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1. BACKGROUND

On August 08, 2001, the Rt. Hon. Prime Minister and Minister of Finance presented the Financial Statement: Economic and Financial Policies of the Government. The proposals presented then were largely informed by the annual National Consultation on the economy that was held in May to examine Barbados' economic situation. The social partnership made a tremendous contribution to this consultation that helped to form the basis for the proposals in the Economic Statement. Unfortunately, the framework and much of the content of that presentation to Parliament had been overtaken by events on September 11, 2001.

The statement had two broad objectives namely:

(a) To stimulate economic activity in the short-term so that Barbados could be restored to the 3% real growth path as soon as was possible, up from the 1% path on which it was at that time; and

(b) To continue to devise and implement new fiscal, sectoral, human resource development, capacity building, institutional reform and productivity measures necessary for Barbados to make

the economy more competitive in the context of the regional, hemispheric and global economies as they are likely to evolve.

The fiscal policy, as announced then, was intended to:

- (a) Institute tax reform;
- (b) Provide carefully targeted financial support to the strategic sectors of the economy;
- (c) Improve the safety net for vulnerable sectors of the our economy; and
- (d) Maintain a low fiscal deficit.

Sectoral policies were also announced for the stimulation and repositioning of the productive sectors of agriculture, tourism, international business and manufacturing.

These measures were intended to avert any decline in the national economy and achieve a growth rate of 3% in the Barbadian economy when they had taken their full course.

Notwithstanding the fundamental strength of the economy such as strong foreign reserves, low inflation, low fiscal deficit, and relatively low unemployment thus far, there is some concern about the potential weakness in the real economy, particularly in tourism, which has been occasioned by the terrorist attack of September 11, 2001 and the resultant effect on the world economy.

The measures proposed in this strategy form a set or responses which the Government of Barbados will pursue in the ninety day (90) period to preserve employment, maintain a satisfactory level of economic activity and ensure the viability of domestic producers. At the core of this strategy will be an intervention package of \$31.885 million, of which \$30.5 million will be provided for the tourism sector. This financial injection is additional to sums already allocated in the Estimates of Expenditure for the current year and additional incentives granted in the Economic Statement of August 08, 2001.

2. RECENT ECONOMIC PERFORMANCE

Review of January - September 2001

The economy was estimated to have declined by 1.5% in the first nine months of 2001. After growing in the first quarter, both the traded and non-traded sectors registered declines with the output in the tourism sector declining by 3.1%.

Long-stay arrivals fell by 4.9% between January and September with all major markets registering declines. In contrast, cruise ship visitor arrivals increased by 7.6% over the same period. Agriculture, both sugar and non-sugar was in decline as well as the manufacturing sector which declined by 7.6%.

Inflation increased slightly and at the end of June it stood at 3.2%, this was 0.6 percentage points higher than at the end of June 2000. Unemployment edged upward from 9.3% to 10% reflecting the downturn in the major economic sectors.

Net international reserves rose by \$137.9 million at the end of the third quarter, with \$127.7million of this increase realized from the end of the first quarter alone. The increase for the corresponding period last year was \$204.2 million. This reduced rate of growth in the reserves resulted from lower earnings from tourism, a contraction in domestic exports and lower financial inflows.

Review of Fiscal Performance 2001-2002

The fiscal programme for 2001-2002 was designed to achieve a fiscal deficit of 3.2% of GDP at market prices. Current revenue was projected at \$1,795.5 million, current expenditure, inclusive of amortization of \$223.8 million, at \$1,845.6 million and capital expenditure at \$352.8 million resulting in a deficit of \$179.0 million.

A review of the fiscal performance at August 31, 2001 indicated that current revenue had fallen below projections by \$31.1 million reflecting the decline in the economy. Current and capital expenditures were also short of their targets by \$14.2 million and \$16.5 million respectively.

A further review for the period ended September 30, 2001 revealed that there had been a further decline in current revenue apparently resulting from the events of September 11, 2001. At the end of the period, current revenue was down by \$39.8 million and was just \$5.1 million more than for the same period last year. All major taxes fell short of projections as well as below last year yields thus reflecting the slowdown in the economy and the impact of the events mentioned above.

On the expenditure side the out-turn for the period under review also fell below projections by \$76.8 million, but exceeded the out-turn for the corresponding period last year by \$42.4 million.

Based on the fiscal performance to date the fiscal programme for 2001/2002 has had to be revised and a fiscal deficit of \$207.7 million or 3.9% of GDP is now being projected.

With this revised programme it is intended that the growth in expenditure will be kept in line with the growth in revenue, wherever possible redirecting existing resources, thereby maintaining strict fiscal discipline.

3. THE NATURE AND IMPACT OF THE CRISIS

On September 11, 2001, the USA was attacked by terrorists in New York as well as in Washington, D.C. and in Pennsylvania.

The attacks have created a significant fear of airline travel in the near term and will undoubtedly pose a serious threat to international tourist travel not only out of the U.S., but also from its strongest allies, the United Kingdom (U.K.), Canada, and Europe, which all are traditional tourist markets of Barbados. The implications of this catastrophic event take on even greater significance, considering that the global economic slowdown that has preceded it is by no means over.

The most obvious impact on the Barbados economy has been on tourism. Preliminary evidence indicates that Americans have already adopted a "wait and see" attitude to traveling, especially on American carriers, to almost anywhere for the time being. This scenario presents a major problem for Barbados as the country approaches the winter season - the period when the tourist industry usually thrives. Against a less than stellar year so far, this scenario portends great difficulties for the tourism sector and calls into question the achievement of the recovery which was hoped for in the coming winter season.

