2016 SPEECH GB BUSINESS OUTLOOK
Sarah St George March 17th 2016

First, I'd like to thank Joan Albury and the Counsellors for another year's dedication and hard work on this invaluable forum to discuss the Business Outlook for Grand Bahama with the community.

I'd like to acknowledge our Grand Bahama Port Authority team. Ian Rolle President, Deann Seymour CFO, Karla McIntosh General Counsel, Derek Newbold Head of New Business Development, Troy McIntosh City Manager, LaShawn Dames of InvestGrandBahama, Telina Smith Head of Community Relations, Christine van der Linde Head of Customer Services, Nakira Wilchcombe Head of the Environmental Dept, Kimberley Miller Head of Group Corporate Affairs, and Aldora Toote my right hand. I'd also like to acknowledge Chuck Pratt Head of Freeport Commercial, Geron Turnquest, head of the Water company, Ezekiel Hall Operations Manager, Graham Torode President of Devco, and his legal team Charisse Brown and Paulette Ritchie. You know, I asked many of them to speak instead of me today, and they all politely declined! I declined at first too - because we've all felt a bit like insects under a microscope for some considerable time..! I can tell you, speaking as a St George, I've had *lots of* advice; I've been on the receiving end of lots of recriminations, remonstrations and *recommendations* lately: Stay – Go! Build – Demolish! Be in the *background*! Be in the *foreground!* IN-vest, DI-vest, Wear a Vest – it can all be quite confusing! But one thing's for sure, We Are Doing our Best! And we LOVE Freeport! It's a privilege to be here still. But if the Good Lord says 'Go Forth' I can assure you, we wont be Fifth… I'd also like to introduce my Godson Rupert Hayward – Rupert is a Great-Grandson of Sir Charles Hayward with 15 years of Investment experience in emerging and developing markets, who's recently joined the team – Thank you Rupert! Of course you know my wonderful brother Henry who will tell you about our New *Light Industrial Park Project* in a minute.

When I was a banker on Wall St at JP Morgan, people quoted the words of Walter Wriston the scion of banking who said: "*Capital goes where it is Welcome, and stays where it's Well-Treated*". You get the drift..! He meant both Financial and Human capital. It applies to Tourist and Investor capital.

Take America, where - like us - Tourism is the #1 'Service Export'. Anne Madison of Brand USA said: "After 9/11, we made America <u>un</u>welcoming. People abroad saw America as a 'Been there, Done that' trip. She then continued: "So we're going to be putting more and more energy into making the U.S. more Welcoming" adding, "Of course, you can't change negative perceptions by Marketing alone".

You know, in Jamaica, I once walked past a shop with a sign which read; "*We Were Open*!" And as you know, just a short while ago, Grand Bahama ranked as one of the *least* popular Ports of Call in the Caribbean. But last Friday, **Freeport Bahamas Adventures** was awarded **Top Tour Operator of The Year in The Caribbean for 2015** by no less than our toughest critic, the World's largest cruiseline, Carnival! Unlike that sign in Jamaica, I am pleased to say **"**We ARE Open"**.** We *can* re-invent ourselves as a Destination. Look at the Jaguar Launch here now, that lovely cruiseship on the skyline, filled for the next two weeks with 2,500 Jaguar dealers from all over the world. And they are here because of our Good Roads!

Well, Last year marked the 60th Anniversary of the *birth* of this City Freeport and the *demise* of <u>certain</u> concessions. But for all the noise, the Hawksbill Creek Agreement is really a 'Free Trade Zone Charter' and "City Charter" with jurisdiction at the local level of **Freeport** - <u>not</u> the whole of Grand Bahama, or anywhere else for that matter. Much is made of its powers, but actually 75% of countries now have Free Trade Zones and in the U.S many of the 50 States and Cities have their own Charters where Regulation, Property Tax and other taxes can vary according to the needs of the locality, and yet *still* be aligned with the Nation. Many of those 50 United States receive Government Grants, concessions or subsidies; many subsist on them. By the way, the GBPA *itself* receives no Government grants and pays no dividends to its shareholders. You sustain it and we sustain it and it sustains Freeport; Road and Subdivision Maintenance, Zoning, Town Planning, Regulatory oversight, Building Code, Environmental policy, Promotion, Scholarships, Animal Control, Fire Hydrants, Street Lighting, Christmas Lighting, Storm Drains and so on. A coordinated approach to Freeport's Development. Dull stuff! But Warren Buffet says; Don't invest for Applause; really good work should be greeted by a Yawn! There are <u>**no**</u> work permits in the Group and indeed some St George and Hayward family members are Bahamian-born citizens. GBPA and Port Group are quintessentially Bahamian.

