

2009 Budget Memorandum



We are pleased to set out in this Memorandum our commentary on the Trinidad and Tobago National Budget 2009 with particular reference to the Fiscal Measures contained therein which was presented by the Minister of Finance, the Honourable Mrs Karen Nunez-Tesheira, on Monday September 22, 2008.

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Executive Overview – 2009

Vision 2020 – ‘Shaping our Future Together’

The Minister of Finance, Senator the Honourable Karen Nunez – Tesheira presented the first budget of this new PNM administration. The Honourable Minister’s address contained a review of the Government’s performance to date, a review of its Sectoral Strategy and its Budget Priorities before addressing the Budget Arithmetic in respect of 2008 and 2009.

The Honourable Minister’s presentation also made history in that it represents the largest budget in the history of Trinidad & Tobago with Total Revenue projected at \$49.46 billion and Total Expenditure of \$49.44 billion.

The 2009 budget is premised on an oil price of US\$70 per barrel (2008 - \$50.00 per barrel), a gas price of US\$4.00 per mmbtu (US\$3.55 per mmbtu) and a growth in GDP of 5.6%. Significantly higher prices were realized in 2008 and a not dissimilar position is anticipated for 2009.

The stark reality of this review however is that the Energy Sector continues to be the driving force of the economy and it continues to contribute in excess of 50% of the Government’s total revenue, (as noted in Government’s Review of the Economy). In this regard the Honourable Minister noted that Energy Tax Revenue in 2008 was approximately \$8.0 billion higher than was budgeted.

The Honourable Minister proceeded to articulate her Government’s ambition to continue to drive Trinidad and Tobago along the rather ‘bumpy’ road to developed country status on or before the year 2020. In so doing she noted that this is premised on:-

- The optimal utilization of resources in the energy sector; and
- The meaningful diversification of the non-energy sector so as to ensure sustainable growth;

She also noted that it requires “substantial capital investment to build the necessary productive capacity “.

She identified the approach adopted by her Government as a collaborative effort that defines the theme of the 2009 Budget...”Shaping our Future Together”. The collaborative effort of course being between the State, labour and the private sectors with the State acting both as investor and facilitator, providing the necessary investment climate and investing in the necessary strategic infrastructural facilities that are required to allow the private sector to flourish.

Executive Overview – 2009 (Continued)

Vision 2020 – ‘Shaping our Future Together’ (Continued)

The Honourable Minister noted that Trinidad & Tobago had made significant “economic and social” progress on the road to transforming the country into a developed nation and signified Government’s commitment to “accelerate the pace of development in all areas of national life”. She identified the particular areas of focus as:-

- Deeper industrialization involving the downstream energy sector;
- Agricultural development;
- Provision of low cost housing
- Improved healthcare;
- Infrastructural development and
- Human Resource Development.

The Honourable Minister also noted that the economy was ‘robust and resilient’ and due to sound economic management is facing the devastating global events in the international financial system with “significantly less macroeconomic vulnerabilities” than in the past. She nonetheless noted that it is of “critical importance for Trinidad and Tobago” to tighten the regulatory regime for all financial institutions, for these institutions to increase their focus on risk.

To demonstrate the sound macro-economic position in which we find ourselves the Honourable Minister provided the following statistics:-

- GDP has tripled to \$152 billion in 2008 from 2001;
- GDP projected to rise to \$165 billion in 2009, an increase of 8.5%;
- Energy sector growth leveled off in 2008;
- Non-energy sector grew at a faster rate (4.8%) in 2008 than the energy sector;
- Unemployment rate down to 4.2%;
- External reserves increased to US\$8.52 billion;
- Heritage and Stabilisation Fund investment of US\$2.46 billion;
- External debt at 6% of GDP;
- Total Public Debt of 28% of GDP;
- Headline inflation of 11.9%;

Of considerable significance to everyone in the country is the issue of inflation and the Government’s plans for addressing same. She noted that the rise in inflation in Trinidad and Tobago has both external and internal causes namely:-

- The significant increases in global food prices;
- The expansion of the public and private sector construction activity;
- Public and private sector demand for goods and services;

Executive Overview – 2009 (Continued)

Vision 2020 – ‘Shaping our Future Together’ (Continued)

The Honourable Minister noted that her Government “recognizes that reducing inflation to more acceptable levels is critical to providing the right incentives for the business sector: for protecting the purchasing power and living standards of income earners” especially the lower income earners and those on fix incomes. She noted that inflation reduction was “an urgent economic and social imperative” of her Government.

She thereafter proceeded to outline her Government’s extensive plans and programmes for 2009 and outlined her Government’s strategy in the sectors relating to energy; agriculture; industry; tourism and financial services. Of particular note are the following:-

Energy

- The Energy Sector will continue to shape our economic future;
- The diversification away from an oil based economy to natural gas;
- Special arrangements are required given the global energy market that are intended to bring incremental benefits to T&T beyond the tax-take to Government, by increasing Government’s ownership of assets along the value chain in the natural gas market;
- Major priorities for 2009 are to provide incentives for increased oil and gas exploration;
- A new wave of industrialization involving downstream utilization of natural gas is underway with several major downstream projects planned;

Agriculture

- Food imports increased at escalating international market prices
- Significant increases in budget allocation to \$1.7 billion to assist in development of the sector;
- Institutional arrangement to be streamlined;
- Access roads to be rehabilitated;
- Praedial larceny to be addressed;

Industry

- Seven strategic industries identified for growth and diversification;
- Industrial and Technology Parks being developed;
- New Investment Policy being developed;
- One Stop Shop...Business and Investment Secretariat...to be established;

Executive Overview – 2009 (Continued)

Vision 2020 – ‘Shaping our Future Together’ (Continued)

Tourism

- Tourism represents significant opportunities for revenue generation; employment; entrepreneurship; investment; foreign exchange and new export markets;
- Resurgence in local tourism sector due to more attractive environment;
- Focus on business conventions and conference hostings;
- Opportunities in eco-adventure; sport; history and cultural tourism;
- Further infrastructural development underway;

Financial Services

- T&T to be established as an international financial centre;
- Attractive location for international banks and investment firms;
- Activities identified to include commodities trading, asset management; loan syndication and reinsurance services;
- Regulatory reform programme underway to correct weaknesses in current regulatory framework;
- New Securities Act to be enacted;
- TTIFC will create sustainable employment; contribute to GDP; earn foreign exchange; and strengthen the domestic capital market.

The 2009 Budget priorities as outlined by the Honourable Minister include extensive focus and development on a range of programmes far too extensive to be detailed in this intended overview but including programmes dealing with:-

- Infrastructural Development; (Water and Sewerage; Power Generation; Telecommunication; Transportation (including the Water Taxi and Rapid Rail system).
- The Environment
- Education
- Health
- Housing
- Social Protection
- National Security
- Institutional Reform
- Community Development and Culture and
- Sport and Youth.

Significant investments are to be made in education in extending scholarships and grants to encourage pursuit of further degrees. The Social Safety Net continues to be expanded and increased. And there was much more.

Executive Overview – 2009 (Continued)

Vision 2020 – ‘Shaping our Future Together’ (Continued)

The 2009 Budget will not only be recognized as the largest in Trinidad & Tobago’s relatively brief history but also for the extensive focus on the educational, social and development initiatives that Government considers imperative if we are to attain developed country status on or before 2020. Given the extensive coverage of the ‘Budget Priorities’ it is difficult to criticize the intention but nonetheless there are concerns in the following areas to be noted:-

- No adjustment has been made to the non-energy fiscal regime which indicates that Government considers this to be appropriate, a position with which we are in general agreement;
- Reform of the energy fiscal regime is under review but in the meantime the industry, at a time of record oil prices, has shown flat growth. In the global environment we must compete for foreign direct investment and the absence of incentives has resulted in valuable time (and possibly capital investment opportunities) being lost. We must move expeditiously to re-energise this critical sector that produces almost 50% of our total tax revenue;
- The reduction in inflation is noted to be a priority but there is an absence of strong measures to achieve this. Further the planned expenditure programme for 2009 in infrastructural and other areas would suggest that there will be no lessening of the inflationary pressures in 2009. Further little relief can be expected from increased food prices as the development in agriculture which has not progressed significantly will presumably not provide any relief in the immediate future;
- The need to increase savings was identified but limited measures (the new TTDR’s and the marginal increase in the pension/annuity tax deduction) were announced to provide encouragement to a population that in many instances will be straining to meet monthly financial obligations;
- Pensioners were identified as a section of the population that was in need of special attention but save for the relatively minor increase in the Public Sector Pension and senior citizens grant there was little that will provide relief to this vulnerable section of the population;
- The Gambling Industry came in for attention and the Honourable Minister confirmed that there would be no relaxation of the 5 year deadline for closure of the industry. In considering this matter one is reminded of the days of ‘prohibition’ in the USA and the ills that this brought about as the industry was rendered illegal and driven underground. As a mature ‘developed’ society one might question this approach and wonder whether the next focus will be on alcohol and cigarette consumption or the content of the cable and cinema productions;

Executive Overview – 2009 (Continued)

Vision 2020 – ‘Shaping our Future Together’ (Continued)

- The Government’s extensive social and educational programmes are most commendable and we can surely boast of being one of the few countries in the world that enjoy such benefits. These programmes do however raise two particular concerns being how sustainable are these over time and are we in danger of creating a society that has been provided with such ‘freeness’ that we have no sense of value. Time alone will tell;
- The record expenditure programme will also provide significant challenges for Government in simply executing those programmes in a cost efficient manner and ensuring that we ‘receive value for our money’ in fact a review of our appendix on the Budget Deliverables suggests that implementation of the various GORTT programmes is slow in some areas with many of the promised projects being incomplete to date;
- The fiscal measures are primarily targeted to assist the less well off in the society and Government must be commended for its commitment to provide such relief. Whether this will be sufficient to offset the negative impact of the inflationary pressures is unlikely and Government must therefore focus its attention on successfully combating the latter.