The tourism sector accounts for a 15% share of total real GDP, and has generated, on average, just over 50% of Barbados' foreign exchange earnings each year since 1993. The sector employed, as at the end of June 2001, some 12,800 persons, representing 10% of total employment. Due to its linkages to many other areas of economic activity, an expected deterioration in tourism activity is likely to reverberate across both business and personal sectors, creating significantly negative effects.

The immediate impact will be a reduction in long stay arrivals, which, in turn, is likely to lead to lower earnings from tourism services. As a result, real tourism value-added will be adversely affected, and with other areas of traded activity already in decline, total real GDP is expected to

register negative growth. Furthermore, output of the wholesale and retail, transportation, storage and communications, and business and other services sub-sectors, which depend on traded activity, will be constrained by the expected economic downturn.

The outlook for the rest of 2001 depends on what happens with regards to the United States fight against terrorism as well as on domestic measures undertaken. If no domestic action is taken, it is estimated that real GDP would decline by 2.4%. Traded activity would fall by 8.2% by year-end and non-traded activity would fall as a consequence of the decline in tourist activity. Unemployment would continue to rise as a result of diminished economic activity as firms start to feel the effects of reduced demand. Inflation would be approximately 3.8% as compared with 2.1% for 2000.

Net International Reserves are expected to grow by only \$70 million, reflecting a decline in the fourth quarter as a result of decreased tourist activity and declining domestic exports. The fiscal deficit is expected to be 3.5% of GDP but could worsen if imports and domestic demand continue to fall and employment declines further. It is estimated that current revenue for the last quarter of 2001 would be 5% less than the original target and 3% less than that for the corresponding period of the year 2000.

4. THE INITIAL RESPONSE

The National Consultation on the Economy

In the same spirit of the annual consultation on the economy which informed the annual statement to Parliament, a Special Consultation on the economy was held on Friday, September 28, 2001 to prepare a national response to the crisis. At the conclusion of the consultation, it was agreed that a National Emergency Economic Council should be established and chaired by the Prime Minister, with the secretariat to be housed in the Ministry of Economic Development. It was also agreed that, due to uncertainty created by the fact that the events were still unfolding most of the initiatives would of necessity have a short planning horizon. It was agreed that the programme would, in the first instance, cover a period of ninety (90) days with the medium to long-term plan to be finalized when more parameters are known.

The details of the Council are in the attached Appendix 2. The Emergency Council met and devised both a macroeconomic programme designed to stabilize the economy, maintain job levels and output. Additionally, sectoral plans to stimulate the productive sectors of the economy were agreed. It is anticipated that as a results of these measures the sectors would be placed in a position to maintain production capacity such as will allow them to function competitively after the crisis.

5. THE MACROECONOMIC ACTION PLAN

Whilst the economic situation at the present time is very fluid and uncertain, every conceivable effort will be made to protect the economic fundamentals of the country. In this regard the broad macroeconomic objective is to maintain low inflation, employment levels, and economic growth. The principal objective is geared towards the maintenance of employment during the crisis.

Whilst the macroeconomic plan contemplates only a ninety (90) day period at the outset, a medium to long-term plan for the economy will be evolved.

This plan will keep in sharp focus the need to ensure that individual business enterprises are protected and given every opportunity to survive in the current environment so that they will be able to emerge from the crisis stronger to meet the challenges and opportunities that lie ahead.

This intervention is designed to stimulate the economy in this time of crisis whilst maintaining the economic fundamentals. It comprises monetary measures aimed at providing cheaper finance for business enterprises, the maintenance of a feasible level of economic activity through the capital works programme while supporting the major sectors of the economy, and capital market measures designed to be precautionary in nature to stave off any uncertainty of the crisis by ensuring that Barbados has an adequate level of foreign reserves.

Macroeconomic Package

In addition to the policies that have been instituted recently, these additional measures are intended to ease cash flow and reduce the cost of doing business at this time.

Monetary Measures

The minimum deposit rate has already been reduced by 50 basis points to 3% and the indicative weighted average lending rate to 8.5% per annum, and the Central Bank of Barbados stands ready to reduce reserve requirements if liquidity in the system tightens further.

Revised Fiscal Stance

Government's intervention by bringing this package of measures is to stabilize and protect jobs. In addition to dealing with the current realities, the package is intended to enable the productive sectors to take advantage of growth opportunities in the future as well.

Wherever possible there will be a reduction or revision of non-wage recurrent expenditure (discretionary expenditure). Emphasis will be on utilizing whatever funds have already been budgeted or using funds that have already been allocated. The capital works programme of Government will proceed, in the main, as planned. This will engender confidence and demonstrate throughout the economy that, notwithstanding the recent events now is, as good a time as any, to undertake construction activities which will increase our productive capacity.

The capital projects previously identified for execution in the August 08, 2001 statement will proceed as planned. These include: the comprehensive housing programme of the NHC and its joint venture partners; the Bridgetown Redevelopment Project, the Grantley Adams Airport Expansion Project, the Hilton Hotel, the Bridgetown Port Expansion; Urban Redevelopment Project; Newton Business Park, all of which will proceed. These projects are vital as they will contribute to the capacity of Barbados to earn foreign exchange in the future.