Now lately, you've heard much about the word 'deficit' in Freeport. Actually the entire Nation is running a Deficit as are many many Nations and America itself. But are we in Freeport really contributing to a National Deficit? And IF we are, is that deficit truly greater than the National Average as stated in the McKinsey Report? Is it $50m per that Report? Also what is being counted, and what isn't? And how does it portend for the economy of Freeport if even more is *exacted* from Freeport on top of 7.5% VAT last year? Are we expected to underwrite an annual deficit with no spending controls? *Cui Bono* as the Latin expression goes "To What End?" Instead of Central Government carving out a larger slice of the Freeport Pie, or indeed swallowing it whole, how much simpler to actually Grow the Pie? Grow the Jobs!

In reference to the contribution of Mr Kevin Seymour President of the Grand Bahama Chamber of Commerce before me and the Committee's recommendation concerning a deficit demand plus 25% under HCA Clause 1 (5), I would note that a deficit bill has never, in 60 years, been presented to the Port Authority. We say it would be <u>regressive</u> to do so. Any attempt to invoke Clause 1 (5) at this stage would open a Pandora's Box.

Freeport already directly and indirectly sends to the National Treasury 20 times more than the GBPA receives to maintain Freeport. In other words GBPA operates with **5%** of the sum which is sent to Nassau. – And Freeport is an area **2 ½** times larger than the whole of New Providence. In dollars and cents, the GBPA collects between $8-10m a year to spend on Freeport, and some $200m goes to Nassau.

Let's look at the receipts of Central Government from Freeport as assessed by our advisors KPMG. Customs Duties of $60m annually; Airport taxes of $4m a year from a privately built and maintained Airport. Road Tax of $6m a year on privately built and maintained roads. Import Duties $4.6m a year. $100m in Stamp Tax was paid to Government by Borco a few years ago. Using an average amortization it would be fair to say Government earns about $20m a year in Stamp Tax. But McKinsey numbers did not include *anything* for Stamp Tax. Cruise Passenger Taxes of $5m a year. $10.5m a year in work permit fees. $6m in communications fees. $3.5m in land and survey leases. Registrar General fees $1m. Miscellaneous $2m. Gaming Fees from Freeport about $6.6m. VAT of $30m per annum also excluded by McKinsey as the amount was unknown. NIB contributions from Freeport of $45m per annum.

Well, there are a few doctors in the house and I ask you, should the Surgeon General, metaphorically speaking, use a Scalpel or an Axe on us here?

Also don't forget the $11 billion in infrastructure value created here without adding to the Country's Balance Sheet Debt which we all pay for ultimately. Freeport's infrastructure cost is largely *off* the Government's balance sheet, and does not affect its Moody's debt rating. National Debt has grown from 60% to 70% of Gross Domestic Product**.** That's a big number**.** The utility Bahamas Power & Light will need another $450-500m or 5% of GDP in the near future. ALL this has to be repaid, plus interest, in millions of dollars a year for which the Government looks to us by way of VAT and other levies. Our infrastructure costs have been borne by equity investors; those new companies and expert JV partners who accepted the invitation to invest here, *especially* after the 1993 property tax extension.

By the way, don't just think about the dollar cost of the 21 commitments in exchange for the Concessions; think about $4billion of new investment in a Container Port, Grand Lucayan Hotel, the Shipyard, Pharmachem, Polymers, Borco, Emera, MSC and many more. Probably $2 billion within the last 8-10 years alone. Did the families play their part in that? Of course they did! Were the 1993 concessions fulfilled to the best of Edward and Jack's ability? Of course they were! And yes the Government of the day accepted that they were. Actually, we would argue they went Above and Beyond--

Have Freeport's stakeholders made a return on their investment? At times yes, at times no. Remember, you must distinguish between a 'going concern' return (ROI) as opposed to a sale or exit, or liquidation. Could execution of strategy have been improved – by all of us – along the way? Most certainly.

Here are the unforeseen business casualties which were compiled in our Report for the Committee, none of which were the fault of the Port Authority. These were not directly addressed by the Committee in its recommendations. Arawak Hotel in the 80s; The Princess Hotel & Casino which foundered and sank as gambling restrictions in the US were lifted, then briefly tried to surface with the Irish Group Harcourt until the Celtic Tiger economy tanked in Ireland; The Bazaar caught and frozen in the domino effect of the Hotel closure; Ginn in the West End which collapsed in the Great Recession of 2008; Xanadu; Port Lucaya Resort; The Grand Lucayan squeezed by Low Average Daily Rates due to stop-over tourists coming largely by cruiseship and the competition for cheaper and cheaper holidays.

On the Commercial & Industrial side: Companies like V-Trade which failed to establish a logistics centre due to Complex Customs Bureaucracy and difficulties dealing with “less than container loads”; International Distributors, which was not able to penetrate the Bahamian market as forecast, or to overcome the added road transport costs of containers leaving the container port for warehousing.

