



GRAND BAHAMA CHAMBER OF COMMERCE

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The Future of Freeport - 2015 and Beyond

Presented to: Prime Minister and Minister of Finance
The Commonwealth of The Bahamas
The Rt. Hon. Perry Gladstone Christie

Minister for Grand Bahama
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INTRODUCTION

The MISSION STATEMENT of the Grand Bahama Chamber of Commerce:

“To provide the network, to sustain, promote and support business development in an effort to encourage sustainable growth and expansion in the Grand Bahama economy and within a healthy and clean community environment.”

The Grand Bahama Chamber of Commerce has prepared this document as a Vision Paper presenting the views of its Members on how best to position Grand Bahama for economic growth. Our Chamber of Commerce is an action agency designed to advance the needs of the business community. It is a organization of individuals and businesses committed to advance the commercial, financial, industrial, civic, interests of this community. It is a civic clearinghouse, public relations counselor, a legislative representative at the local and national levels of government, an information bureau and a research and promotion medium.

What is our Mandate?

The current Mandate of the Grand Bahama Chamber of Commerce is to answer the question “What is Grand Bahama going to be beyond 2015?”

The Grand Bahama economy has been in a downward trend since 2004 after the effects of two hurricanes devastated the island. The economy of The Bahamas as a whole plummeted with the onset of the global recession in late 2008, the sharp decline in tourism and the increasingly onerous regulations being heaped on the financial services industry by international agencies. Additionally unchecked spending by the Government, an inefficient system of tax collection and recurring current account deficits has ballooned the National Debt to more than \$5 billion. Several large scale investment projects have either been significantly delayed or have failed, as a result of the aforementioned events. With the expected implementation of a National Value Added Tax in January 2015 and soaring unemployment and crime, The Bahamas faces an uncertain future. As the World Economy begins to rebound and the balance of economic power continues to shift, it is critical that The Bahamas seize on its God given advantage of location, climate and human capital to position itself for economic growth as quickly as possible.

The Grand Bahama Chamber of Commerce believes that Freeport and Grand Bahama Island represent an essential ingredient in the economic recovery of The Bahamas. In his Budget communication of May 28th 2014, Prime Minister Christie outlined his plan for economic rebound:

- Government Debt, fiscal consolidation plan to strengthen the foundations of the economy to secure steady growth and private sector employment creation.
- VAT in addition to Foreign Investments, both needed to boost economy.
- GB Growth specific to Tourism as Memories project begins, reference to expansion of Industrial Licensees.

While these are all necessary requirements for a national economic turnaround, there are several changes that must take place in order to allow Grand Bahama Island to realize its fullest potential and capitalise on its unique position as an Economic Development Zone, a vision embedded in the Hawksbill Creek Agreement. Coupled with the economic returns that are being and are expected to be derived

from Tourism, the unleashing of the industrial sector in Grand Bahama is expected to increase government revenues while at the same time immediately assist in reducing unemployment.

What Changes should be made in Freeport?

Historically, the Agreement has functioned best when the economy is ripe for investment, and the partners in the administration of the HCA are involved in a symbiotic relationship. Unfortunately, these conditions have not been seen for some time. Therefore, it is the position of the GBCC that there is a need for transformation of the relationship between the Grand Bahama Port Authority and the Government of the Bahamas in order to provide for the transparent administration of the Hawksbill Creek Agreement in order for Freeport and Grand Bahama Island to develop long term investment and become a major contributor to the National Economy, and that in order to achieve this the following steps should be taken:

- 1. Extend the Tax Exemptions (in 2015)**
- 2. Restructure GBPA as an Independent Stakeholder Trust**
- 3. Induce PGL & Hutchison to engage in developing investments**
- 4. Restate Government's role per HCA Intent**
- 5. Development Bank to support domestic tourism investment**
- 6. Plan for Socio-Economic Improvements**
- 7. The Future: WTO, Grand Bahama, and What Should Be.**

Historical Background

Development of the Hawksbill Creek Agreement and the Grand Bahama Port Authority.

