as new arrangements with old partners such as Canada. The softening of political tensions between Cuba and the US could result in a spike in demand from that country for a wide range of products as the economy opens.

The Ministry of Trade and Industry is currently developing a National Export Strategy that will focus on the non-energy sector, with the objective of assisting in the diversification of the economy by focusing on four key areas:

- “Border in” (supply side issues) - focusing on domestic production capacity, productivity, quality, technological development, management and export marketing competencies, and competencies within the trade support network to assist enterprises in supply side matters.
- “Border” (operational issues) - focusing on developing and facilitating a business environment that is internationally competitive, on reducing the costs of the trade transaction, on streamlining official procedures and documentation and progressing infrastructure development.
- “Border-Out” (demand side issues) - focusing on identifying commercial opportunities abroad, provision of in-market support, promotion of the country and its sectors, promoting export-oriented foreign direct investment and technology know/how transfer.
- “Development” (socioeconomic issues) - focusing on job creation, balanced gender, poverty alleviation and urban/rural development.

Our National Aid for Trade Strategy, which will soon be completed, will set the framework for obtaining funding from Donors and Financial Institutions for the development of supply side capacity for Business Support Organisations (BSOs) and manufacturers in the non-energy sector. This Strategy seeks to develop a framework to improve trade facilitation and market access as it includes projects such as the development and implementation of a National Quality Infrastructure Policy.

The Ministry of Trade and Industry, through exporTT and on your advice, is considering the establishment of Commercial Trade Facilitation Offices in Guyana to serve the Guyanese and Surinamese markets, and in the Dominican Republic to serve that and the Haitian markets. This underscores the

proactive and strategic approach by the government to seek export markets and facilitate relationships that would lead to increased foreign exchange earnings.

BENEFIT TO TRADE PARTNERS

While this is a painful period for us, the other Caribbean countries that are net energy importers are benefitting significantly. With lower expenditures on unavoidable energy imports other Caribbean governments can consume more of the goods and services produced in Trinidad and Tobago, to our benefit. And while the United States of America, Trinidad and Tobago's largest trading partner, is now an energy exporter it is estimated to outshine the rest of the industrialized world and maintain consistently strong economic figures for 2016.

In global trade, although it may seem so, it is not a zero-sum game. Several countries around the globe are benefitting and are using low energy prices as the foundation for new reforms and initiatives as part of their long-term growth strategies. After raising electricity tariffs in early 2014, the Malaysian government took advantage of lower energy prices in the second half of 2014 to reduce and ultimately remove remaining gasoline and diesel subsidies. This would help broaden the base of the federal revenue system and diversify it away from volatile oil and gas revenues. The removal of subsidies have freed up resources that can be redirected to better support poorer households through better targeted cash transfers. In India, the Modi government cut costly public subsidies of diesel fuel, which were long understood to be counterproductive but were nevertheless politically unpopular to shed. Energy subsidies, which amount to more than \$540 billion per year worldwide, are as common as they are damaging to economies, the poor, and the environment, since they stimulate consumption and undermine efforts to save energy and use it more efficiently².

Developing trade, especially in non-energy, is critical to strengthening the economy and countering the dampened demand for manufactured products and services locally. The MTI is therefore seeking to develop Trade Offices to serve several countries across the region such as Guyana, Suriname, the Dominican Republic and Haiti.

The MTI is working to develop a policy to guide the expansion and improvement of industrial parks and special economic zones in Trinidad and Tobago to allow for increased export capacity, as well as facilitate greater synergies between businesses.

NEW SECTORS

There has been much discussion about diversification and the need to look at the non-energy sector for much needed foreign exchange, however, there has never really been a strategic approach to the long-term development of non-energy related goods and services.

In adding to the success of the manufacturing and finance sectors, the Government has established seven key sectors of focus to drive the diversification of the economy. With focus on the creative industries and manufacturing sector. Overall there is a Compendium of Services that need to be taken advantage of.

²<http://www.theatlantic.com/international/archive/2015/03/the-hidden-consequences-of-low-oil-prices/389156/>

INNOVATION

I urge the private sector to look inwards and develop new training and human development programmes, as well as divert increased earnings towards research and development to build their human and innovative capacities. We in Government will do our part.

CONCLUSION

Morgan Stanley estimates that the price could be pushed to as low as US\$20 a barrel due to the rapid appreciation of the US dollar. We cannot control actions taken by the US Federal Reserve nor the results; however, we can chart a new future. Countries that wait will be left behind; those that are in denial will suffer a worse fate. Saudi Arabia is considering making public Aramco, the secretive national oil and gas producer that produces more than 10% of the world's oil supply and could be valued at more than \$10 trillion by some estimates. Non-oil producing states are taking this opportunity to make tough policy decisions. Malaysia, Indonesia and India have taken steps to remove decades-old gasoline and diesel subsidies. Even in Brazil, many cities have been forced to cancel carnival parades.

The unexpected should be anticipated. Norms will be challenged. Let us not see 2016 as a year of strife and hardship, but as one for opportunity. An opportunity to think about what can and should be done; an opportunity to make those choices that we may not have made five years ago; an opportunity to really acknowledge our potential and realize our fullest potential.

I thank you.