Few will disagree with the need to address the traffic woes that exist in the country and have the potential to paralyse the country; cause massive non-productivity among the work force not to mention the road rage referred to by the Honourable Minister. Whether the increase in Motor Car Tax or increase in the price of Premium Gas will make an impact would seem unlikely in the short term but it is a start and perhaps is the prelude to the reduction in the Gas Subsidy in the next budget.

In concluding our overview of the 2009 Budget presentation we must compliment the Honourable Minister on her comprehensive coverage of the areas identified. The challenges are great and while the economy continues to perform well there are critical issues to be addressed, not least of which is Governments ability to identify and implement effective measures to combat inflation and at the same time to carry out its extensive development programmes. The ‘development road’ continues to offer a bumpy and uncertain future.

Impact of International Financial Turmoil

Quite naturally a lot of people have sought to re-assure us that the current turmoil in international financial markets will have minimal direct impact on Trinidad and Tobago. It is certainly true that The Heritage Fund and local pension plans and financial institutions have little direct exposure to US equity markets and financial institutions. Even ALGICO (a subsidiary of AIG) should (thanks to FED intervention) be able to maintain its re-insurance contracts. But to believe we will escape unscathed is naive in the extreme.

It is often said that when the United States catches a cold the rest of the world sneezes. Well we are sneezing now. Much of Trinidad's development is driven by direct foreign investment and it is highly likely that this will slow significantly. Indeed the anticipated slowdown in world growth has already had a major impact in reversing energy prices. Just a few months ago it was thought that the fundamentals of high demand and limited supply would keep energy prices high, but already reduced demand is reversing that equation. The evaporation of business confidence in the United States and the capital problems faced by financial institutions is likely to reduce the supply of capital into the Caribbean. Interest rate spreads are likely to increase as institutions preserve their capital and seek to reduce their exposure to risk.

The other main driver of growth in Trinidad and Tobago has been Government expenditure. A large number of projects are ongoing and so Government expenditure is likely to help cushion the reduction in private sector demand in the short term. Nevertheless the Trinidad and Tobago consumer faces significant cost of living increases from inflation and, as a result domestic demand may be curtailed. In addition the property market which has boomed in recent years is heavily influenced by the buy to let market and expatriate demand. A very large number of units are due to come on the market at a time when there is unlikely to be any increase in demand. This has the potential to slow real estate sales and rentals and also curtail the domestic construction industry.

Trinidad and Tobago is in a fortunate fiscal position due to recent high energy prices and this should ensure a "soft landing". The inevitable recession in the US however will certainly have an impact here and I expect that the local boom is over. I expect the immediate local impact will be seen initially in reduced petrochemical investment, in the real estate market and the stock market and then later through weakening domestic demand and pressure on corporate profits. This should be no surprise as we have seen it all before.

Summary of 2009 Fiscal Measures

Personal Income Tax

- Flat Rate of Income Tax of 25% retained;
- Personal Allowance of \$60,000 per taxpayer retained;
- Tertiary Allowance for children attending university abroad of \$60,000 retained;
- Deduction for contribution to approved pension fund/annuity plans increased from \$25,000 to \$30,000.

Corporation Tax

- Corporation Tax rates of 25% and 35% retained;
- Business Levy of 0.2% of gross income retained;
- Green Fund Levy of 0.1% of Gross Income retained.

Withholding Tax

- Standard rates of WHT of 15%, 10% and 5% retained.

Petroleum Tax

- Energy Tax regime under review with particular regard to the need for fiscal incentives;
- Petroleum Tax rate of 50% retained.

Unemployment Levy

- Unemployment Levy rate of 5% retained for Petroleum Operations.

Supplemental Petroleum Tax

- SPT retained as per existing Table of Rates;
- No adjustment to allowances or deductions.

Summary of 2009 Fiscal Measures (Continued)

Customs/Import Duties

- No change to the general system of customs/import duties;
- CNG Conversion Kits exempted from Customs Duty and Value Added Tax.

Value Added Tax

- No change to the general system of Value Added Tax.

Stamp Duty

- Stamp Duty on transfer of residential properties varied by increasing the threshold at which stamp duty applies as follows:-

Up to \$850,000	0%
More than \$850,000 but not exceeding \$1,250,000	3.0%
More than \$1,250,000 but not exceeding \$1,750,000	5.0%
More than \$1,750,000	7.5%

Motor Vehicle Tax

- Motor Vehicle Tax increased across the range of vehicles on the basis of the cc rating as follows:-

1599 cc and under	from \$0	to	\$ 5.00 per cc
1600 – 1799 cc	from \$4.00	to	\$ 8.00 per cc
1800 – 1999 cc	from \$8.00	to	\$15.00 per cc
2000 – 2499 cc	from \$21.00	to	\$25.00 per cc
2500 – 2999 cc	from \$25.00	to	\$30.00 per cc
3000 – 3499 cc	from \$30.00	to	\$35.00 per cc
3500 and above	from \$45.00	to	\$50.00 per cc

Premium Gasoline

- Premium Gasoline to be increased in price from \$3.00 per litre to \$4.00 per litre with immediate effect.

Summary of 2009 Fiscal Measures (Continued)

Other Fiscal Measures

- **Ferry Pass** - A free ferry pass to be issued to citizens over the age of 65 years for travel between Trinidad and Tobago;
- **Disability Grant** - Grant increased from \$1,100 to \$1,300;
- **Public Assistance Grant** – Grant increased for each size of household by \$200.00;
- **Senior Citizens Grant** – Qualifying ceiling for the grant increased from \$2,500 to \$2,800 and the maximum grant increased from \$1,650 to \$1,950;
- **Pension for Retired Public Servants** – The minimum pension for retired public servants increased from \$1,650 to \$1,950;
- **Tertiary Education** – Government Assisted Tertiary Education (GATE) programme increased for Masters and PhD level programmes from \$10,000 to \$20,000 and \$30,000 respectively;
- **Scholarship Programme** – Scholarships introduced up to PHD level for T&T citizens with First Class Honours Degrees.

Detailed Fiscal Measures

In line with our perception that the Government is relatively satisfied with the current tax regime, Senator, the Honourable Mrs. Karen Nunez-Tesheira mentioned few fiscal measures during the course of her three hour long presentation of the National Budget for fiscal year 2008/9. It is to be noted that amendments are still expected to the petroleum tax regime although it is unclear when these will be forthcoming. However, it is important for us not to be lulled into what may be a false sense of security, as significant fiscal measures may yet be introduced in the Finance Bill which is usually laid within four months of the presentation of the National Budget.

Such measures as were addressed are detailed below:-

Income Tax

The Income Tax Act is to be amended to increase the deduction available to resident individuals in respect of contributions made to approved pension fund plans, and/or premiums paid under approved deferred annuity plans from \$25,000 to \$30,000 per annum.

We again applaud the Government's aim of seeking to encourage a savings culture and hope that more will be done to encourage this. This particular measure is particularly laudable since its focus is on long term rather than short term savings. The Honourable Minister is correct in her conclusion that we are too heavily focused on instant gratification, and we hope that all income earners will take full advantage of this measure. However, we will continue our efforts to encourage the Government to remove taxes on pension income.

Corporation Tax

No amendments are proposed to the corporation tax regime.

Business Levy and Green Fund Levy

No amendments are proposed.

Petroleum Taxes

As stated above, a restructuring of the petroleum taxes regime is expected, but was not mentioned in the presentation. We therefore await word of the proposed amendments, especially in light of the fact that no consultation has taken place to date as to what form that restructuring will take.

Detailed Fiscal Measures (Continued)

Value Added Tax

VAT is to be removed on Compressed Natural Gas (CNG) conversion kits.

It is assumed that this applies to both the importation and local sales of these kits. And we hope that the relief will take the form of the zero-rating of these items so that the importer/supplier will be able to recover all input VAT incurred to supply and install the kits which savings he will hopefully pass on to the consumer.

It is also essential that the promised expansion in the filling stations for CNG materializes on this occasion since that was certainly one of the factors that led to the paucity of public response when the initiative was first introduced.

Withholding Tax

No amendments are proposed, but this was expected having regard to the fact that the withholding tax rates were reduced effective January 1, 2008 as follows:-

	Prior	New
Interest Royalties etc	20%	15%
Dividends to Parent	10%	5%
Other Dividends	15%	10%

Import Duty

Import Duty is also to be removed CNG conversion kits.

