



**ADDRESS BY PSOJ PRESIDENT CHRISTOPHER ZACCA
TO THE KIWANIS CLUB OF KINGSTON, APRIL 15, 2014
AT THE NEW KINGSTON BUSINESS CENTRE**

Salutations

In late 2012, I spoke publicly about the economy and what we in the private sector felt were the specific issues that were impeding its development and growth. In particular, I spoke about the unsustainable debt burden that the country had developed and the urgency of the country having a signed IMF agreement. I said that we needed an IMF agreement in a timely fashion in order to bring down our debt, bolster our net international reserves, unlock vital multilateral flows into the Consolidated Fund, and strengthen local and foreign investor confidence in Jamaica. I also said that the lack of an IMF deal had resulted in a decline in business and consumer confidence and a general “wait and see” attitude among business, which has severe implications for an already fragile domestic economy. I pointed out that the IMF deal is vital as it will facilitate the implementation of policies and strategies which are urgently required for the modernization of the country and for putting us on a path for long term sustainable economic growth and development.

Today is pretty close to the one year anniversary of the IMF agreement and I would like to first speak to an update based on what has happened since last year and give you the PSOJ’s views

as to where we stand today. Then I would like to speak to the future and what else we need to do to improve our economy and get the country moving.

The IMF agreement was signed in the first half of 2013 amidst declining business and investor confidence and a grave concern that the economy was on the brink of toppling over. I am pleased to say that since the agreement was signed, we have seen improvement in our macro-economy.

We have passed the first three quarterly tests and the Minister of Finance has stated that we have passed the fourth and perhaps toughest one so far. The Government and in particular the Minister of Finance and his team needs to be commended for this.

Business and investor confidence is slowly returning and we have seen an increase in the Net International Reserves. We have seen at least two reported quarters of small economic growth.

As it relates to policy initiatives, we have seen the passage of a number of bills that are needed to address the longstanding structural impediments which have resulted in the underperformance of the country. Among others, we have seen the passing of the tax-incentive bills in the House of Representatives. The passing of these bills mark a significant step towards laying the foundation for a more competitive society, where the playing field is levelled for all market players, as it removes the discretion over tax incentives from the political process. Also the creation of the employment tax credit will lower the effective rate of income tax for all unregulated tax-compliant businesses.

And we have also seen the passage of the fiscal rules legislation, as the government moves to put a cap on what the country can spend. These rules seek to bolster transparency within the economy and ensure a sustainable budget.

So as you can see, a lot of the critical policy initiatives are being put in place, with more to come, and I reiterate that these will improve the environment for doing business and enhance the potential for faster economic growth by improving the competitiveness of Jamaican businesses.

In the run up to the signing of the IMF agreement, I had said that as a country we needed to come together as Team Jamaica. My concept of Team Jamaica is Government, Opposition, Public Sector, Private Sector, Unions, and Civil Society working together, ensuring that the economic policy wrongs of the past are righted, once and for all. Since that last speech in 2012, I am happy to report that in July last year, the Government, Private Sector, Unions, and Civil Society signed the historic Social Partnership Agreement. By signing the agreement, all parties commit to “the principles of social dialogue and partnership, specifically to further the process of deepening democracy and participatory decision-making.” This is a very important first step in truly achieving a real team with a shared vision and a common purpose. We all want to be part of the solution, not part of the problem.

But this is only half the story. In all honesty the last year and a half has been one of the most difficult periods for the leadership of the private sector and me in particular. Fiscal consolidation and Economic Reform have been very hard on all of us in this country, consumer and business person alike. We have seen exchange rate slippage, tightness in spending, and our bottom lines are under significant pressure. So it has been hard for business leaders to explain to our members why the pain is necessary and why we need to stick to the programme.

The solution lies in us creating the underlying conditions that lead to outcomes of high economic growth, job creation, and poverty reduction. Unless these outcomes arise, all our pain will be for nought and the IMF programme will have failed.

This Growth needs to be equitable; it must reach small and large business, and must create jobs. It needs to be entrepreneurial at its core. It cannot be State Capitalism or Statist in its nature, and it cannot rely on a few large infrastructure projects alone.

So achieving the underlying conditions that will lead to the creation of these outcomes is job number one going forward.

And in my view we must create the underlying conditions where small businesses feel confident that the reforms are real and permanent and confident in risking their money to start new businesses. Numerous studies have confirmed what we know very well in Jamaica. Small business plays a key role in transitioning and developing countries such as ours. They generate significant domestic and export earnings, help in the development of local communities because of their close links with the economy, are generally innovative in nature, and constitute a major source of employment.