While operating a lumbering company on Grand Bahama Island in the early 1950's, Wallace Groves developed the first Public Private Partnership in the Bahamas known as the Hawksbill Creek Agreement, an idea that would stem from the Governments desire for increasing revenues and promotion of economic development in the out islands. Although "free ports" were not a new idea, the Agreement was seen as a visionary document and remains relevant today. His vision included an industrial town built around a deep water harbor, and in 1955 he was granted the land by the Government and was given responsibility to develop, regulate, and promote the "port project". He formed a private company known as the Grand Bahama Port Authority to execute these responsibilities.

From private funds, the GBPA developed a master plan, dredged a harbour, and built the infrastructure and roads, as well as all the other buildings and utilities that would be required by the development city of Freeport. This first acquisition was a total of 50,000 acres, but in 1958 an additional 95,000 acres was acquired and transferred to a new entity that had been created, the Grand Bahama Development Company. DEVCO was owned 50% by the GBPA, and the rest by other investors. In 1959, Sir Charles Hayward acquired a 25% interest in the GBPA, later; the GBPA acquired a larger percentage of DEVCO. This second area became known as Lucaya, and it was master planned as a housing area and for tourist resort development.

In October 1961 the Airport opened, and with the development of the downtown buildings, including a police station, post office, hospital, and restaurants and shops Freeport's growth began to gather momentum. Between 1964 and 1968 the population almost doubled. Tourism development in Lucaya included hotels, casinos, and golf courses, and miles of canal lots. Total tourism arrivals in 1968 were 332,026. Through the mid 60's Freeport flourished and became known as the "Magic City" and the "Industrial Capital of the Bahamas", and was highly regarded for its beaches, golf courses, hotels, and nightlife.

Government and GBPA Transformation

Although the mid 60's saw significant growth in Freeport, certain events and conditions were taking place that would affect the shine of the then burgeoning city. In 1966 a scandal involving the rumored involvement of organized crime in the Casinos cast a shadow on the tourism business and damaged the reputation of the Port Authority. Political events of the decade would take a larger toll.

In 1967, the Progressive Liberal Party, who were opposed to many of the amendments to the Hawksbill Creek Agreement, won the election and started to apply pressure to change the social order. It is undisputed that during the formative years of the port area, the social infrastructure lagged significantly behind its economic development, and the pre-election PLP had questioned the large number of foreign residents, the sour effect of Casino gambling, and had concerns about the lack of opportunity for Bahamians and the long term effects this would have on the country. Following independence, the new Government began a program of "Bahamianisation" that targeted these issues in Freeport, and the relationship between the Government and the GBPA began to change.

The change in power structure in Nassau caused concern among the owners of the Port Authority, and in 1968 Wallace Groves took the Grand Bahama Port Authority public. Following a convoluted share swap with a Philippines company, the balance of the shares were now owned by a new public company called

Intercontinental Diversified Corporation. Initial resistance by the Government to this sale was overcome by offering them a 7.5% stake at a reduced price in order to become a partner on the Board. Furthermore, additional conditions were imposed by the Government on the GBPA including requiring Immigration control over work permits, additional requirements by Customs, and requiring approval from Nassau for Licensing. Although this arrangement was found suitable to the two entities involved, the existing Licensees were not informed of these issues being resolved in this manner, and considered the newly imposed requirements as an infringement on the Hawksbill Creek Agreement. Despite a Grand Bahama Chamber of Commerce action taken against the infringement of the HCA, and against the HCA clause requiring arbitration with the Port Authority, the Government passed the Immigration Bill of 1970 squarely placing control of work permits with the Immigration Department.

Following these events, many Licensees then minimized their investment, or packed and left the Port Area altogether. Potential Foreign investors considered this as direct Government interference with business, and moved on to other opportunities. To make matters worse for Grand Bahama, a recession looming in the late 60's and early 70's in the United States further worsened the already alarming decline. Although progress was made as time went on, Freeport never really achieved the critical mass needed to fully develop its economic potential.

In 1978 the Grand Lucayan Waterway was officially completed. That same year Wallace Groves sold the last of his shares in ICD to Jack Hayward after an internal power struggle that lasted several years, and left the Port Area. Management control was now in the hands of Mr. Hayward and his minority partner, Mr. Edward St. George.