Motor Vehicle Tax

Motor vehicle tax is to be increased on the importation of private motor vehicles as follows:

Engine Size	MVT Per CC Rating		
	From	To	% Increase
Up to 1599 cc	0	\$5	500%
1600 – 1799	\$4	\$8	100%
1800 – 1999	\$8	\$15	87.5%
2000 – 2499	\$21	\$25	19%
2500 – 2999	\$25	\$30	20%
3000 – 3499	\$30	\$35	16%
3500 and over	\$45	\$50	11%

Detailed Fiscal Measures (Continued)

While we acknowledge that this measure will be most keenly felt by the low to middle income groups which is regrettable, there is certainly an urgent need to reduce the number of vehicles on our nation's roads. This measure will hopefully contribute towards such a reduction without focusing exclusively on the foreign used car market which has been the subject of much contention in the recent past. It should however be noted that foreign used cars enjoy the advantage of a 25% reduction of the standard motor vehicle tax and there appears to be no intention to change that position. It should also be noted that as the measure was promulgated in the Budget Presentation, this should have no impact on the cost of goods vehicles, agricultural vehicles or public transportation vehicles such as taxis, maxi taxis or buses. Examples of the anticipated impact on vehicle prices are outlined in the attached appendices:

Stamp Duty

Stamp Duty rates on the transfer of residential property are to be amended as follows:

<u>Current</u>		<u>Proposed</u>	
Property Value	Stamp Duty	Property Value	Stamp Duty
Up to \$450k	0%	Up to \$850k	0%
\$450k - \$550k	5%	\$850k - \$1,250k	3%
\$550k - \$650k	7.5%	\$1,250k - \$1,750k	5%
Over \$650k	10%	Over \$1,750k	7.5%

While this seems to represent a significant reduction in stamp duty, it appears that while the current stamp duty rates apply on a sliding scale, persons seeking to acquire property under the proposed regime will have their stamp duty liability computed at the prescribed rate on the entire consideration. However, the reduction in the rates at each level should compensate for the change in the method of computation, and not result in an increase in the liability above what it would be if the proposed amendment is not introduced.

Measures Not Addressed

Measures promised in the past and not yet enacted include

- The removal of close company provisions;
- The introduction of thin capitalization rules;
- The introduction of capital allowances on patents and scientific research.

Detailed Fiscal Measures (Continued)

Measures Not Addressed (continued)

Certain other measures have been recommended from time to time to the Government but to date have not been included in the fiscal package. Among these are the following

- Removal of tax on capital gains realized under an employee share ownership plan.
- Changing of the basis period for business levy and green fund levy from the calendar year to coincide with the financial year of the taxpayer.
- Exemption of pension income from tax.
- Extension of the period of 'temporary importation' for VAT and Import Duty purposes beyond the three (3) month period currently prescribed.

Sectoral Analysis & Commentary

Energy & Energy Industries

The energy sector as in prior years continues to play a pivotal role in shaping the economic future of Trinidad and Tobago with the Honourable Minister indicating that our share of the global energy business now stands at 3% despite growth in the energy sector levelling off in 2008.

The Honourable Minister of Finance Mrs Karen Nunez-Tesheira in her Budget presentation indicated that Vision 2020 is premised on the optimal utilisation of the resources in the energy sector and also on the meaningful diversification of the non energy sector. This year's budget is based on an assumed oil price of US\$70 per barrel, a gas price of US\$4.00 per mmbtu and a projected GDP growth of 5.6%.

She also indicated that as part of its economic strategy GORTT is targetting deeper industrialisation involving downstream energy sector spin offs and for intensified focus on economic diversification.

The Honourable Minister spoke of putting special arrangements in place that will bring about incremental benefits to T&T beyond the Government's tax-take through the increase in Government's ownership of assets along the value chain in the natural gas market.

A major priority mentioned is the provision of incentives for increased oil and gas exploration. It is also proposed that exploration activities will continue in the upcoming fiscal year with the drilling of six new wells in addition to the fourteen wells that were drilled under existing Production Sharing Contracts and Exploration and Production Licences.

Other measures announced by the Honourable Minister for this sector that are already in train or are due to begin are:

- A comprehensive review of the fiscal framework for the sector.
- The development of three new fields which is currently in progress and the development of two more fields which is expected to commence shortly.
- Offering of acreage in the Deep Atlantic Area.
- Independent Certifications of the country's natural gas reserves to be completed in May 2009 to ensure that the data is available to enable strategic planning for the downstream sector.
- Independent certification of the country's oil reserves to be completed by January 2009. This will inform the developments plan for the heavy oil reserves.
- Continued committment to the local content policy.

Sectoral Analysis & Commentary (Continued)

Energy & Energy Industries (continued)

- Ongoing diversification of the energy sector involving the further downstream utilisation of natural gas.

Some of the projects mentioned by the Honourable Minister in her presentation are:-

- The Methanol to Power project, as a fuel for power generation.

This is a joint venture between the University of Trinidad and Tobago and the Natural Gas Institute of the Americas. The project involves an opportunity to create a “Virtual pipeline” to supply energy to our Caribbean neighbours. The capital cost of this project is US\$1.2 billion.

- The Alutrint Smelter Project

This is scheduled to begin construction in the first quarter of 2009. The capital cost of this project is between US\$500 to US\$600M.

- The Carisal Caustic Soda/Calcium Chloride Plant

This will process a by-product salt stream from the desalination plant in Point Lisas. This plant is currently under construction at a cost of US\$800M.

- Gas to Polypropylene Project

This is expected to be one of the cornerstones of the country’s strategy to promote downstream diversification and to build the foundation for the plastics industry. The capital cost of this plant is expected to be US\$2.5 billion and is scheduled to commence in the last quarter of 2009.

- Isegen Maeleic Anhydride Processing Facility in Point Lisas

This product is widely used as a preservative for food and beverage products, pharmaceuticals, resins, oil additives, detergents and agricultural products. The capital cost of this plant is expected to be US\$75m and is scheduled to begin in 2009.

- Construction and Licensing of a plant to produce animal protein from natural gas that is a single cell protein used as an alternative to soya bean. This is still in the developmental phase.

Sectoral Analysis & Commentary (Continued)

Energy & Energy Industries (continued)

The above raises quite a number of issues/concerns or factors to be taken into account in addressing the question of the adequacy of reserves for the projects, as well as, questions in respect of the revenues to be derived from the sale of crude oil and natural gas.

- The Review of the Economy for 2008 indicates a decline in drilling of 8.2% for the first seven months of 2007/2008.
- The Review of the Economy of 2008 also indicates a decline in production in crude oil of 8.6% for the first seven months of 2007/2008 over the comparable position, this was however bolstered by high prices.
- Where and what are the incentives for the industry?

Exploration and development costs associated with natural gas development have increased significantly in recent times and are comparable to those related to crude oil activities but the returns are very different.

- What does the new fiscal regime entail, it has been long in coming?
- What is the impact on inflation of all new plant construction projects?
- What are the “special arrangements” to be put in place that will “bring incremental benefits beyond the tax take” – does this impact the terms for renewal of twenty year contracts?
- The capital investment in the sector is not a valve to be turned on and off at the discretion of GORTT. Critical time has been lost due to the delay in the fiscal reform and we must therefore proceed to revitalise the sector.
- GORTT’s policy of attracting wider participation in the sector, while effective in reducing the dominance of any one multinational, creates the potential for attracting investors who do not have the “deep pockets” required for the high risk activity that is a feature of this industry.
- GORTT’s extensive expenditure programme is to be financed substantially by the “tax take” from the Energy Sector. In this regard it should be noted that such “tax take” is materially influenced by the level of capital investment having regard to the capital allowances that are generated therefrom. Any significant increase in such activity in 2009 (albeit desirable) could thus impact GORTT’s anticipated tax take.

Sectoral Analysis & Commentary (Continued)

Energy & Energy Industries (continued)

If the sector is to remain vibrant, continue to be well poised as the economy's engine of growth for some time into the future, the issues raised above must be addressed and actioned sooner rather than later as we seek to sustain the sector to fund the 2020 vision pending diversification of the economy.

Financial Services – Impact of US Financial Crisis (Another Viewpoint)

The events of the last week dominated by virtual disappearance of the Independent Investment 'Banks' are to say the least historic and will forever change the financial services landscape in the world's largest capital market.

At the beginning of 2008 the US financial services market was dominated by the Universal Banks which combine fee based investment banking activity with the traditional deposit taking activity of retail and wholesale lending.

Companies such as Bank of America, JP Morgan Chase Citigroup, Wells Fargo, US Bank Corp and Wachovia dominated the Universal Banking Market. In contrast there existed the "Wall Street" independent Investment Banking Model as exemplified by Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers and Bear Stern which conduct no deposit taking activity and therefore earned solely fee based income from M&A Wealth Management Advice and trading in equities, fixed income securities and derivatives.

As of today September 22nd, 2008 none of the independent Wall Street firms exist or will exist in the future in their original form.

In March of this year Bear Stern was acquired by JP Morgan Chase, Lehman Brothers was substantially acquired by Barclays a UK Universal Banking Group, Merrill Lynch sold itself to Bank of America and both Goldman Sachs and Morgan Stanley the preminent independent firms of Wall Street will be allowed to convert to Bank Holding companies, to be regulated by the Federal Reserve. Under this new arrangement Goldman Sachs and Morgan Stanley will be allowed to take deposits which is expected to help stabilise the ultra volatile nature of the independent investment firm.

Similarly on the insurance side of the financial services industry AIG the largest US insurer will receive US\$85B of funding in exchange for the US Government taking a 79.9% stake.

The mood created by these paradigm shifting events is summed up by the F.T. Com article of September 17th, 2008 whose heading was "The End of American Capitalism as We Know It."

What went so radically wrong with US Banking system?

Financial Services – Impact of US Financial Crisis (Another Viewpoint) (Continued)

Market sentiment serves to attribute blame the following factors:-

- A US Government policy of low interest rates
- The housing bubble
- Predatory lending in the sub primal mortgage market
- Financial innovation run aground in the market for securitisation products in the form of collateralised debt obligations (CDO's).

An article by Pam Woodall in Economics 2nd Edition sums up the issues attributed to the first two factors.

In the wake of the stockmarket collapse of 2000-01, the Federal Reserve cut interest rates promptly, while President Bush pressed on with his long-standing plan to slash taxes. Consumers were invited to spend the tax dollars the government handed back to them and the fresh money the Fed printed for them.