The fiscal framework for the rest of the fiscal year will be formulated against the background of: An expansionary fiscal policy;

- Maintenance of public sector employment;
- Implementation of a programme that will involve reducing discretionary expenditure in order to release resources that were otherwise committed for the emergency at hand;
- Accentuation of the use of the public sector investment programme to build capacity for the post future emergency as well as to maintain jobs
- Provision of price support and debt relief for the production sectors

Capital Market Measures

It is envisioned that the crisis may last up to two years and is likely to cause some turbulence in the export markets. Barbados' reserves are buoyant. Foreign borrowing at this time is therefore for precautionary purposes.

As part of the strategy for the present crisis the Government will go to the world capital markets for a loan of US\$150 million. It is considered timely to approach the capital market given several positive features. Barbados has a level of reserves of \$1.1 billion or 26 weeks of import cover which is well beyond the international norm: there is no threat to the Barbadian currency or exchange rate and Barbados has a good credit rating. In addition, the cost of capital is the lowest ever at this stage and there is the possibility that credit on the international market may tighten during the next eighteen (18) months.

Barbados has, in recent times, managed its external debt in an exemplary fashion. The Government has reduced the Central Government foreign debt from over 30% of GDP in 1992 to 13.1% in 2000. In addition, the foreign debt service ratio has declined from 17.8% of export earnings in 1992 to a low of 7.3% in 2000. An increase in debt of the magnitude contemplated can readily be accommodated and would not compromise the viability of the economy for future generations.

In fact, Barbados' credit rating for 2000 was the second highest in the Caribbean region and the third highest for the Latin American region. It should be noted that over the last year Barbados' ratings have increased by 9.6 points.

It is anticipated that with the prevailing favourable market conditions, Barbados should be able to borrow at 300 basis points (3% points) above US treasuries which should be an indicative fixed rate of approximately 8.25% over 20 years.

These funds are being borrowed for precautionary reasons and therefore will not be used for current transactions purposes and will be placed in a sterilized account.

6. THE SECTORAL ACTION PLAN

As a worst case scenario, it is anticipated that without policy intervention the crisis could lead to a 30% fall in long-stay visitor arrivals for the fourth quarter of 2001 and a 20% fall in 2002. The decline for cruise arrivals in this worst-case scenario could be approximately 15% in the fourth quarter of 2001 and 10% for 2002. This could translate into a decline in \$102.9 million or 7.1% in the fourth quarter of the year.

This could have reverberating effect in all sectors of the economy.

With policy intervention, the programme could cut by half the fall in real activity in the economy. This package of sectoral interventions is intended to mitigate the economic impact, maintain employment and preserve the viability of local business enterprises. As a condition for receiving financial and other assistance from the Government, the private sector is expected to maintain employment levels across the economy.

The sectoral action plan sets out measures for the international business, the agricultural, manufacturing, small business, and energy sectors of the economy.

THE TOURISM SECTOR

The terrorist strike in the United States of America was unprecedented in its impact on the air transport industry worldwide. Consequently there has been significant loss of consumer confidence in air travel. As a result, international tourism that is inextricably linked to air transport has also been affected. The economies of those countries where tourism plays a major role now face a potentially destabilizing period as a result of the negative impact the tragedy of September 11, 2001 has caused on a global economy that was already marked by slow but steady deceleration. Prior to September 11, 2001, Caribbean tourism had been experiencing the effects

of this global economic downturn as evidenced by reduced business. The recent terrorist attack has therefore plunged the Caribbean into a crisis situation.

The impact of the September 11 events on the tourism industry in Caribbean destinations has been varied, ranging from critical, in destinations like Jamaica and the Bahamas which depend primarily on the United States as their primary source market, to very serious in destinations like Barbados which have a more diversified source market base. The industry in Barbados has been experiencing significantly reduced occupancies which in turn have resulted in less tourism expenditure, foreign exchange earnings and decreased business for the attractions and activities sector. There are also other concerns with respect to direct and indirect linkages to the tourism industry.

However, the full extent of the impact cannot be easily quantified as there are a range of external variables that are changing on a daily basis. The close relationship between the US and the UK, Barbados' primary source market, is of particular significance in such an environment, as the threat of terrorist retaliation on the UK could result in increased loss of consumer confidence in international travel from that country.

Estimated Loss

According to data available on tourist arrivals, by the end of August 2001, the number of tourists visiting Barbados between January and August 2001 was 4.4 percent less than the corresponding period for 2000. This was due primarily to significant declines in May, June and July. However, it should be noted that 2000 was our best ever year for tourists arrivals and each of these months recorded increases in excess of 15 percent. It would have been difficult to repeat that performance. Preliminary data for September 2001 show a decline in tourist arrivals of 10.4 percent and consequently, a cumulative decrease of -4.9 percent, compared to the period January to September, 2000. It is therefore very unlikely that the sector could have done better than break even during the last quarter of 2001.

As a worst case scenario, without intervention by Government to counteract the impact of the crisis, the tourism sector could stand to lose up to an estimated \$201.4 million in the last quarter of 2001 from long stay visitors alone if the accommodation sector reduces rates by 30 percent across the board in order to attract a much reduced level of business. The decline could be even greater if rates are reduced by 50 percent across the board. Even if the accommodation were able to attract the average rates for the last quarter of 2000, a fall off of business of between 5 and 25 percent in the main source markets would result in a decline of \$51.2 million.

The accommodation sector may still have to reduce rates by as much as 20 percent and the sector as a whole could lose as much as \$112.4 million in revenue from long stay arrivals.