The Post Wallace Groves Era

Hayward and St. George acquired the remaining shares in ICD, sold off many commercial assets, and embarked on a restructuring of the GBPA by eventually transferring all other assets into a separate entity called Port Group Limited (PGL). This left the GBPA Ltd. as merely the administrator of the HCA, the quasi-local government licensing authority and regulator. During the 1990s, PGL took on joint venture partners in or sold most of the remaining operating entities. Southern Electric acquired a 50% interest in Grand Bahama Power and the other 50% was sold to a ICD Utilities, a Bahamian publicly traded company on BISX; Onyx North America acquired a controlling 50% interest in Sanitation Services; Hutchison Whampoa acquired a controlling 50% interest in Freeport Harbour, Grand Bahama Airport Company, and Freeport Development Company (the land developer of the land between the airport and harbor), and a non-controlling 50% interest in GB Development Company (the land developer of Lucaya).

During this period, PGL created, operated and then sold Bourbon Street (Port Lucaya Marketplace), partnered with Hutchison Whampoa and then sold its interest in the Freeport Container Port, partnered and then sold its interest in PharmaChem, and took a small equity interest in GB Shipyard. These, along with Hutchison Whampoa's investment in the Our Lucaya Resort, are all positive developments in the checkered post Groves era. Today, PGL's 100% owned subsidiaries only include GB Utility Company and Freeport Commercial Ltd (the land developer of Freeport).

The death of Mr. St. George in 2005 led to a dark period of dysfunction at GBPA and PGL as the Hayward and St. George families fought a nasty legal battle over the shareholding. This battle not only disrupted the day-to-day operations of GBPA and PGL but contributed significantly to the withdrawal of two proposed mixed use residential resort developments, and provided difficulty for securing other potential investments. The battle was amicably settled in the end but the damage was already done.

Decline of Freeport and Grand Bahama Island

The decline of Grand Bahama's economy in the post-independence era can be attributed to a combination of natural and macro-economic events as well as the perception of conflict of interest by the GBPA and its affiliates the Port Group of Companies, and a lack of political support by the Central Government. These contributing factors are summarized as follows:

1. Devastating effects of hurricanes, Frances, Jeanne and Wilma – Another contributing factor to Grand Bahama Island's economic decline was the extensive infrastructural and property damage caused by hurricanes Frances and Jeanne in September of 2004. If that were not enough, the following year, hurricane Wilma inflicted her fury on the south western coast of Grand Bahama island, causing more damage to homeowners and businesses alike. The crippling economic effects of these natural disasters, still reverberates throughout the local economy today, some ten (10) years later.
2. The creation of Port Group Limited (PGL) and its joint venture partners and the divestment and transfer of assets from GBPA Ltd has created an inherent conflict of interest between regulator/administrator (GBPA) and asset holder (PGL) as it relates to regulating the municipal services provided by PGL and its joint venture partners. GBPA often acts in the best interest of the asset holder and its partners at the expense of the consumers and other GBPA Licensees. The sale of municipal assets without the promulgation of necessary regulations has limited GBPA's ability to properly perform its obligations under the HCA. This lack of transparency has turned off potential investors and stymied growth.
3. GBPA has failed to attract new investment (domestic and foreign), complete infrastructure improvements, and create an environment for business development. The extended legal struggle between families left the GBPA paralyzed for a period of time, unable to act in the best interest of Licensees or potential investors. The generally unsatisfactory experiences of potential foreign investors have created a poor image in the international business community. Lack of transparency of licensing requirements causes significant delays and increased costs to new investors.
4. GBPA has developed a dysfunctional (opaque) relationship with its Licensees. It has failed to act on behalf of its Licensees to protect the essence of the HCA. There is a lack of transparency on operational finances, licensing requirements, annual fees, and Licensees lists. It has created division and distrust with its Licensees by discouraging collaboration between Licensees, GOBH, and itself, and by providing poor customer service. This has hindered the growth of existing investors.
5. The redirection of the Freeport Model by the Central Government – Beginning in the late sixties and early seventies, the Central Government has methodically redirected the administrative and regulatory powers reposed in the GBPA under the terms of the HCA, thus negating its attractiveness as a free trade zone. For example, in the early years of the HCA, (1) the GBPA was simply required to "notify the Colonial Secretary within thirty (30) days, of any person or company licensed by them to carry on any manufacturing, industrial or business undertaking or enterprise within the Port Area, together with brief particulars of the kind and nature of the business to be carried on by such licensee." , and (2) the GBPA and its Licensees were also permitted "to bring in trained and skilled personnel," necessary for the development and administration of their respective businesses, with the understanding that the Government always had the right to withhold its permission for any foreign national to enter The Bahamas or to compel any foreign national to leave The Bahamas. .