The strategy worked on its own terms. America's recession was shallow and brief; its growth since then has been impressive. But as this chapter points out, America's recovery still rings hollow. In a healthy economy, households spend the income they earn, less whatever they can set aside for the future. But in this recovery, jobs and pay did not rebound as forcefully as they have in previous upturns. Spending has been strong, but pay cheques have failed to keep pace.

As a result, America's current prosperity depends on unearned wealth, not earned income. For the typical American family, the bulk of that wealth is in housing, which enjoyed big jumps in value in the wake of the Fed's rate-cutting. Households have kept the economy going by borrowing freely against the paper gains in the values of their homes.

The term securitisation was first coined by Lewis S. Rahri for 1977 Wall Street Journal article by Ann Monroe, on the underwriting by Salomon Brothers of the first mortgage pass-through issued by Bank of America.

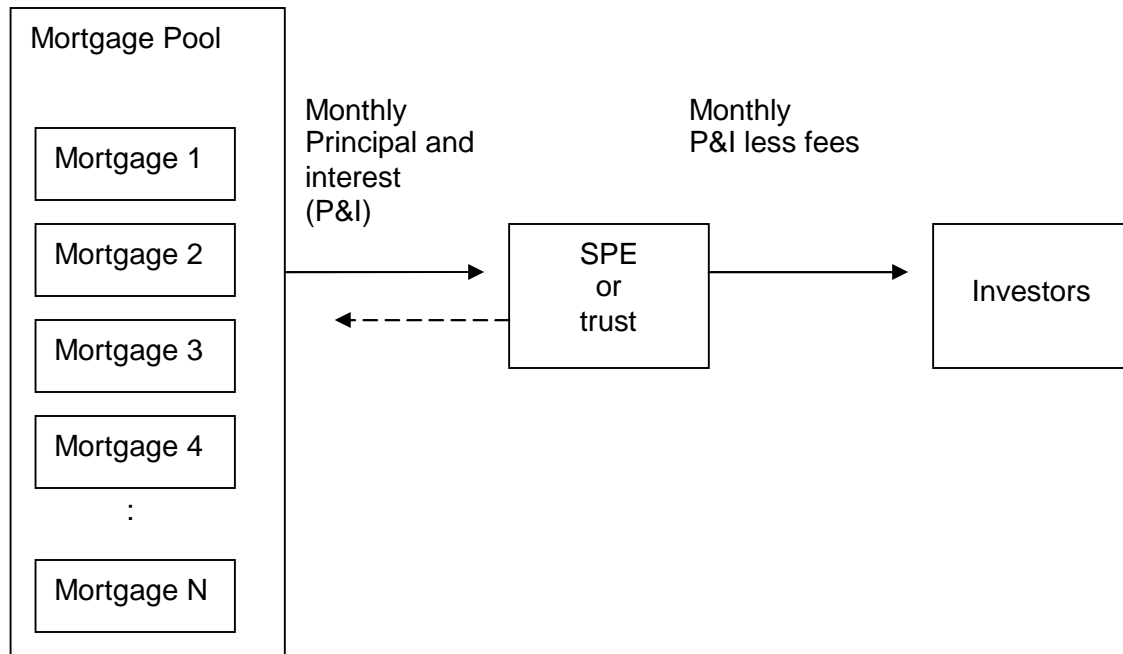
Securitization is simply the process of taking a series of cash flows from say, a mortgage, and selling off or stripping each individual cash flow of interest and principal into separate independent securities backed by the principal and interest payments from the mortgage.

Collateralised debt obligations or CDO's on the other hand essentially rearranges the priority of the cash flows into tranches such that the highest rated tranche and therefore the investment risk is paid in priority or before the other tranches and provides a return consistent with the reduced risk of default.

The lowest rated or most risky tranche (often referred to as toxic waste) receives a relatively higher return and is typically kept by the investment bank sponsoring the issue. (see figure 1)

**Financial Services – Impact of US Financial Crisis (Another Viewpoint)
(Continued)**

Figure 1 - Synthetic and Structured Assets by Eric Banks 2006 Edition

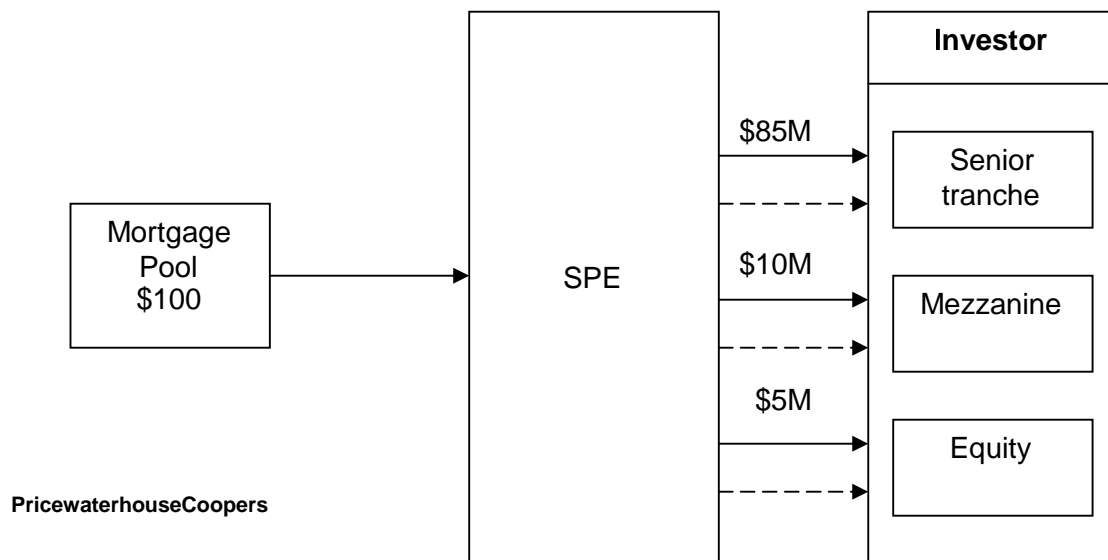


Fundamental mortgage pass-through structure

As outlined in figure 2 mortgages totalling \$100M are purchased by the Special Purpose Vehicle "SPV" from investors who have been divided (tranching) into senior, mezzanine and equity tranches. Any losses incurred due to defaults by mortgagors are first allocated to equity tranching, then mezzanine and finally the senior tranche.

Figure 2

Basic cash CDO structure



Financial Services – Impact of US Financial Crisis (Another Viewpoint) (Continued)

Many of the current CDO's which have turned toxic relate to persons who have had low credit ratings and hence the term "sub prime" or those who could not from the onset service the mortgages they had committed to, based on their long term financial status.

CDO's involving sub prime mortgagors were bought by banks throughout the financial system and as US real property prices began to fall many borrowers were left with loans in excess of the value of the properties they owned.

Fabozzi et al have asserted that US corporations and banks would have been motivated to issue a securitized instrument instead of a straight bond for the following reasons:

- (1) To access cheaper funding by pledging specific assets to the SPV rather than creditors having access to a company's general pool of assets in the event of default;
- (2) To have access to a wider variety of markets for funding outside the traditional bond market;
- (3) To increase reported income in the financial statements of corporations.

Banks may similarly be motivated for the following reasons:-

- (1) Revenue from assets may remain the same after a securitizations but because the securitized assets are legally removed from the balance sheet return on equity increases;
- (2) The assets removed can make way from more cost effective or more profitable new investment projects;
- (3) Interest spread between the cost of funds and the interest earned.

At the time of its demise AIG as one of the monoline insurers had issued an estimated US\$440B worth of "Insurance" to the US securitization market and as market condition worsened it found itself increasingly unable to support its positions in the market.

Unlike Lehman Brothers, AIG with its vast network of credit risk exposures was deemed too central to the financial market to fail, hence the action taken by the US Government.

The repercussions of these startling developments will be felt for some time to come and will undoubtedly lead to significant changes in how (and what) business is conducted in the global financial system. The impact on Trinidad and Tobago is as yet undetermined albeit it is purported that our undeveloped financial system has served as a shelter from these developments. Given the global environment it would be surprising indeed if we were to emerge unscathed. Maybe we are truly 'God's Country'?

Industry

Yet again the captains of industry have felt the blow of GORTT's hand. No tax incentives were announced to assist this sector which is expected to grow by only 4.2% in 2008 (8% in 2007).

Minister Nunez-Tesheira stated at the recent conference hosted by the Trinidad & Tobago Manufacturers Association on "US recession – impact on the T&T economy" that while the US economic downturn presents a challenge to local manufacturers, it also presents opportunities". But what are these opportunities particularly since:-

- a) rising oil and gas prices have impacted significantly on the cost of manufacturing locally,
- b) workers in this sector are being drawn to the more lucrative energy industry.
- c) manufacturers are evaluating the benefits of operating in more cost efficient locations such as Central and/or South America.

While the US is T&T's largest trading partner accounting for 60% of the country's total exports, it is interesting to note that these exports in the main are liquefied natural gas, crude petroleum, ammonia and methanol, all energy-based products, largely funded by foreign investment.

So what will happen to the real local manufactures who invested/re-invested in T&T, took risks, contributed to employment and diversified the industry in the absence of meaningful incentives and in the face of increasing challenges globally. How will the sector be impacted when the Cariforum-EC Economic Partnership Agreement ("EPA") is signed by GORTT. While the intention of the EPA is to create free trade between the European Union and the ACP Countries (Africa, Caribbean and Pacific) and to guarantee permanent duty free quota access to the EU market for some Cariforum exports, will the duty saved be outweighed by the cost of actually shipping the product to and operating in this market? Only time will tell.