Cruise passenger arrivals for the fourth quarter of 2001 are expected to amount to 153,181 or 21.2 percent below the pre-crisis level of 194,288. This decline in the last quarter of 2001 will result in a modest decline of 1.8 percent for the year 2001 as a whole since up to September cruise arrivals were up by 10.7 percent. The loss in revenue from cruise passenger spending in the last quarter is expected to be \$6.2 million as a result of reduced occupancy levels.

Support to the Tourism Sector

In the Economic Policy Statement of August 8, 2001 measures to stimulate the tourism sector were announced. They were intended to increase our market presence and provide financial incentives to facilitate increased investment in the tourism sector.

Included in the measures was the announcement of a new marketing thrust by the Barbados Tourism Authority. An additional \$20 million was made available to fund the programme over the next three years with \$6.5 million being provided immediately.

New incentives for large investments, inland tourism ventures, heritage tourism projects, restaurants, villas, time-share properties and recreational facilities were granted and are to form part of the new Sustainable Tourism Bill.

These measures will be expeditiously implemented.

In light of the present crisis additional new measures are required to supplement those already in place. These measures will focus on marketing efforts to maintain visitor interest in Barbados, maintaining adequate airlift capacity, achieving new international standards for Airport and Seaport security, maintaining the economic viability of businesses in the tourism sector, and the maintenance of high level of employment.

These additional measures will cost \$30.5 million during this financial year as follows:

- Security equipment for the air and sea ports \$ 2.4million
- Airline support \$ 0.8million
- Marketing \$9.6million
- Tour Operator Support \$ 5.2million
- Accommodation sector support \$ 10.0million
- More welcoming environment \$2.5million

In addition, in the event that businesses find it difficult to access further overdraft facilities to meet their working capital requirements, it is proposed that the Guarantee Scheme of the Central Bank of Barbados be used to guarantee new working capital credit to businesses in the tourism industry. Funds from the Industrial Credit Fund (ICF) will be utilized for providing these new overdraft facilities. The interest rates charged to businesses should not exceed 6% for the period October 2001 to December 2002.

This expenditure in defence of our tourism product is urgent and unavoidable. The funds provided for tourism in the Estimates for the full year have already been advanced and redirected for use in the sector to deal with this emergency.

Security

The urgency of any expenditure on the Ports of Entry is necessitated by the fact that all over the world tighter border controls are being mandated as part of the fight against terrorism.

It is essential, that Barbados maintains the very high civil aviation standards which have in the past allowed the Grantley Adams International Airport to achieve high ratings as an international airport. The International Civil Aviation Organization (of which Barbados is a member) and the Federal Aviation Administration of the USA have mandated new standards for airport security in the aftermath of the September 11, 2001 terrorist attack on the USA. Failure to comply would have serious consequences for Barbados' rating with these institutions.

The sum of \$2.4 million will be used to provide for close circuit television monitoring of sensitive areas of the airport, airfield perimeter monitoring, scanners, improved security lighting and advanced communications equipment. In addition, other security matters related to procedures and collaboration between all of the island's security agencies are being considered by the National Security Council.

The Government will spare no effort or expense to ensure that Barbados maintains a high international rating for its Airport and Harbour, and that all passengers can feel safe and confident in using these facilities.

Airline and Tour Operator Support

Support for the airline industry and tour operators is conditional on these entities maintaining airlift capacity and increasing loan percentages to normal levels through January 2002. It is intended to

ameliorate any short-term hardship that will be suffered. This will allow Barbados, as a destination, to be in position to take advantage of any rebound that may be in the offing especially from any diversion of traffic from elsewhere around the globe.

Our present airlift out of the USA is provided by three major airlines providing 34 flights per week with a seating capacity of 5,710 passengers. Out of the United Kingdom, five airlines provide 19 flights per week with seating capacity for 6,225 passengers.

A significant percentage (70-80%) of tourists visit Barbados through tour operators. The \$5.2 million package will be used for joint marketing with the main four tour operations which lead the UK/Barbados market. It is important to note that these tour operators also charter aircraft thus providing airlift, therefore any pull out by these operators means a reduction in seating capacity into Barbados.

The Accommodation Sector

These measures are intended to protect jobs in the hotel sector through maintaining the viability of those businesses in the accommodation sector which are hardest hit by any reduction in business attributable to this crisis.

Accommodation sector support of \$10 million is to take the form of a Fund to provide a lifeline for hotels to assist them in maintaining their operations over the ninety-day period October-December 2001 when it is anticipated that they will sustain considerable losses as a result of market conditions following the September 11, 2001 tragedy. It is proposed that this situation be reviewed at the end of the year when a more up-to-date assessment can be made of prospects for the winter season and the impact on the cash flow of businesses.

The fund will provide price support to which hotels will be eligible. It is intended to compensate for losses from:

1. Reduction in occupancies
2. Loss of revenue as a result of discounting of rates
3. Inability to collect funds from tour operators and wholesalers who themselves are experiencing significant difficulties.

It is proposed that this fund will be established at the Enterprise Growth Fund Limited (EGFL) for the management and distribution to the sector.

Eligible hotels will be required to provide information documenting estimated losses as a result of the three circumstances listed.

More Welcoming Environment

Our country needs a friendlier, brighter, cleaner and generally a more welcoming environment. This is essential both for Barbadians as well as visitors to the island. The sum of \$2.5 million will be spent to the attainment of this objective. This national effort will augment existing related activities presently undertaken by the National Conservation Commission (NCC), Sanitation Services Authority (SSA) and other agencies. It will include, extensive debushing of residential areas, beautification of corridors along highways, improved signage and the like.