Whilst this “freedom to operate” granted to the GBPA and its licensees by the Government in the early years, did much to progress development, it is undisputed that during this same period, Grand Bahama’s social infrastructure, lagged significantly behind its economic development. These circumstances led the then Premier of The Bahamas, the late Sir Lynden O. Pindling, in 1969 at the Grand Opening of the Bahamas Oil Refining Company (BORCO), to admonish the GBPA and its licensees for having an “unbending social order” which if not changed, had to be “broken.” Notwithstanding its “moral correctness,” the Premier’s ultimatum was viewed by many as an abrogation of the HCA and marked the beginning of the less than cordial relationship between the Central Government and the GBPA that is believed to still exist today.

These, along with erosions of the tax benefits over time, have significantly changed the nature of the development from an outward looking international trade zone to a domestically driven economy with some foreign direct investment, similar in nature to the rest of the country.

Factors affecting Investment

The combined factors enumerated above has had a deleterious effect on the economic growth of Grand Bahama; however arguably the most debilitating factors and barriers to new foreign direct investment and growth in recent times were not caused by a force majeure but instead were manmade. The appearance of conflict of interest of the GBPA and its affiliates, the Port Group of Companies with respect to the GBPA’s quasi-governmental and regulatory role versus the Port Group’s role as private investor coupled with the protracted shareholder dispute following the death of Edward St. George has created palpable barriers to significant new foreign direct investment.

Effects on the people of Grand Bahama and the Bahamas

Fighting to survive in an already depressed economy, members of the Grand Bahama Chamber of Commerce and other business owners throughout the length and breadth of Grand Bahama Island are rightfully concerned about the prospect of having to pay business license fees and property taxes to both the GBPA as well as the Central Government. Our membership and others are equally concerned about Grand Bahama’s prolonged state of “economic inertia,” which claimed as its victims the Crowne Plaza Hotel & Casino Resort, Xanadu Beach Hotel, the International Bazaar, Freeport’s Towne Centre, Eight-Mile Rock Shopping Centre, and the businesses and hard earned nest eggs of countless valiant small merchants with the temerity to believe that things will one day get better. This state of affairs must change and the GBCC stands ready to be the catalyst for such change.

GBCC Recommendations for administration of the HCA for sustained economic growth:

1. Extension of the 2015 exemptions Until 2054

The HCA concessions have been the impetus for the development of the city of Freeport/Lucaya. It is these concessions that have allowed the city to develop and grow to support a population of 40-50,000 residents. This growth, at no cost to the Public Treasury has provided for an estimated net \$100 million plus contribution to the revenue of the Government and precluded the financial drain of 40-50,000 residents on the economies of the other Bahamian islands. Government revenue gained and the welfare cost avoided is directly proportional to the number of residents Freeport/Lucaya is capable of supporting. While on the surface it would appear that additional government revenue can be developed by imposing real property tax on Freeport/Lucaya, failure to extend the exemption will have the opposite effect. Freeport/Lucaya has not yet reached the self-sustaining critical mass. Additional taxes will result in loss of local and foreign businesses, and will place already struggling property owners underwater, resulting in an exodus of residents and a proportional decrease in government revenue and a proportional increase in government welfare requirements. While no fault of the Government, or the GBPA Licensees, the investment opportunity afforded by the last extension was lost due to hurricanes of 2004/5, the GBPA/PGL ownership dispute, lack of administrative transparency of the HCA, and the 2008 global recession. Along with the recommendations highlighted below, an extension of the exemptions will create a competitive edge over regional competition for FDI which will result in increased development potential and government revenue.