There is no question that T&T is the industrial giant of the Caribbean but is this really reflective of the petrochemical sector rather than the traditional industries such as food, beverage and tobacco where growth is expected to nearly halve in 2008 to 12.8% (from 22%).

Sectoral Analysis & Commentary (Continued)

Industry (continued)

It is arguable that Industry requires incentives for research and development, for re-tooling and a commitment from GORTT for proper institutional strengthening if they are to be true contenders in the global arena particularly when they are competing against the economic giants of China and India. However it is to be noted that with a 25% Corporate Tax rate coupled with the initial (capital) allowance, significant tax incentives are provided for all manufacturing activity. Government support may therefore be needed in other areas.

GORTT has targeted the seven strategic industries for growth and diversification, including Food and Beverage, the Printing and Packaging Industry, The Maritime Industry, the Yachting Industry, the Sea Food Industry, the Film Industry and the Entertainment Industry. Little has been said of the progress achieved in making these the major pillars in shaping the economic landscape of T&T and while we remain somewhat skeptical we must await the comments of the Minister of Trade in his contribution to the Budget Debate for further clarity.

Construction

In commenting on Trinidad and Tobago's economic resilience in the face of a turbulent international environment, the Honourable Minister, attributes the country's economic stability in part to the "broad based" growth in the non energy sector including construction.

On the other hand, the Honourable Minister acknowledges that the significant rise in inflation in Trinidad and Tobago is due, in part, to the expansion of public and private sector construction which resulted in significant increases in the costs of labour and raw materials in the sector.

This fact, she says has caused "Government to review its infrastructure development programme to arrive at adequate solutions, including new methods of financing, for example using turnkey arrangements, which would reduce capacity constraints, thus minimizing the liquidity impact and mitigating the inflationary effect on the domestic economy."

Notwithstanding the admittance of the adverse impact of the construction 'boom' on the local economy, Government is of the view that there are alternatives to managing inflation and in keeping with this view, the primary focus of the budget is on continued infrastructural development at the estimated cost of \$6,594.4M during the next fiscal year.

The budget presentation makes it clear that GORTT sees this high level of construction activity as being critical to the success of its 2020 vision. Some of the more extensive projects which will either commence or continue during the next fiscal year into the medium term include:-

- The Alutrint Smelter-The capital cost is projected to between US\$500 to US\$600M.
- The CariSal Caustic Soda/Calcium Chloride Plant- Construction of the CariSal plant is projected to take approximately 12 to 15 months to complete at a capital cost of US\$80 million.

Sectoral Analysis & Commentary (Continued)

Construction (continued)

- The polypropylene complex- Construction of the US\$2.5 billion project is scheduled to commence in the last quarter of 2009.
- The Isegen Maeleic Anhydride Processing Facility in Point Lisas is scheduled to begin in 2009 at a capital cost of US\$75 million.
- The completion of three hotels that are in the final stages of construction, the 165 room Carlton Savannah, the 120 room Star Hotel, and the 52 five-star rooms at the Academy for the Performing Arts. The Trinidad Hilton is also undergoing major upgrades;
- Construction and refurbishment of several Early Childhood Care and Education centres (ECCE), primary schools and tertiary level institutions
- The construction of Trinidad Rapid Rail Transit System
- The construction of the Churchill Roosevelt / Uriah Butler Highway Interchange and Several new highways are being designed to be international freeways. Estimated cost of the first phase of the Programme is TT\$15 billion, with the overall programme expected to cost approximately \$25 billion over the 8-year period of construction.
- Construction and refurbishment of Several Health facilities

In essence, Government has no intention to cease or even slow down the pace of construction to ease some of the inflationary burden that was partly created by its massive expenditure in the sector over the last few years. In the Government's view, inflation caused by construction can be managed by, inter alia, using alternative project financing methods for new construction projects. Specifically, the Minister mentioned the Turnkey arrangement and generally, the P3 model—"the Design, Build, and Finance, Operate, Maintain, and Transfer model". Our preliminary research suggests that the Turnkey arrangement is one form of the P3 Model that allows a public agency to contract with a private investor/vendor to design and build a complete facility in accordance with specified performance standards and criteria agreed between the parties. The private developer commits to build the facility for a fixed price and absorbs the construction risk of meeting that price commitment. The P3 model may be fashioned in a variety of ways.

While alternative project financing may transfer project risks to the private sector and allow Government to cap expenditure on these projects, the effectiveness of this approach in addressing escalating constructions costs and inflation remains to be seen. Further, contracts that have been signed already and ongoing construction projects do not or are unlikely to include this new financing approach and as such the adverse effects that the country has experienced over the last few years are likely to continue at least in the short to medium term.

Sectoral Analysis & Commentary (Continued)

Construction (continued)

Additionally, the temporary nature of the construction industry and continued accelerated government expenditure in this area raises the issue of sustainable employment and ultimately sustainability of the low unemployment rate of 4.2%. The construction industry which is partly responsible for creating massive labour shortages in other sectors has itself started importing cheap labour to satisfy the high demands that it faces. However, reminiscent of other booms, the fear that arises here is that after constructions ceases or slows down, unemployment rises and so will all the other pitfalls that come with that, such as, increase in crime.

Therefore while, infrastructural development is critical for the development of any country, the cost of an accelerated rate of development needs to be measured against a greater economic and social good.

Agriculture

Despite a lot of talk about the developments urgently required for this sector to address the volcanic rise in food prices, surprisingly no tax incentives were announced for the sector.

Is this a reflection of GORTT's NATO policy – No Action, Talk Only.

In 2008 budgetted expenditure for the sector was estimated to be \$731,083k. Revised estimates for 2008 reflect a 16% reduction to \$615,015k. Budgeted expenditure for 2009 is targeted at \$888,545k. You will note in the Appendix to this report – “2008 Budget Deliverables”, that the majority of projects identified for the sector have not yet started.

The much talked about mega-farms, seen to be the answer to our food crisis problem are still at the proposal stage. These include farms located at:-

- 1) Jerningham (108 acres for vegetable crops)
- 2) Edinburgh (354 acres for vegetable crops)
- 3) Orange Grove (100 acres for vegetable crops)
- 4) Caroni (100 acres for root crops)
- 5) La Gloria (364 acres for mixed farming and livestock)
- 6) Mon Jaloux (417 acres for integrated farming, livestock and aquaculture)
- 7) Picton Estate (1201 acres for livestock, tree crops and root crops)

The Tucker Valley 200 acre mega farm operated in collaboration with the Government of Cuba for root crops, rice production, mixed and integrated farming and livestock has already got underway although this may impact Government's seed production facility which may have to be relocated, at a (unnecessary) cost.

GORTT intends to increase its allocation to the Agricultural Development Bank to \$125m in the new fiscal year which should enable increased and easy financing to prospective farmers.

Sectoral Analysis & Commentary (Continued)

Agriculture (continued)

But the real question is, are we “trinis” prepared to give up the security of lucrative jobs and opportunities in the energy and downstream sectors and/or abroad to become farmers. GORTT will have to seriously commit to deliver in the short-term on its promises for development of access roads, proper drainage and security from praedial larceny if the big players are to take a risk and switch investments into this current non-profitable sector.

Given that the mega-farms have not really taken off in a “mega” way we can continue to expect an increase in food prices as we rely on the overseas markets to provide the basket of goods that we need to survive on a daily basis.

Tourism

In its Draft National Tourism Policy issued on July 24, 2008, GORTT indicated that “the tourism sector more than any other sector of the economy will provide the basis for and sustain GORTT’s Vision 2020 programme”. The sector is seen as the key to the achievement of GORTT’s objectives and to provide social-economic opportunities for wide cross sections of local communities (including rural communities) “. The Policy identifies the following ten (10) key success factors for the development of a viable tourism industry:

- 1) Sustainability
- 2) Involvement of all local communities
- 3) Safe and stable
- 4) Competitive
- 5) Customer driven
- 6) Diverse product development
- 7) Training and education
- 8) Aggressive marketing and promotion
- 9) Economic linkages
- 10) Institutional infrastructure

It is interesting to note that although the Policy has been available for discussion since July 2008, consultations on the policy have not yet begun. Why?

Budgeted expenditure for the Ministry of Tourism in 2008 was \$162,227k. This figure was revised in the current estimates downwards by 21% to \$128,296k. Why? The only project that the Ministry undertook this year was the development of the Maracas Beach facility. Interestingly this is just a continuation of the project noted in our 2007 Budget Memorandum. Why?

Sectoral Analysis & Commentary (Continued)

Tourism (continued)

The 2008 Review of the Economy reports an overall increase of 20,000 visitors to the twin island republic but a specific decline in visitors to the sister isle during 2008. Why? There is no report on the contribution of the yachting industry to this sector which in the past has been declining. Is this an indication of the “confidence” that this potentially thriving industry has in T&T?

Expenditure earmarked for 2009 is estimated to be \$300,515k. If GORTT is really serious in establishing the tourism sector as a strategic industry in shaping the future of T&T, then it has to do more than just rely on the greatest shown on earth, construct hotels and hold conventions to entice foreigners to our shores to spend and/or invest.

Consultations and decisions must take place quickly if we are to see any real tangible developments in the sector to become a significant and sustainable contributor to GDP.