“There are no *easy* solutions but there are ***simple*** ones” said one well-known Head of State. You all know what they are, as well as anyone:

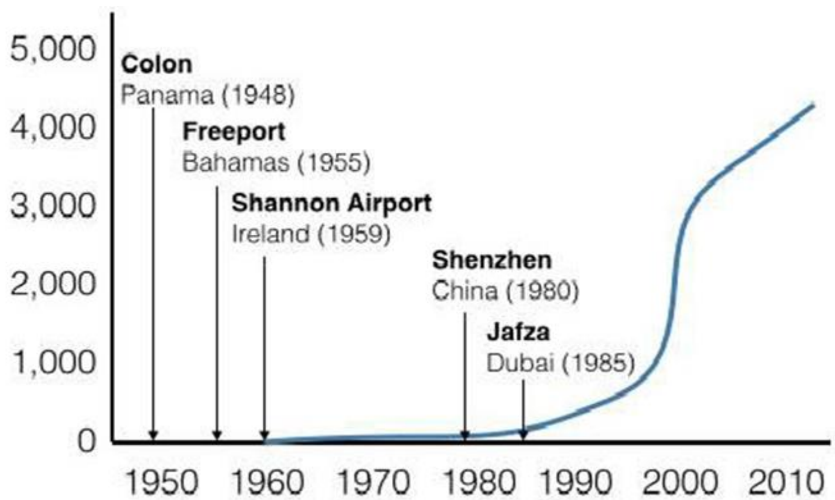
- Ease of Doing Business and speed of execution, clear parameters for applications, immigration and other policies.
- Long-term predictability provided under the HCA once we have certainty on the tax horizon.
- New Equity – well we’ve hired Morgan Stanley to help us find new equity capital and project specific capital – Yes we are talking to MSC***.*** In practical terms this will be vastly helped by a Regulatory and Policy environment which such respectable buyers find acceptable - both in Risk Profile and a reasonable ROI.
- For better access and experience, we will help create a new non-US international and domestic terminal.
- Investment Promotion – In addition to ***InvestGrandBahama,*** our GBPA is open to an Independent Commercial & Industrial Promotion Board or tapping into an International Advertising Agency.
- Our GBPA will increase in Transparency, and Community participation.
- GBPA can work with Central Government and URCA to ensure that Regulation of Utilities and other regulation in the Port Area is consistent with the national policy of the Government. We already have a Power Utility Regulatory Framework in place which accords with Best International Practices. URCA does not yet have an Electricity Framework and GBPA can work with URCA, and with the Government in general through the enactment of Bye-Laws under the HCA.

The simplest step to Grow The Pie is to unlock the expansion plans of the Container Port’s Phases V and VI, Pharmachem and others; to develop the Sea Air Business Centre and a new

Carnival Cruiseport. Henry will speak to the Light Industrial Park expansion. There is huge growth potential in that alone.

The second of three paths is Real Estate development differentiating our model. Soon we will be able to unveil plans for a major new residential and community project which will be known as Barbary Town. A financing commitment to develop this is being discussed but all of the above hangs on these concession renewal discussions.

The third is the implementation of micro-Free Trade Zones and other SEZs to redeem the failed areas of Grand Bahama. Remember we used to be the only game in town (as you can see back in 1955 on the chart) but now SEZs are in 75% of all countries. Just look at the spike upwards in the blue line towards 2010. It's tough to remain competitive!



The opposite doesn't get us where we want to be. It won't stimulate the Economy. Also, we believe the forecast property tax sums are over-blown.

Similarly, although the expiration of the concessions under Clause 2(8) will allow the Government to impose some business licence fees, the burden of those extra licence fees will largely fall on Bahamian businesses such as retail operations, cinemas, liquor stores, bars and nightclubs, **because** under Clause 2(23)(a) & (b) - which does **not** expire – all industrial, manufacturing, financial, insurance, legal, medical, health, real estate, hotel, marina, sports, entertainment-related activities and services are exempted from obtaining any Licence from the Government until 2054! McKinsey did not, I think, take this into account.

So we are setting out on one of these three paths---the top line is the Dream, the bottom the Dram.

Will our GBPA/Government - Public/Private sector partnership survive (with or without us)? Yes I hope so because as Michael Eisner of Walt Disney Corporation said in a speech and I quote:

“Successful Partnerships promote common sense, a common purpose, and strong ethics. Partners must value trust, keep ego in check, and put a premium on not just brains, but human decency. If we’re in an age where loss of integrity is an ever growing concern, then partnerships counter that”. A Harvard University study showed, there was one overriding cause of happiness - And this Eisner also applied to business. Again I quote: “Sustained relationships over a long period of time. Passing wisdom on to future generations. Being adaptable and able to bounce back from disappointments. Being comfortable with the way someone else views the world. To summarize: Working together is much better than working ... alone”.

Addendum:

We are now in active talks directly with the Prime Minister and his HCA Cabinet Committee and Government advisors in Nassau. We are confident that these talks will result in a practical and measured approach to the HCA Committee's earlier recommendations. The Prime Minister has assured us that his approach will be fair and non-coercive as it is in everyone's best interests for his Government to adopt policies conducive to investment, expansion and new jobs for Freeport and Grand Bahama.

Sarah St George

"Remember, we're all in this... not together, but we're all in this."