2. Transfer of GBPA to an independent stakeholder Trust

Integral with extending the exemptions, negotiating the transfer of ownership interest and management of GBPA Ltd to an independent Trust or similar vehicle, with the GBPA Licensees as the majority beneficiary, would minimize investor risk by:

- a) Eliminating the “company town” perception that the joint ownership of GBPA and PGL creates
- b) Providing for transparent administration of the HCA
- c) Eliminating conflict of roles by GBPA and PGL ownership/management
- d) Transferring the regulatory powers to the stakeholders in the event of another shareholder dispute triggered by death or disagreements
- e) Creating a GBPA Board formed from GBPA Licensees and other stakeholders with GBPA Licensees maintaining management control.
- f) Providing transparent regulatory oversight of municipal services by promulgating regulations
- g) Establishing a stakeholder driven committee to prioritize key development and improvements in the community, including civic structures, and investment in education
- h) Establishing a strategic development and marketing plan and programme for Freeport/Lucaya
- i) Providing for public disclosure of GBPA financials, licensing fees and requirements, and list of Licensees

Risk is the nemesis of investment. By separating the ownership/management of GBPA from that of PGL, the perceived and actual risk to future investment and an administrative burden on existing investors is significantly minimized.

3. Encourage PGL and Hutchison Whampoa to engage in strategies for developing their joint investments

As a major investor and partner in DEVCO, Freeport Development Company, Freeport Harbour Company, and Freeport Container Port and as 100% owner of Our Lucaya Hotel, GBI has benefitted greatly from Hutchison Whampoa's investment however, more could have been done. HWL and PGL continue to focus an agenda based on their own business interest to the exclusion of developing the investment climate of Freeport/Lucaya. The Real Property Tax negotiations should be utilized to encourage HWL/PGL to develop and market the Sea/Air/Business Centre, Southeastern Lucaya, and the Britannia property and to relocate the Cruise Port to Russell Town. These should be an integral part of the 2015 Exemptions negotiations. International logistics and tourism are two of the cornerstones of the Freeport/Lucaya economy and are essentially in the exclusive development control of the PGL and Hutchison partnership.

4. Restate the role of Government according to the original HCA intent in order to re-establish the essence and benefit of a free trade zone

The appreciation of the benefits to The Bahamas of Freeport/Lucaya functioning as a true international free trade zone has been lost over time. Freeport/Lucaya was ahead of its time but has been surpassed by all of the Asian and United Emirates countries, each of which have used the Freeport model to raise the standard of living for their entire country, not just for the free trade zone. If Freeport/Lucaya is to contribute to The Bahamas at its full potential, the restoration of the Freeport model is essential.

Obstacles to economic recovery need to be removed, ease of doing business must be improved, foreign investment must be encouraged, and the long-term benefits of a liberalized free trade zone must be prioritized over short-term protectionist approaches. A return to the original terms of the HCA as it relates to a one-stop shop approach to business licensing, easy import of non-consumerable goods, ready access to needed skilled labour, and a welcoming approach to business visitors is paramount.

4) Encourage the Bahamas Development Bank to fanatically support Domestic Investors proposing touristic activities/attractions that capture our culture and environmental assets

Tourists visit attractions/activities and stay in hotels. Without attractions there are no visitors. Venture capital is required for the cultural and ecological assets of Grand Bahama to be packaged and offered as attractions/activities to our visitors. The Bahamas Development Bank must take a strategic rather than commercial approach to funding domestic investors in this area. Failure to do so perpetuates the unsuccessful marketing programme and the lack of Bahamian ownership in this essential economic driver.

5) Develop a plan for socio economic improvements to GBI

Focus must be placed on:

- a) Education - adequately fund schools and develop adult and technical education while increasing standards instead of reducing them. Unemployment is resulting from poorly educated youth and adults, and economic development is tied to funding of education. Additionally, an opportunity exists to develop an international level COB Maritime Programme.