This effort will be coordinated by the Ministry of Economic Development along with the Ministries of Health, Physical Development and Public Works.

THE INTERNATIONAL BUSINESS SECTOR

The international business and financial services sector had a soft performance for the first nine months of this year. This was in part due to the cessation of the Foreign Sales Corporation (FSC)

regime as a result of a WTO ruling which deemed the regime to be contrary to World Trade Organisation (WTO) rules. The sector also continues to be affected by the uncertainty over the Organisation of Economic Cooperation for Development (OECD) initiative.

For the period January - September 2001 there were 215 entities licensed compared to 638 in 2000 and 648 in 1999. There were no FSCs registered in 2001, whilst 118 were registered in 2000 and 249 in 1999.

It is envisioned that increased attention will be paid to international financial centres as the world unites to fight terrorism. In recent times several initiatives have been undertaken to reform the sector in Barbados. These include, the strengthening of the supervisory and regulatory framework, expanding the number of tax treaties, introducing new legislation, to broaden the range of products and services available in the financial services sector, more aggressive marketing of Barbados and administrative reforms to increase the speed of registration and related matters.

Along with its challenges, the present crisis does present one strong opportunity, and this is in the captive insurance sector.

The crisis will have a significant impact on the insurance business. It would be the largest single loss estimated at between US\$ 60 billion and US\$ 100 billion. As a result insurance rates have already increased significantly. Hardening rates provide a favourable environment for Captive formation. In addition, new capital will look to pool in new vehicles which are free of the losses associated with the event. Companies, especially in North America, will be assessing their risk profiles in light of the terrorist attacks. All of these factors suggest that during the next three to six months there could be an unprecedented rate of new Captive formation.

Barbados will mount a marketing programme to capitalize on these opportunities. The following additional measures will be introduced to augment those identified in the August 8, 2001 Economic Policy Statement.

Marketing the Insurance Sector

As a consequence of the September 11, catastrophe, it is expected that businesses will find it expensive and difficult to purchase insurance and re-insurance in the regular commercial market and will therefore turn to self-insurance vehicles such as Captive Insurance Companies as a risk management vehicle and a means of reducing costs, while at the same time managing risks. This will present an opportunity for Barbados in the Captive Insurance Industry.

Barbados will embark on a special marketing campaign to attract more captive insurance business during the next 90 days. \$100,000 will be provided for this purpose.

Increased Public Relations and Diplomatic Efforts

(i) Efforts will be pursued to utilize Barbados' overseas missions in countries such as Canada, the United States and the United Kingdom to assure these countries that Barbados continues to be a reputable jurisdiction. (Travel and accommodation - \$60,000).

ii) An enhanced media strategy will be pursued so that the international community is aware of the steps that are being taken by Barbados to address the concerns about supervision and regulation, terrorism and money laundering. (\$50,000 - assistance of international media consultant).

(iii) Barbados will issue a clear statement that:

(a) It supports the international efforts to track money laundering and terrorist funds;

(b) Barbados has in place the legal and administrative mechanisms to track the funds in (a) above;

(c) Barbados adheres to the principles of exchange of information and transparency;

(d) Barbados welcomes Double Taxation Agreements Bilateral Investment Treaties as a method of formalizing tax investment relations with other countries;

(e) Barbados is committed to international best practice in the supervision and regulation of financial services;

(f) Barbados endorses the view of the United States that tax competition is legitimate.

Supervision and Regulation

A number of events within the last quarter of 2001 urgently require the further strengthening of our supervisory and regulatory capacity. On September 28, 2001 the United Nations (UN) Security Council passed Resolution 1373 calling on members states to comprehensively strengthen their capacity to fight terrorism and the financing of terrorist regimes. Further the Caribbean Financial Action Task Force (CFATF) will be carrying out the second Mutual Evaluation, on the country's capacity to fight money laundering, between November 12-15, 2001.

While the first evaluation was concerned with the general legislative framework, this one will seek to determine the effectiveness of Barbados' legislative, administrative and financial resources to combat the same. Barbados must pass this evaluation to avoid a negative listing, which will have a deleterious effect on our economic prospects and our ability to manage this crisis effectively.

As a result a number of actions are being pursued. Among which are the following:

(i) A Committee has been established to ensure that all aspects relating to the Mutual Evaluation of the Caribbean Financial Action Task Force (CFATF) are met. The Committee will meet weekly to ensure that the work required by each Department keeps pace with requirements and that each Department meets the overall national objective. The committee comprises the following:

(a) Attorney-General (Chair);

(b) Director of Public Prosecutions;

(c) Chief Parliamentary Counsel;

(d) Director of Finance and Economic Affairs;

(e) Commissioner of Police;

(f) Deputy Solicitor-General;

(g) Permanent Secretary, Ministry of Foreign Affairs;

(h) Director, Financial Intelligence Unit;

(i) Director, International Business;

- (j) Registrar, Corporate Affairs;
- (k) Registrar, Cooperatives;
- (l) Comptroller of Customs;
- (m) Chief Immigration Officer;
- (n) Postmaster-General;
- (o) Supervisor of Insurance;
- (p) Commissioner of Inland Revenue;
- (q) General Manager, Stock Exchange of Barbados;
- (r) Permanent Secretary, Ministry of Civil Service;
- (s) Permanent Secretary, Office of the Attorney-General.