2008 Budget Deliverables – Delivered or Not?

Macro Economic Factors

Macro Economic Indicators	Position as declared in 2007 Budget	Current Position
Real GDP Growth to increase to approx 3.5%	9.7%	13.2%
Unemployment rate to decline to 4%	5%	4.2%
Inflation rate	7.3%	11.9%
Expenditure during the fiscal year	\$39.3Billion	50.957Billion

- Standard & Poor's Long Term Foreign Currency Sovereign credit rating for Trinidad and Tobago as at August 15, 2008 = 'AA'
- Human Development Index (HDI)* for Trinidad and Tobago is 0.814- country ranked 59th of 177 countries:-
 - Life Expectancy = 69.2 years
 - Adult Literacy (% ages 15 and older) = 98.4%
 - Combined primary, secondary and tertiary gross enrolment = 64.9%

Y = Project Completed
IP = Project in Progress
P = Pending Approval, procedural or otherwise
N = Project has not commenced
NIA = No Information Available

* Source: UNDP Human Development Reports 2007/2008

Summary of Total Projects

Sector	Y	IP	P	N	NIA
Agriculture	2	4	-	8	2
Culture and Sport	1	5	-	1	-
Education	1	8	-	-	-
Energy	-	8	1	4	-
Health	-	2	-	2	-
Housing	-	4	-	-	-
National Security	3	5	2	1	-
Public Utilities	-	7	-	2	-
Social Development	-	2	-	3	-
Tourism	-	1	-	-	-
Trade and Industry	-	7	-	-	-
Works and Transport	2	13	2	1	-
Tobago- Projects	3	13	-	1	-
TOTAL	12	79	5	23	2

Projects

Housing		
1.	Development of 22,023 residential plots	IP
2.	Implementation of a Squatter Regularization and Containment Programme	IP
3.	Development of New Town at Wallerfield	IP
4.	Development of four New Towns for Sangre Grande, La Brea, Princes Town and Chaguanas	IP
Health		
1.	Expansion of the Chronic Disease Assistance Programme (CDAP)	IP
2.	Establishment of the National Oncology Centre	IP
3.	Establishment of an Eye Bank	N
4.	Establishment of a National Health System (NHS)	N

National Security		
1.	Refurbishment of Police Stations	IP
2.	Construction of eighteen (18) police stations	N
3.	Completion of Police Training College	Y
4.	Procurement of three hundred and fifteen (315) purpose-built police vehicles	Y
5.	Acquisition of three (3) Offshore Patrol Vessels (2009- 2010)	IP
6.	Implementation of a maintenance support programme and a crew training programme in respect of the vessels	IP
7.	Acquisition of six medium – sized Fast Patrol Craft (2009)	IP
8.	Procurement of six interceptors and four helicopters	IP
9.	Establishment of Crime and Justice Commission	Y
10.	Establishment of a national fingerprint database	P
11.	Establishment of a structured mentoring programme	P
Agriculture		
1.	Establishment of Farmers' Markets in Arima, Chaguanas, Marabella, Rio Claro, San Fernando and Sangre Grande	N
2.	Establishment of a Prices Advisory Council	N
3.	Establishment of a Consumer Advisory Board	N
4.	Establishing a Competition Commission	N
5.	Establishment of an Agricultural Development Commission	N
6.	Establishment of Special Regime of incentives for new farms	N
7.	Reallocation of 417 acres of land at Mon Jaloux	NIA
8.	Review of the development of agricultural access roads, irrigation and other infrastructure	IP
9.	Expansion of the Youth Apprenticeship Programme in Agriculture (YAPA)	IP

10.	Provision of 100 acres each to three ammonia manufacturers to create Demonstration farms	N
11.	Expansion of cold storage and warehousing capacity in Tobago	IP
12.	Implementation of contract farming in collaboration with National Agricultural Marketing and Development Corporation (NAMDEVCO) and the Trinidad and Tobago Agricultural Business Association (TABA)	N
13.	Restructuring of Caroni Lands	Y
14.	Creation of 16 large scale farms	Y
15.	Establishment of a Model Farm, Resource Centre and Greenhouse in Central Trinidad	IP
16.	Introduction of a Business Expansion and Industrial Re-engineering Programme (BEIRP) including establishing <ul style="list-style-type: none"> a. An innovation Facility b. A Marketing Facility c. A Quality Management/Production Management Facility; and d. A Human Resource Management Programme 	NIA
Tourism		
1.	Re-design of Maracas Beach Facility.	IP
Education		
1.	Construction of 33 Early Childhood Care and Education Centre	IP
2.	De-shifting of the remaining 6 junior secondary into secondary schools	Y
3.	Creation of National Open School Centres	IP
4.	Expansion of Information and Communication Technology in schools' curriculum by: - <ul style="list-style-type: none"> e. computerization of all primary schools f. acquiring teaching software and provision of classroom collaborative solutions 	IP
5.	Establishment of UTT campuses country-wide	IP
6.	Upgrade of UTT infrastructure in the following: -	

<p>g. Establishment of Academies for the Performing Arts</p> <p>h. Expansion and upgrade of the facilities at Valsayn and Corinth Teachers' Colleges</p> <p>i. Upgrade of Library facilities at UTT campuses</p>	<p>IP</p> <p>IP</p> <p>IP</p>
Energy	
Construction of the following: -	
1. The Alutrint Smelter at Union Estate in La Brea	N
2. The Essar Steel Complex	IP
3. The Methanol Holdings AUM Complex at Pt. Lisas	IP
4. The Gas-to-Liquid Plant at the Pointe-a-Pierre Refinery	IP
5. The Petrotrin Gasoline Optimization Programme	IP
6. The following projects: -	
j. Methanol	IP
k. Polyethylene Complex and	IP
l. Polypropylene	P
7. Development of new industrial estates to accommodate energy-based industries	N
8. Development of Industrial port facilities at:	
m. Brighton and	IP
n. Galeota	IP
9. Construction of two aluminum smelters by Alcoa and Alutrint	N
10. Establishment of an energy park- (San Fernando Ener-Tech Park)	N

Social Development	
1. Implementation of the National Family Policy	N
2. Implementation of the National Parenting Programme	N
3. Implementation of the National Counseling Programme	N
4. Establishment of a Children's Authority	IP
5. Implementation of the Second National Plan of Action for Children	IP
Works and Transport	
1. Acquisition of 112 buses by PTSC	IP
2. Improving and modernizing passenger facilities at Arima, Sangre Grande, Port of Spain, Chaguanas and Point Fortin	IP
3. Construction of interchange at the intersection of the Uriah Butler and Churchill Roosevelt Highways : -	
o. Package A	Y
p. Package B	IP
q. Package C	IP
4. Traffic Management Measures:-	
r. Widening and upgrade of Churchill Roosevelt Highway - Golden Grove to UWI Westbound	IP
s. Widening and reconstruction of Shoulders of the Churchill Roosevelt Highway- El Socorro to Barataria Interchange Westbound	IP
t. Construction of Additional Westbound lane- Beetham Highway- Lighthouse St Vincent Street	IP
u. Widening of Caroni Bridge	IP
v. Construction of Overpass- Carlsen Field	IP
w. Bridge Expansion Churchill Roosevelt Highway Westbound	IP
x. Construction of new Bridge - Caroni	Y

5.	Construction of overpasses at Bamboo, El Socorro and Aranguéz	P
6.	Construction of additional lanes on both Churchill Roosevelt and Uriah Butler Highways	IP
7.	<p>Redefining of Highway Reserves, including the redefinition of the following Roads : -</p> <ul style="list-style-type: none"> y. Solomon Hochoy Highway z. Churchill Roosevelt Highway aa. Uriah Butler Highway bb. Lady Young Road cc. Beetham Highway dd. Audrey Jeffers Highway ee. Diego Martin Highway ff. Manzanilla Mayaro Road gg. Mayaro Guayguayare Road hh. Toco Main Road ii. Manahambre Road jj. Naparima Mayaro Road kk. Wrightson Road ll. Southern Main Road- Phase 1 	
8.	Construction of a New Port of Spain Port along the waterfront at Sea Lots	N
9.	Procurement of the Trinidad Rapid Rail Project	IP
10.	<p>Flood Mitigation and Integrated Watershed Management Project for the city of Port of Spain and its environs, which encompass: -</p> <ul style="list-style-type: none"> mm. upgrade of St Anns and Maraval River Channels nn. reconstruction of underground drainage systems in Port of Spain oo. relocation of utility lines underground pp. upgrade of physical environment in the Capital City 	P

Public Utilities	
1. Development of a Water and Wastewater Master Plan	IP
2. Implementation of a strategy for the conversion from Gas Turbine and Steam Plants	IP
3. Installation of a 450 megawatt combined cycle power station (2010)	N
4. Promoting the Information and Communication Technology (ICT) sector	IP
5. Introduction of the National Broadband Action Plan	IP
6. Designation of: -	
qq. Environmentally Sensitive Areas (ESA) and	IP
rr. Environmentally Sensitive Species (ESS)	IP
7. Procurement of solid waste disposal facilities	
8. Rehabilitation of the Beetham Landfill	N
	IP
Manufacturing, Trade and Industry	
1. Provision of assistance to domestic firms to be re-engineered with greater state of the art technology and processes	IP
2. Implementation of strategic plans for the seven (7) targeted industries, i.e. Music and Entertaining, Printing and Packaging, Merchant Marine, Film, Fish and Fish Processing, Yachting, Food and Beverages	IP
3. Additional incentives under the Business Expansion and Industrial Reengineering Programme (BEIRP) by establishing the following: -	
ss. An Innovation Facility	IP
tt. A Marketing Facility	IP
uu. A Quality Management/Production Management Facility	IP
vv. A Human Resource Management Programme	IP
4. Establishment of an additional 5000 new small or micro- enterprises per year under NEDCO	IP