- b) Small business development - articulate a concrete strategic development plan so that small businesses can invest in supportive roles, increase support from Bahamas Development Bank. GBCC must increase small business development training programme.
- c) Investment in civic areas and beautification - GOBH and PGL must invest in beautification in East and West GB, and Freeport/Lucaya to add value to FDI Investment. Additionally, GOBH should privatize maintenance in East/West GB as a long term employment opportunity for small business
- d) Additional conditions detracting from the development of GBI include:
 - i) Banking – Bureaucratic requirements and high costs in comparison to regional competitors impedes both domestic and foreign investment.
 - ii) Legal System Impediments – Extended court schedules, frivolous legal actions by discredited attorneys, and excessive and unnecessary use of the legal system for regulation, licensing and banking when these actions should be open and transparent to applicants and investors.
 - iii) Medical Facilities – the lack of facilities and staff undercuts the value added by the other concessions in the HCA.

6) The Future: WTO, Grand Bahama, and what should be

WTO is a forgone conclusion that The Bahamas must organize itself to embrace. Gone are the days of inward looking, protectionist policies. Freeport is a fiscal solution for the Bahamas. Growth in GBI from HCA redefinition can significantly fund GOBH. Freeport/Lucaya can physically support 300,000 residents. If 50,000 residents contribute a net \$100 million plus to the Treasury, it is envisaged that a population of 300,000 residents would at least increase this to \$500 million. As seen with the Asian countries, unrestricted engagement in international trade through designated free trade zones has the effect of economic improvement to the entire population to create a better standard of living. The liberalized use of Freeport/Lucaya for this same purpose is in the best interest of the country and is congruent with WTO principles. This is best facilitated by expansion of the Freeport Container Port's foreign trade zone to include the adjacent Sea/Air Business Center and the GB International Airport, providing for a major international logistics hub to be developed. Acquiring US Customs preclearance of cargo from this proposed sterile zone would also be a game changer.

Redefining the GBI Tourism product to focus Freeport/Lucaya on upscale high density resort (Convention, Marina, Medical, Educational, Golf, Sporting and 2nd Home tourism), and East/West GBI on niche tourism programs including cultural and ecotourism products is essential. This must all be driven by activities, not edifices.

The opportunity to establish a Domestic and International Arbitration Center in Freeport would ease court burden of domestic legal disputes while providing an opportunity to expand our international trade in services.

Conclusion

The preamble to the HCA aptly states that "...Whereas The Government being satisfied that the dredging and construction of a deep water harbour and turning basin at Hawksbill Creek and the establishment of factories and industrial undertakings in the vicinity thereof, will be of great economic benefit to the Colony (The Bahamas) in providing large-scale additional employment thus increasing the revenue of The Bahamas and in providing for and encouraging economic and practicable development and exploitation of The Bahamas' raw material resources...." The city of Freeport remains a shining example that the framers of the HCA, and GBPA, have delivered on their promises to the Government, to create great economic benefit, large scale employment and increased revenues. Admittedly the GBPA's role in promoting the further economic development of Freeport in recent years has been lack luster and ineffective, for the reasons previously stated. Hence the shareholders of the GBPA should be required by the Government, as a condition of extending the mentioned tax exemptions to the year 2054, to transfer ownership and management of the GBPA Ltd (the regulator/administrator) to an independent stakeholder Trust. This eliminates the conflict of interest with PGL, provides transparency, and precludes another crippling shareholder dispute.

The Government, once again, finds itself in need of revenues and funding for its fiscal consolidation plan and to support much needed infrastructural development throughout the Commonwealth of The Bahamas, particularly in the family islands. This time around however, the Government's tool of choice is tax reform, featuring Value Added Taxes. According to the Prime Minister and the substantive Minister of Finance, VAT is being used ostensibly to broaden the country's tax base, which heretofore excluded taxes on services and was heavily dependent on taxes raised from import duties assessed on goods.

The Government's planned strategy is incongruous with the "Freeport model", which as explained above, seeks to stimulate investment, particularly foreign direct investment through tax incentives. Notwithstanding the potential for the sun setting of the real property in August of 2015, it should be mentioned that other tax exemptions relating to the importation of certain goods by GBPA Licensees will remain intact through the year 2054. Hence, if the property tax exemptions are not extended through the year 2054, the competitiveness of many of the GBPA Licensees' businesses in the international market will be significantly disadvantaged, due in large part to the favorable impact that these incentives currently have on the cost of goods and or services they provide.