(ii) A series of legislative amendments, including the Money Laundering (Prevention and Control) 1998-38 and Mutual Assistance in Criminal Matters Cap.140A will also be amended to allow for the rendering and receiving of assistance between Barbados and non-Commonwealth countries that are signatories to the Vienna convention;

(iii) Institutional strengthening will be undertaken to ensure that the Unit is properly resourced to effectively manage and police all the areas of its portfolio. This includes intelligence gathering, training of staff of financial institutions, reviewing internal anti-money laundering structures of financial institutions, developing guidelines for financial institutions and service providers, managing data. To address the institutional strengthening aspects of the Financial Intelligence Unit (FIU), a sum of \$200,000 has been allocated;

(iv) A local public awareness campaign will be launched to sensitise Barbadians and overseas investors on the efforts to fight money laundering (\$50,000 will be allocated for this purpose);

(v) In terms of border control, all persons coming to Barbados must now declare on their Embarkation /Disembarkation (E/D) Card whether they are carrying money or valuables in excess of \$10,000.

Security Council Resolution No.1373

It is anticipated that this committee will direct its attention to preparing Government's appropriate response to Security Council's Resolution 1373. It should be noted that Security Council resolutions are mandatory and sanctions will be applied for non-compliance with the resolution. Member states of the United Nations have ninety (90) days to inform the United Nations (UN) of the measures and work programme to make their legislation and administrative practice compliant.

THE AGRICULTURE SECTOR

Prior to September 11, 2001 the agriculture and manufacturing sectors were implementing a trade liberalisation programme. Difficulties encountered by the sectors prompted Government to implement measures to mitigate the effects of trade liberalization on these sectors.

The measures introduced in the August 08, 2001 statement which included targeted financial and technical assistance, provision of trade protection through safeguard mechanisms, and measures to expand the local market.

The agriculture sector will be affected by any general downturn in the economy. As a result, the strategy for this sector will be to maintain and accelerate implementation of the comprehensive policies of the August 8, 2001 presentation.

In light of the current crisis the existing measures will be subjected to accelerated implementation over the next ninety(90) days. They will also be supplemented by the following additional measures:

- Import licences will be reintroduced to provide protection for Barbados' most sensitive agricultural products, such as:

- (a) Beef;
- (b) Pork;
- (c) Lamb;
- (d) Poultry;
- (e) Milk;
- (f) Tomatoes;
- (g) Onions;
- (h) Cabbage;
- (i) Lettuce;
- (j) Carrots;
- (k) Sweet Pepper;
- (l) Melons.

During the next 90 days, 180 acres will be allocated to 30 landless farmers.

The resources available to the Agriculture Development Fund (ADF) i.e. \$17.5 million will be employed to finance the programme. A financial injection into the Rural Enterprises Fund (REF) will be made from the proceeds of the Agriculture Development Fund (ADF). An additional 90 acres of land will be put into the land for the landless programme.

The Government will support the Barbados Agricultural Society to the tune of \$250,000 to assist the farmer organizations with institutional strengthening.

THE MANUFACTURING SECTOR

During the period of the crisis the Government will accelerate the implementation of those measures previously identified to improve the performance in the manufacturing sector.

Manufacturing, though undergoing a period of challenge continues to contribute to employment and foreign exchange earning for Barbados. Employment and exports levels are threatened by the current crisis.

The largest export market for Barbadian manufactured goods is CARICOM which accounts for approximately 40% of exports. A decline in demand in CARICOM triggered by the economic crisis would impact negatively on the sector. Neither the Government nor the manufacturers are in retreat in the face of this challenge. For on the positive side, recent trade missions and the establishment of an Export Trading Company by several manufacturers has resulted in new markets, such as the United States Virgin Islands, being penetrated. It is expected that this will result in several Barbadian foods, crafts, condiments, etc. being sold to the several million cruise ship passengers which visit the United States Virgin Islands.

The Government remains committed to the policy measures which were previously identified for the stimulation of the sector.

Barbados will fully utilise all available safeguard mechanism to protect the manufacturing sector such as are consistent with our obligation to the CARICOM Single Market & Economy (CSME), the World Trade Organisation (WTO), the European Union/African Caribbean Pacific (EU/ACP) arrangements and the pending Free Trade Area of the Americas (FTAA).

The government will continue the programme of technical and financial assistance to the sector with special focus on products with export potential, those with significant market share and those making a major contribution to employment.

In this regard the 60% duty protection and the special safeguard provisions announced will come into effect from November 1, 2001. Enterprises are currently receiving technical assistance, particularly in meeting ISO 9000 and HACCP standards, from the funds previously allocated.

All arrangements are in place for the Barbados Enterprise Growth Fund Limited (EGFL) to receive applications for retooling and recapitalizing of manufacturing business from the \$25 million Industrial Investment and Employment Fund.

National Buy Local Campaign

Government believes that economic difficulties occasioned by this crisis should be met by encouraging Barbadians to buy local. As a result a national buy local campaign stretching across all sectors will be launched. This programme is intended to increase the demand for locally produced products and maintain private sector employment. It is hoped that the spirit of the buy local campaign will engender a greater spirit of cooperation and support by the marketing and producing arms of the private sector.

This major activity is estimated to cost \$600,000 and will be financed jointly by the Government and the Barbados Manufacturers Association (BMA). It will include in its coverage agricultural goods and local services. The objective is to encourage consumers, both business and personal, to purchase domestic good and services in preference to imported alternatives. A coordinating committee will supervise this programme. It will include representatives of Government, Barbados Manufacturers Association (BMA), Barbados Agricultural Society (BAS), Small Business Association (SBA) and CTUSAB.