Sports and Culture	
1. Construction of the National Carnival and Entertainment Centre	IP
2. Development of recreational grounds, lighted jogging tracks and hard courts in several areas	IP
3. Upgrade and refurbishing of indoor sporting Arenas, Community Swimming Pools and Multipurpose stadia	IP
4. Complete construction of the Brian Lara Cricket Academy	IP
5. Construction of national facilities in Swimming, Cycling and Tennis	IP
6. Establishment of a National Youth Council	Y
7. Establishment of a National Youth Institute	N
Tobago Projects	
1. Completion of the Shaw Park Cultural Complex	IP
2. Completion of the Scarborough Library	IP
3. Completion of the Financial Complex	IP
4. Completion of the Les Coteaux/Mason Hall Road	Y
5. The development of the Cove Eco-Industrial and Business Park	IP
6. The establishment of a Tobago House of Assembly sponsored Commercial Fishing Fleet	IP
7. Intensification of the road rehabilitation and resurfacing programme throughout Tobago	IP
8. Construction of an expansive car park in Scarborough (Garden Side)	IP
9. Construction of a CARICOM jetty at the Scarborough Fish Port	Y
10. Extension and Upgrade of the Charlotteville Jetty	N
11. Construction of the Roxborough District Health Facility	IP
12. Construction of a Technical Vocation Centre for disabled persons	Y
13. Completion of the Charlotteville Health Centre	IP

14.	Construction of the Scarborough Health Centre	IP
15.	Construction of the Moriah Health Centre	IP
16.	Construction of the Moriah Recreation Complex	IP
17.	Construction of a 64 mega watt dual-fuel power station at Cove Estate	IP

APPENDIX 2

	\$Mn	\$Mn	\$Mn
	Estimate 2008	Revised Estimate 2008	Estimate 2009
Revenue			
Tax Revenue	35,133.4	45,780.9	40,978.6
Income and profits	25,448.0	34,970.1	28,479.3
Goods and services	6,858.6	7,938.0	9,569.1
International trade	2,386.0	2,414.8	2,506.6
Other	440.8	458.0	423.6
Non-tax revenue	3,894.4	5,332.4	7,068.3
Property	3,080.9	4,481.4	6,149.3
Other Non-Tax Revenue	791.4	827.4	897.7
Repayment of Past Lendings	22.1	23.6	21.3
Capital Receipts	20.9	38.0	26.0
TOTAL REVENUE	39,048.7	51,151.3	48,072.9
Financing	407.0	1,137.3	3,592.4
TOTAL RECEIPTS	39,455.7	52,288.6	51,665.3
Expenditure			
Recurrent Expenditure	35,342.9	46,053.1	43,430.8
Charges on the Public Debt	2,563.0	2,850.1	3,446.3
Capital Expenditure	3,900.0	4,465.1	4,080.0
TOTAL EXPENDITURE	41,805.9	53,368.3	50,957.1
NET SURPLUS/(DEFICIT)	(2,350.2)	(1,079.7)	708.2

Excluded are the Unemployment Fund, Infrastructure Development Fund, Government Assistance for Tertiary Education and the Green Fund

Source: Draft estimates of Revenue for the financial year 2009

Note: The figures above were extracted from the Draft Estimates of Revenue and Expenditure which was produced some time before the budget document and may vary from the figures quoted in the budget speech which the Ministry of Finance has confirmed are the most up to date

APPENDIX 3

2008 Budgetary Expenditure

Charges on Account of Public Debt	0	4,207,500,000	0	4,207,500,000
Pensions and Gratuities	0	1,809,025,000	0	1,809,025,000
Ministry of Planning and Development	49,634,485	306,804,006	249,450,000	605,888,491
Ministry of National Security	2,286,380,263	1,751,899,440	682,100,000	4,720,379,703
Ministry of the Attorney General	55,764,507	147,852,708	15,510,000	219,127,215
Ministry of Legal Affairs	36,460,505	81,893,410	11,200,000	129,553,915
Ministry of Agriculture, Land and Marine Resources	314,554,869	415,841,002	158,150,000	888,545,871
Ministry of Education	2,004,638,150	1,346,154,534	62,750,000	3,413,542,684
Ministry of Health	307,224,079	2,986,865,320	326,000,000	3,620,089,399
Ministry of Labour and Small & Micro Enterprise Development	29,775,525	140,885,431	21,700,000	192,360,956
Ministry of Public Administration and Information	26,172,269	601,666,966	216,402,000	844,241,235
Ministry of Tourism	23,557,345	253,942,763	23,015,000	300,515,108
Integrity Commission	1,973,100	28,322,690	0	30,295,790
Environmental Commission	3,347,590	5,458,215	500,000	9,305,805
Ministry of Public Utilities & the Environment	16,314,440	2,192,199,300	325,529,000	2,534,042,740
Ministry of Energy and Energy Industries	27,138,043	1,960,886,316	30,000,000	2,018,024,359
Ministry of Local Government	77,121,650	1,370,337,072	214,303,000	1,661,761,722
Ministry of Works & Transport	486,651,190	1,949,269,845	436,834,000	2,872,755,035
Ministry of Sport & Youth Affairs	41,385,291	316,647,881	41,000,000	399,033,172
Ministry of Foreign Affairs	117,938,175	364,520,385	51,700,000	534,158,560
Ministry of Trade & Industry	19,044,000	147,376,929	43,800,000	210,220,929
Ministry of Science, Technology & Tertiary Education	36,886,245	1,996,102,115	328,270,000	2,361,258,360
Ministry of Community Development Culture & Gender Affairs	22,621,034	352,805,325	26,450,000	401,876,359
Ministry of Social Development	41,899,138	2,454,536,098	68,500,000	2,564,935,236
Ministry of Information	39,937,871	296,000,608	43,000,000	378,938,479
GRAND TOTAL	\$6,760,181,425	\$40,116,934,137	\$4,080,000,000	\$50,957,115,562
2008/2009	13%	79%	8%	100%

NB: Development Programme Expenditure excludes the sum of \$5,100,000 which is funded from the Infrastructure Development Fund

APPENDIX 4

Tax Facts 2009

	2009		2008	
1 PERSONAL INCOME TAX				
All Income	25%		25%	
Allowances/Deductions				
Severance Pay	300,000		300,000	
Alimony paid	No Limit		No Limit	
Personal Allowance	60,000		60,000	
Tertiary Education Allowance	60,000	(1)	60,000	(1)
Pension/Deferred / Annuity	30,000	(2)	25,000	(3)
National Insurance	70%	(2)	70%	(3)
First Time Homeowners allowance	10,000	(4)	10,000	(4)
2 COMPANY TAX				
Corporation Tax Rate (Petrochemicals)	35%		35%	
Corporation Tax Rate (Non Petroleum)	25%		25%	
Business Levy (On Gross Sales & Receipt)	0.2%		0.2%	
Green Fund Levy (On Gross Sales & Receipt)	0.1%		0.1%	
3 PETROLEUM TAXES				
Petroleum Profits Tax	50%		50%	
Unemployment Levy	5%		5%	
4 INVESTMENT INCOME				
Local Dividends Received	Exempt		Exempt	
Interest Received (Individuals)	Exempt		Exempt	
5 WITHHOLDING TAXES				
Payment - Interest, Royalties, Fees	15%		15%	
Dividend-Parent	5%		5%	
Dividend-Other	10%		10%	

Note (1) The individual must have attended an institution other than a Regional Public Institution situated outside of Trinidad & Tobago and approved by the Ministry of Education.

Note (2) Maximum \$30,000

Note (3) Maximum \$25,000

Note (4) The property must have been purchased or constructed between the period 01/01/2003 to 31/12/2005. The allowance is available for five years commencing from the year in which the house is acquired.

APPENDIX 5

Computations**Corporation Tax Computations (Manufacturing Company)**

	2,009	2,008
Profit as per Financial Statements	10,500,000	10,500,000
Add:		
Depreciation	2,300,000	2,300,000
Donations not under Deed of Covenant	25,000	25,000
Entertainment expense restriction (25%)	32,500	32,500
	<u>2,357,500</u>	<u>2,357,500</u>
Less:		
Initial Allowance (75%)	1,500,000	1,500,000
Wear and Tear Allowance	850,000	850,000
Unit Trust Income	125,000	125,000
	<u>2,475,000</u>	<u>2,475,000</u>
Chargeable Profits	10,382,500	10,382,500
CORPORATION TAX		
Corporation Tax @ 25%	2,595,625	2,595,625
Effective Tax Rates	24.7%	24.7%
BUSINESS LEVY		
Gross Sales/ Receipts	66,500,000	66,500,000
Business Levy @0.2%	<u>133,000</u>	<u>133,000</u>
GREEN FUND LEVY		
Gross Sales/ Receipts	66,625,000	66,625,000
Green Fund Levy @0.1%	<u>66,625</u>	<u>66,625</u>

Individual Tax Computation

Middle Income Person

	2009	2008
Income (\$18,000 per month)	216,000	216,000
Less:		
Personal Allowance	(60,000)	(60,000)
Pension Annuity & NIS Contributions	(30,000)	(25,000)
	<u>(90,000)</u>	<u>(85,000)</u>
Taxable Income	126,000	131,000
Income Tax Thereon @25%	31,500	32,750
Effective Tax rate	14.5%	15.1%