The dismantling of Freeport's "tax-free benefits" at a time, when, by the Government's own admission, the nation faces huge economic challenges, is counter-intuitive; since it may cause existing Licensees to take flight to more business friendly jurisdictions. Over the last twenty (20) years, Free Trade Zones or Foreign Trade Zones as they are sometimes called (collectively FTZs), have proliferated, particularly in developing countries seeking to promote industrial and commercial exports. Examples of countries with successful FTZs include Singapore, Colón (Panama), Copenhagen (Denmark), Stockholm (Sweden), Gdańsk (Poland), and Dubai (UAE). FTZs are geographic areas where goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located, do they become subject to the prevailing customs duties. For the reasons set out below, Freeport is ideally suited for the establishment of a FTZ:

- Grand Bahama's geographical location on one of the world's busiest shipping lanes, and its proximity to the United States, the world's largest economy;
- The GBPA's deep experience in operating Freeport under the terms of the HCA;
- FAA and TSA compliant international airport;
- A deep water harbour capable of handling the New Panamax vessels; and
- An ISPS certified container port.

The resurgence of Grand Bahama as the Country's industrial power house will not only inure to the benefit of its key stakeholders, business owners and residents, but to the nation at large. The competitive advantage that we the stakeholders have is the foundation laid over the last half century using the visionary blue print called the HCA, which in essence ties the Governments desire for large scale and measurable development and economic growth to fiscal incentives. The GBCC therefore strongly urges the Government to extend the tax incentives due to expire in August

2015, with the conditions as explained above, and to consider offering new incentives for the further development of the settlements which lie to the east and to the west of Freeport. These settlements should also be incorporated into the Port Area, to create greater critical mass and economic efficiencies.

APPENDIX

The Hawksbill Creek Agreement:

Key Provisions of the Hawksbill Creek Agreement

The preamble to the Hawksbill Creek Agreement states:

“The Government being satisfied that the dredging and construction of a deep water harbour and turning basin at Hawksbill Creek and the establishment of factories and industrial undertakings in the vicinity thereof will be of great economic benefit to the Colony in providing large-scale additional employment thus increasing the revenue of the Colony and in providing for and encouraging the economic and practicable development and exploitation of the Colony's raw material resources have agreed in consideration of the covenants on the part of the Port Authority hereinafter contained to grant the concessions and to enter into this Agreement as hereinafter appearing.”

The GBPA agreed to:

- a) Dredge, construct and maintain a deep water harbour of specific dimensions
- b) Operate said harbour in conformance with international standards
- c) Promote the establishment of lawful enterprises which are likely to be of economic benefit to the country
- d) Provide land for official government purposes
- e) Reimburse the government 125% of administrative costs that are not covered by revenue from customs duties and taxes
- f) Supply government facilities with utilities at mutually agreed price
- g) Construct and operate any utilities in a good, proper, and workmanlike manner having due regard for the safety of persons working and/or residing with the Port Area
- h) Construct and operate any aviation activities in accordance with national civil aviation standards
- i) Use their best endeavors to employ Bahamian-born persons within the Port Area
- j) Cause all buildings and structures erected within the Port Area and all machinery and apparatus installed in or about any such buildings and structures to be so built, installed and maintained so as to provide properly for the health and safety of employees and the general public, and for good public sanitation
- k) Continue to promulgate a comprehensive and detailed Building Code applicable to the Port Area and will revise the same from time to time in the light of technical developments and the changing needs of the community.

Key Benefits to GBPA and Licensees:

- a) All materials, supplies, and things of every kind and description other than consumable stores may be imported into the country purchased or taken out of bond therein by the Port Authority or by a Licensee for the purposes of any manufacturing, industrial, or other business, undertaking, or enterprise within the Port Area free of all Customs Duties, emergency taxes and all other duties and taxes now or hereafter levied, charged, or imposed by the Government upon the importation of goods into the country.