THE SMALL BUSINESS SECTOR

The Small Business Sector consists of businesses involved in a whole range of activity from Tourism to Manufacturing and Agriculture. The sectoral measures presented earlier will apply to all businesses whether large or small. In addition to the earlier measures, the following will have a direct impact on the Small Business Sector:

- Better access to and conditions for the Small Business Sector to existing Guarantee Schemes.
- Recapitalization of Fund Access and other technical assistance funds to meet the needs of small business.
- Improve speed of payment by Government for goods and services.

THE ENERGY SECTOR

Given the pervasive impact of petroleum prices on production cost and prices, Government is passing on the full benefit of price reduction in petroleum products to the consumer, as stated in its energy policy.

Consistent with the stated policy and noting the reduction in the CIF value of imported products, from Monday, October 22, 2001 the retail price of gasoline was reduced from \$1.45 to \$1.38 per litre that is from \$5.48 per gallon to \$5.22 per gallon and that of diesel from \$1.18 to \$1.12 per litre or from \$4.47 to \$4.24 per gallon.

Barbados has adequate storage capacity for fuel as well as several alternative sources of supply. Availability of fuel is therefore not under threat at this time. A rigorous energy conservation programme will however be implemented, involving a public awareness programme in both conservation and energy efficiency measures. The programme will cost \$75,000.

7. SUMMARY

The financial implications of the emergency package to be implemented are documented at Appendix 1.

Summary of Measures

1. Wherever possible there will be a reduction or revision of non-wage recurrent expenditure (discretionary expenditure). Emphasis will be on utilizing whatever funds have already been budgeted or using funds that have already been allocated. Capital projects previously identified for execution in the August 8, 2001 statement will proceed as planned.

2. The Government will go to the world capital markets for a loan of US\$150 million. These funds are being borrowed for precautionary reasons and therefore will not be used for current transactions purposes and will be placed in a sterilized account.

3. The package of measures to assist the tourism sector during this financial year will cost \$30.5 million and is broken as follows:

- Security equipment for the air and sea ports \$ 2.4million
- Airline support \$ 0.8million
- Marketing \$9.6million
- Tour Operator Support \$ 5.2million
- More welcoming environment \$2.5million
- Accommodation sector support \$10.0million

All of the above items of expenditure will be met from the consolidated fund except the last item which will be funded by the Tourism Loan Fund.

In addition, in the event that businesses find it difficult to access further overdraft facilities to meet their working capital requirements, it is proposed that the Guarantee Scheme of the Central Bank of Barbados be used to guarantee new working capital credit to businesses in the tourism industry and that funds from the Industrial Credit Fund (ICF) be utilized for providing new overdraft facilities.

4. An opportunity for Barbados to market itself in the Captive Insurance Industry has occurred and to this end the Government will embark on a special marketing campaign to attract more captive insurance business during the next 90 days. \$100,000 will be provided for this purpose.

5. Efforts will be pursued to utilize Barbados' overseas missions in countries such as Canada, the United States and the United Kingdom to assure these countries that Barbados continues to be a reputable jurisdiction. This will cost \$60,000.
6. An enhanced media strategy will be pursued so that the international community is aware of the steps that are being taken by Barbados to address the concerns about supervision and regulation, terrorism and money laundering will be implemented. This will cost \$50,000.
7. Barbados has issued a clear statement against money laundering and the use of funds to support terrorism. Barbados will continue to voice such support. There is in place the legal and administrative arrangements to facilitate such an international effort.
8. The Caribbean Financial Action Task Force (CFATF) between November 12-15, 2001, will carry out the Second Mutual Evaluation, on the country's capacity to fight money laundering.,
9. While the first evaluation was concerned with the general legislative framework, this one will seek to determine the effectiveness of our legislative, administrative and financial resources to combat the same.
10. A series of legislative amendments, including the Money Laundering (Prevention and Control) 1998-38 and Mutual Assistance in Criminals Matters Cap.140A will also be amended to allow for the rendering and receiving of assistance between Barbados and non-Commonwealth countries that are signatories to the Vienna convention.
11. Institutional strengthening will be undertaken to ensure that the Unit is properly resourced to effectively manage and police all the areas of its portfolio. To address the institutional strengthening aspects of the Financial Intelligence Unit (FIU). A sum of \$200,000 has been allocated.
12. A local public awareness campaign will be launched to sensitise Barbadians and overseas investors on the efforts to fight money laundering. A sum of \$50,000 will be allocated for this purpose.
13. In terms of border control, all persons coming to Barbados must now declare on their Embarkation/Disembarkation (E/D) Card whether they are carrying money or valuables in excess of \$10,000.
14. Government will prepare an appropriate response to Security Council's Resolution 1373 within (90) days and inform the UN of the measures and work programme to make their legislation and administrative practice compliant.
15. Import licences will be reintroduced to provide protection for Barbados' most sensitive agricultural products during the 90 day period.
16. The Government will support the Barbados Agricultural Society to the tune of \$250,000 to assist the farmer organizations with institutional strengthening.
17. During the next ninety (90) days, one hundred and eighty (180) acres will be allocated to 30 landless farmers. The resources available to the Agriculture Development Fund (ADF) i.e. \$17.5 million will be employed to finance the programme. A financial injection into the Rural Enterprises Fund (REF) will be made from the proceeds of the Agriculture Development Fund (ADF). An additional 90 acres of land will be put into the land for the landless programme.
18. The Government will accelerate the implementation of those measures previously identified to improve the performance on the manufacturing sector.