Small businesses are therefore without a doubt, key instruments in growing our economy, creating jobs and reducing poverty and we look forward to seeing this current group fulfill these expectations and grow to take their rightful place in our business community.

But as vital as small businesses are to our economy, small businesses are the most vulnerable to a poor business environment, to high taxes, to inefficient and costly bureaucracy, to corruption, to crime, and to high electricity costs.

Don't get me wrong, big business is also badly hurt by all these evils and we in the leadership of the private sector must never give up fighting for a more business friendly environment for all, but it cannot be disputed that larger businesses can better cope with many of these issues through their very scale and size.

Thus I say to you all today that, as the business environment steadily improves under the Economic Reform Programme, even if large businesses are able to see their way to invest and overcome bureaucratic, regulatory, and security obstacles, we as a country will never achieve our full economic potential unless our business environment improves to the point where as a nation we nurture, we facilitate, we encourage, and we defend small business.

Finally today I would like to touch on a critical underlying condition that must exist for economic growth: I'm talking about lowering the high price of energy, which currently is one of the most significant impediments to growth. What we have is simply unacceptable and unsustainable.

One solution is to take matters into our own hands. For some time now I have been advising my members to conserve, to become more energy efficient, and to look at using more renewables such as solar power. It seems to me that the same sun that for years has driven our agriculture, and our tourism must be a part of the solution.

A recent article in the UK Telegraph Newspaper on solar quotes, and listen carefully:

"Solar power has won the global argument. Photovoltaic energy is already so cheap that it competes with oil, diesel and liquefied natural gas in much of Asia without subsidies. The technology is improving so fast - helped by the US military - that it has achieved a virtuous circle. Michael Parker and Flora Chang, at Sanford Bernstein, say we are entering a new order of "global energy deflation" that must ineluctably erode the viability of oil, gas and the fossil fuel nexus over time. In the 1980s solar development was stopped in its tracks by the slump in oil prices. By now it has surely crossed the threshold irreversibly. The technology momentum goes only one way. "Eventually solar will become so

large that there will be consequences everywhere," they said. This remarkable overthrow of everything we take for granted in world energy politics may occur within "the better part of a decade".

Food for thought indeed.

But there is perhaps the major solution to the problem of high cost of electricity, the retiring of old inefficient generating plants, and the installation of modern efficient equipment.

And here is where the much talked about 360 Megawatt generation plant comes in. This critical project has from day one been mired in controversy and a lack of transparency. For it to achieve its full potential it should be executed in an open and transparent manner that ensures the buy in and support of the entire society.

I am happy that the Minister of Energy, Phillip Paulwell has assured all of us that the public private Energy Monitoring Committee will remain in place for the duration of the project, as it can play a very important role in providing more transparency as we move into implementation.

But as I speak there is a matter relating to this project which is of serious concern to us at the PSOJ.

The OUR recommended the granting of a licence to Energy World International (EWI) almost three weeks ago on March 26th. We were told in a news story that the OUR ensured that the licence recommended to the Minister for issuance includes key safeguards relating to ensuring that EWI keeps its promises, including financing, construction timelines, fuel supply, and most importantly the provision of a 5% or US\$37 Million performance bond within ten days of the effective date of the licence. This provision for posting a performance bond has been in existence from day one of the start of this process. I am advised that the

Energy Monitoring Committee also views these safeguards as absolutely necessary given the lack of information so far provided.

But for over two weeks we have heard nothing more on this licence. This is unacceptable and I would like to use this platform to ask the Minister three questions that I believe we all need to be answered:

1. Has the licence which was recommended by the OUR on March 26th, 2014 yet been signed by the Minister of Energy?
2. If so, on what date did it take legal effect? If it hasn't, why hasn't it, three weeks after the OUR's recommendation?
3. Does the licence contain critical safeguards for Jamaica, including the extremely critical US\$37 Million Performance Bond which must be provided by EWI within ten days of the date of effect of the licence?

The PSOJ views these safeguards as essential and non-negotiable.

So in closing, I would like to thank you once again for inviting me to be here today. The PSOJ has always maintained a close relationship with Kiwanis and we look forward to continuing this relationship.

Keep up the great work you do and thank you.

CHRISTOPHER ZACCA
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THE PRIVATE SECTOR ORGANISATION OF JAMAICA
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