- b) No real property taxes or rates and no real property levies (whether capital or periodic) of any kind shall be levied charged or collected by the Government within the Port Area or upon or against any land building or structure within the Port Area. (expired but provided for under separate legislation which expires in 2015)
- c) No personal property taxes or rates and no capital levies and no taxes on capital gains or capital appreciation shall be levied charged or collected by the Government within the Port Area (extended to 2015)
- d) No taxes of any kind shall be levied upon or against the earnings of the Port Authority in the Port Area and outside the country or upon or against the earnings of a Licensee in the Port Area and outside the country (extended to 2015)
- e) No excise taxes of any kind shall be levied charged or collected by the Government upon or against any goods articles or things (other than consumable stores) imported into the Port Area, manufactured, processed, assembled, or warehoused within the Port Area or exported from the Port Area to a place outside the country
- f) No export taxes or levies or any kind shall be levied charged or collected by the Government on or in respect of any goods articles or things exported from the Port Area to any place outside of the country
- g) No stamp or other taxes or levies shall be levied, charged or collected by the Government on or in respect of any monies remitted by banks in the Port Area to any place outside of the country on behalf of the Port Authority or any Licensee in respect of their own businesses within the Port Area
- h) The Port Authority shall have the power and authority to exclude or remove from the private port any ship, vessel, boat, flying boat, or seaplane, other than any of Her Majesty's ships, vessels, boats, flying boats, or seaplanes, and any ship, vessel, boat, flying boat, or seaplane belonging to or in the employ of the Government or the Government of the United Kingdom.
- i) Only the Port Authority shall have the responsibility of and for the administration and control of the Port Project and the laying out of the development of the Port Area.
- j) All roads and bridges constructed by the Port Authority or any Licensee within the Port Area shall be deemed to be private roads and bridges and that the Port Authority shall have the absolute right to exclude any person and vehicle (other than an officer or employee or vehicle of the Government) from using the same, and to exclude any person (other than an officer or employee of the Government) from the Port Area or any part thereof without assigning any reason
- k) Only the Port Authority shall have the sole right to construct and operate utilities within the Port Area, and the necessary distribution systems in connection therewith, and that no license or other permission or authority shall be required by the Port Authority from the Government or any department thereof in connection therewith, and that the Port Authority shall have the authority to and may charge such rates or other charges for such utilities or any of them as the Port Authority shall in its absolute discretion deem fit and proper
- l) Only the Port Authority shall have the sole right to plan, lay out, and vary the development of the Port Area in such manner as the Port Authority shall in its absolute discretion deem fit and proper and that neither the Port Authority nor any Licensee shall during the continuance of the Agreement require any building or other permit from the Government or any department thereof

for any excavation and,/or for the erection or demolition of any building or other structure within the Port Area, or for the installation, operation, maintenance, or removal of any machinery, plant, equipment, or other apparatus in or about any buildings and/or structures within the Port Area.

- m) Only the Port Authority and any licensee shall have the right to carry on and engage in (subject to complying with the provisions of any present or future laws of the country relating to the necessary professional qualifications), any profession or professional activity, and any business or undertaking (excluding the sale of alcoholic liquor or goods or merchandise of any description) within the Port Area without having to obtain any permit or license from the Government or any department or any licensing Authority, any present laws and regulations of the country and the enactment of future laws or regulations within the country to the contrary notwithstanding
- n) The Port Authority will not assign their rights under this Agreement without the consent in writing of the Government, Provided Always that nothing shall be deemed to prevent or restrict in any way the Port Authority licensing any person, firm, or company to carry on any lawful business, undertaking, or enterprise within the Port Area on such terms and conditions as the Port Authority shall in its absolute discretion deem fit and proper.

The 1993 Freeport Grand Bahama Act:

In 1993, the GOBH and the GBPA negotiated a 22 year extension to the real property tax exemption that was expiring under the HCA. A new Act was promulgated providing the exemption and requiring GBPA and its related companies to, among other things, construct a court house, two high school, a children's library, an arts and craft centre, a sporting complex, a fish and vegetable vendor's complex, provide potable water to west Grand Bahama, and provide land for a new government hospital. This real property tax exemption is due to expire in 2015.