19. In this regard the 60% duty protection and the special safeguard provisions announced will come into effect from November 1, 2001. Enterprises are currently receiving technical assistance, particularly in meeting ISO 9000 and HACCP standards, from the funds previously allocated.

20. All arrangements are in place for the Barbados Enterprise Growth Fund to receive applications for retooling and recapitalizing of manufacturing business from the \$25 million Industrial Investment and Employment Fund.

21. The Government will support a National Buy Local Campaign estimated to cost \$600,000 and will be financed jointly by the Government and the Barbados Manufacturers Association (BMA).

22. Assistance to the Small Business Sector will through the following:

- Better access and conditions to existing guarantee schemes.
- Recapitalization of Fund Access and other technical assistance funds to meet the needs of small business.
- Improve speed of payment by Government for goods and services.

23. Government is passing on the full benefit of price reduction to the consumer, as stated in its energy policy. Consistent with the stated policy and noting the reduction in the CIF value of imported products, from Monday, October 22, 2001 the retail price of gasoline was reduced from \$1.45 to \$1.38 per litre that is from \$5.48 per gallon to \$5.22 per gallon and that of diesel from \$1.18 to \$1.12 per litre or from \$4.47 to \$4.24 per gallon.

24. A rigorous energy conservation programme will be implemented, involving a public awareness programme in both conservation and energy efficiency measures. The programme will cost \$75,000.

8. APPENDICES

Appendix 1

SUMMARY OF MEASURES BY SECTORS				
MINISTRY/SECTOR		PROGRAMME	RESOURCES BDS \$	SOURCE OF FUNDS
Tourism and International Transport	a	Security Equipment for Air and Seaport	2,400,000	Consolidated Fund
	b	Airline Support	800,000	Consolidated Fund
	c	Marketing	9,600,000	Consolidated Fund
	d	Tour Operator Support	5,200,000	Consolidated Fund
	e	Accommodation Sector Support	10,000,000	Tourism Loan Fund
Economy-wide	a	National Buy Local Campaign	600,000	Consolidated Fund
	b	Welcoming Environment	2,500,000	Consolidated Fund
International Business	a	Marketing for the Insurance Sector	100,000	Consolidated Fund
	b	Public Relations	50,000	Consolidated Fund
	c	Diplomatic Efforts	60,000	Consolidated Fund
	d	Strengthening of the Financial Intelligence Unit (FIU)	200,000	Consolidated Fund
	e	Domestic Public Relations	50,000	Consolidated Fund
Agriculture	a	Contribution to the Barbados Agricultural Society	250,000	Agriculture Development Fund
Energy	a	Public Awareness	75,000	Consolidated Fund
TOTAL			31,885,000	

Appendix 2

THE NATIONAL EMERGENCY ECONOMIC COUNCIL

THE MANDATE OF THE COUNCIL

The consensus at the National Consultation on the Economy held on Friday, September 28, 2001 was that:

(a) There should be an urgent national response to the crisis which would be facilitated by the setting up an Emergency Economic Council;

(b) The major sectors of the economy most affected by the crisis should submit to the Ministry of Finance a revised draft of their proposals;

(c) The focus should be to minimize any loss of employment as the crisis unfolds. In this regard, the Prime Minister affirmed that the Government will maintain its level of employment and urged the private sector to do the same;

THE COMPOSITION OF THE COUNCIL

The Policy Council

The NEEC comprises the following:

- (a) The Prime Minister and Minister of Finance (Chairman)
- (b) The Minister of Foreign Affairs and Foreign Trade
- (c) The Attorney-General
- (d) The Minister of Economic Development
- (e) The Minister of Commerce, Consumer Affairs and Business Development
- (f) The Minister of Tourism and International Transport
- (g) The Minister of Agriculture and Rural Development
- (h) A representative of the Congress of trade Unions and Staff Associations of Barbados
(CTUSAB)
- (i) A representative of the Private Sector
- (j) A representative of the Central Bank of Barbados
- (k) Professor Frank Alleyne
- (l) Dr. Michael Howard

The Secretary to the Policy Committee is Mr. Kelvin Dalrymple, Director of Research, Economic Planning, Ministry of Economic Development and Chairman of the Technical Group of the NEEC.

The Technical Group

The Technical Group comprises the following:

- (a) Director of Research and Planning [Ministry of Economic Development] (Chairman);
- (b) A representative from the Ministry of Finance;
- (c) A representative from the Ministry of Foreign Affairs and Foreign Trade;
- (d) A representative from the Ministry of Commerce, Consumer Affairs and Business Development;
- (e) A representative from the Ministry of Agriculture and Rural Development;
- (f) A representative from the Ministry of Tourism and International Transport;
- (g) The Solicitor-General;
- (h) A representative of the Central Bank of Barbados;
- (i) A representative from the Congress of Trade Unions and Staff Associations of Barbados (CTUSAB)
- (j) A representative of the Barbados Manufacturers Association (BMA);
- (k) A representative of the Barbados Hotel and Tourism Association (BHTA) ;
- (l) A representative of the Barbados Chamber of Commerce and Industry (BCCI);
- (m) A representative of the Barbados International Business Association (BIBA);
- (n) A representative of the Barbados Agriculture Society (BAS)

The Secretary to the Technical Group is Mr. Terry Bascombe, Economist in the Research and Planning Unit of the Economic Planning Division of the Ministry of Economic Development.