APPENDIX 6

Snapshot of GORTT Fiscal Performance - 2008

	\$Mn	\$Mn	\$Mn
	Estimate 2008	Revised Estimate 2008	Estimate 2009
Revenue			
Tax Revenue	35,133.4	45,780.9	40,978.6
Income and profits	25,448.0	34,970.1	28,479.3
Goods and services	6,858.6	7,938.0	9,569.1
International trade	2,386.0	2,414.8	2,506.6
Other	440.8	458.0	423.6
Non-tax revenue	3,894.4	5,332.4	7,068.3
Property	3,080.9	4,481.4	6,149.3
Other Non-Tax Revenue	791.4	827.4	897.7
Repayment of Past Lendings	22.1	23.6	21.3
Capital Receipts	<u>20.9</u>	<u>38.0</u>	<u>26.0</u>
TOTAL REVENUE	39,048.7	51,151.3	48,072.9
Financing	407.0	1,137.3	3,592.4
TOTAL RECEIPTS	<u>39,455.7</u>	<u>52,288.6</u>	<u>51,665.3</u>
Expenditure			
Recurrent Expenditure	35,342.9	46,053.1	43,430.8
Charges on the Public Debt	2,563.0	2,850.1	3,446.3
Capital Expenditure	<u>3,900.0</u>	<u>4,465.1</u>	<u>4,080.0</u>
TOTAL EXPENDITURE	<u>41,805.9</u>	<u>53,368.3</u>	<u>50,957.1</u>
NET SURPLUS/(DEFICIT)	<u>(2,350.2)</u>	<u>(1,079.7)</u>	<u>708.2</u>

Excluded are the Unemployment Fund, Infrastructure Development Fund, Government Assistance for Tertiary Education and the Green Fund

Source: Draft estimates of Revenue for the financial year 2009

Note: The figures above were extracted from the Draft Estimates of Revenue and Expenditure which was produced some time before the budget document and may vary from the figures quoted

in the budget speech which the Ministry of Finance has confirmed are the most up to date

	Estimate	Revised	Variance
	2008	Estimate	+/-
	\$M	2008	\$M
		\$M	\$M
Revenue			
Tax on Income/ Profits			
Petroleum Companies	15,363.61	22,748.04	7,384.43
Corporation Tax	5,029.75	6,752.70	1,722.95
Income Tax	3,439.63	4,148.12	708.49
Value Added Tax	5,633.05	6,628.05	995.00
Taxes on International Trade	2,386.00	2,414.80	28.80
Expenditure			
Recurrent Expenditure	35,937.00	46,943.10	11,006.10
Personnel Expenditure	6,566.70	6,659.30	92.60
Goods and Services	4,828.90	4,674.80	(154.10)
Minor Equipment	506.00	296.70	(209.30)
Interest and Other Debt Charges	2,563.00	2,850.10	287.10
Current Transfers and Subsidies	16,647.00	27,290.80	10,643.80
Transfers to Statutory Bodies	4,753.00	5,103.30	350.30
Acquisition of Physical Assets	72.40	68.10	(4.30)
Development Programme	3,900.00	4,465.10	565.10
Capital Repayment & Sinking Fund	1,968.90	1,960.10	(8.80)
Contributions			
Allocation			
Ministry of Education	3,439.72	3,357.86	(81.86)
Ministry of Health	2,881.26	2,756.34	(124.92)
Ministry of National Security	3,557.75	3,672.60	114.85

APPENDIX 7

T&T Inflation and Food Prices

	2000	2005	2006	2007	August 2008
Headline inflation	5.63%	7.16%	9.08%	7.31%	11.9%
Core inflation	4.24%	2.69%	4.61%	4.51%	6.2%
Food prices	13.39%	22.57%	22.02%	14.69%	25.3%

Notes:-

Headline inflation vs core inflation

For the typical household the total or headline rate of inflation is what really matters. This measures the rate at which the cost of living is rising. It is headline inflation relative to income growth that determines whether a household's standard of living is rising or falling.

However Governments tend to focus more heavily on the core rate of inflation, which measures total inflation excluding the impact of food and energy prices. Therefore the Core inflation is less volatile therefore and gives a better measurement to GORTT of the balance between supply and demand in the domestic market. It gives a better indication of the rate of inflation that will emerge in the absence of sudden shocks to the economy, such as the fall in energy prices or rise in food prices, or rise in food prices.

International forecasts are for global food prices to increase between 20%-50% over the next few years. The Central Bank of Trinidad & Tobago had indicated that "inflation management is likely to continue to be a major challenge in the ensuing months, given the outlook for continued high global energy and food prices which could trigger higher wage demands." In light of these forecasts it will be interesting to know what are the Honourable Minister's plans to reduce the rate of inflation to 6%, which she has identified as GORTT's target.

Average Food prices

	2005	2006	2007	2008
	\$	\$	\$(Aug)	\$(Aug)
Rice (2kg)	13.79	13.79	13.79	24.99
Flour (2kg)	6.99	6.99	6.99	16.99
Oil (1 litre)	14.49	12.99	12.79	20.00
Milk – evap	3.79	3.79	4.59	5.50
Dozen Eggs	8.69	9.49	9.99	14.99
Sugar – Granulated	10.69	11.69	11.69	15.99
Butter – Blue Band (240 grams)	5.29	5.29	5.99	4.50
Chicken (kg)	20.25	22.99	22.99	23.00
Beef (Clod)	32.99	32.99	46.99	40.00
Fish (Carite)	32.99	32.99	32.99	30.00

Note that some prices have decreased in 2008 because National Flour Mills (“The Ministry of Food”) has been mandated to provide food items at affordable

Glossary of Social & Education Programmes

Social Programmes

Establishment of a Children's Authority

To implement the Children's Authority Bill whose primary purpose is the care and protection of children in T&T

National Counselling Programme

To strengthen the National Family Services Division

The National Family Policy

To create and promote a family-friendly society – proper functioning of the family unit including employment practices, healthcare, housing, education and training, social services and recreation

The National Parenting Programme

To educate young people on the role of the parent and the ideals of good parenting. To equip parents with the necessary skills to effectively meet the needs of their children.

The National Plan of Action for Children

To implement key strategies towards the creation of a better life for children

Poverty Reduction Strategy

To foster social integration and ensure proper targeting of programmes and assessment of progress. The social welfare grants is one mechanism in place to achieve poverty reduction

Social Services Delivery Agency

The establishment of this Agency is to decentralize the delivery while centralizing the management and reporting of social services.

The Targeted Conditional Cash Transfer Programme

This is to be achieved through the new TT Card System whereby citizens will receive discounts on items purchased and a waiver of the transaction fee from the Bank

Education Programmes

Amended Local School Board Regulations

This is part of the movement toward school based management and a means of increasing involvement of the community in the school. To help shape the well-being of future generations

Classroom Collaborative Information and Communications Technology (ICT) Systems

To provide computers, network and security systems as well as free internet access to schools.

Government Assistance for Tuition Expense Programme (GATE)

To provide financial assistance to persons wishing to pursue tertiary level education

Government Textbook Rental/Loan Programme

To ensure that all educational resources and textbooks are available to all students at public schools in all core curriculum areas

Higher Education Loan Plan (HELP)

To provide financial assistance to persons who wish to pursue tertiary level education under the GATE approved programmes.

National Open School of Trinidad & Tobago (NOSTT)

To ensure that primary and secondary education is provided to the out-of-school population

National Technical Vocational Education and Training (TVET) Registry

To provide young persons with the necessary skills and experience required to enter the workforce

Primary Schools Computerisation Programme

To ensure that all schools have modern, fully equipped computer labs.

Revised Education Act

The proposed legislation is to strengthen and enhance the legislative and regulatory framework of the education system.

School Feeding Programme

The main purpose is to improve the nutritional status of the children as well as promote linkages with the agricultural sector

School Leadership Programmes

To assist principals and teachers to deal with stress in the schools and help parents to handle parenting issues. The programme is aimed at helping alleviate the level of violence and indiscipline in schools.

Tamana Intech Park

To provide tertiary education in the fields of science, engineering and technology to the population

University of Trinidad & Tobago (UTT) Pt Fortin

To promote the availability of tertiary education to the population. This will be done in collaboration with Atlantic LNG

Information taken from: **Budget Statement 2008**
 Budget Statement 2009
 Status Matrix of Requested Social Programmes from Ministry
 of Social Development

APPENDIX 9

Vehicle Price Projections

Brand	Model	Engine Cubic capacity	Current Motor Vehicle Tax per cc rating	Current Motor Vehicle Tax	Pre Budget On the road cost before VAT	Budget 09 proposed increase MVT Rate	Budget 09 proposed new MVT Amount	Budget 09 on the road cost before VAT
Nissan	Almera 1.3 SG	1298	NA		86,869.55	5.00	6,490.00	93,359.55
Nissan	Almera 1.6 SG	1597	NA		96,434.78	5.00	7,985.00	104,419.78
Volkswagen	Passat 1.8	1799	4.00	7,196.00	226,086.56	8.00	14,392.00	233,282.56
Nissan	Xtrail 2.0 Classic	1998	8.00	15,984.00	173,826.09	15.00	29,970.00	187,812.09
Nissan	Teana 2.5	2488	21.00	52,248.00	328,608.70	25.00	62,200.00	338,560.70
Nissan	Teana 3.5	3498	30.00	104,940.00	406,434.78	35.00	122,430.00	423,924.78
Audi	1.8 Turbo	1798	4.00	7,192.00	339,130.00	8.00	14,384.00	346,322.00
CRV	2.0 Litre	1997	8.00	15,976.00	273,852.17	15.00	29,955.00	287,831.17

The above appendix is based on passenger cars registered as Private.

Caveat

This Memorandum contains a summary of the main features of the proposed budgetary measures and is intended to provide readers with a general guide thereto. It is not intended to be a comprehensive statement of the law and should therefore not be acted upon without professional advice.

While every effort has been made to ensure the accuracy of information contained in this document, no responsibility is accepted for any errors or omissions. No part of this publication may be reprinted without our prior permission.

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