

# Speeches

## **Address by the Hon. Billie A. Miller, M.P., BCH, Deputy Prime Minister and the Minister of Foreign Affairs and Foreign Trade at the Opening of the Broad Street Main Branch of the Royal Bank of Canada.**

**July 30, 2001**

Vice President (Barbados and the Eastern Caribbean)  
Members of Staff  
Specially Invited Guests  
Distinguished Ladies and Gentlemen

As the Member of Parliament for the City of Bridgetown, I am delighted to be here at the opening of the new Broad Street Main Branch of the Royal Bank of Canada.

Banks around the world today are yielding to competitive pressures brought on by the twin forces of globalization and trade liberalization. It is my judgment that the Royal Bank of Canada has been weathering the storms well. Global pressures have led to a large number of mergers in the worldwide financial industry which has resulted in a union of commercial banks, investment banks and insurance companies. A trend from which Barbados cannot expect to escape.

Banks' margins are steadily narrowing due to several factors, including declining spreads and increasing operating costs. In an attempt to restore some degree of stability to their margins, international banks have been decreasing branches and streamlining processes; and of course there is online banking through the worldwide web. Over half of the banking and finance companies around the world are spending large sums on their retail web sites.

In many small developing countries like Barbados, commercial banks often dominate the capital markets. These markets are characteristically developing, emphasizing the need for sophisticated financial intermediaries.

Since 1837 when they were first established in Barbados, commercial banks have made a significant contribution to the economy of this island. Over the years, they provided credit for the productive sectors, and for mortgages which have enabled many Barbadians to purchase homes and improve their standard of living. They have also helped to finance public sector operations through the purchase of treasury bills and other securities issued by Government. Banks have also helped to deepen the capital market by introducing new instruments like retirement plans and mutual funds.

The result of this has been a high degree of confidence in the system. Savings in commercial banks have risen from \$123.6 million at the end of 1975 to \$1.9 billion at the end of 2000. Total domestic credit to all economic entities grew from \$366.1 million to \$ 3.2 billion over the period 1975-2000.

However, while total lending by commercial banks increased almost ninefold in the past 25 years, evidence indicates that the trend in credit extension is not always in sync with an economy that depends on a healthy stock of foreign reserves. Generally, the trend illustrates a bias against the export earning sectors, e.g., tourism, manufacturing and agriculture, and favours the sectors which are net foreign exchange users.

Of concern to Government is the usually short gestation period of loans. At the end of 2000, nearly half of the outstanding loans were due in less than five years. This is in contrast to higher risk takers like venture capitalists who require substantial financial resources and extended periods to realise a

return on their loan portfolios. This matter is worthy of some reexamination in the context of a dynamic world environment.

This bold initiative, that involves some element of risk, would go a long way toward maintaining the desirable growth rate of 3 percent envisaged as the sustainable rate of growth for Barbados in the medium term.

Quite apart from the operational aspects of commercial banking there are number of regulatory matters that engage us from time to time. It is anticipated that both the commercial banking sector as well the government will play their respective parts.

The commitment of the banking industry to the restructuring and retooling of the financial sector is a necessity for ensuring survival in the global environment. The Government and the Central Bank of Barbados will continue to provide an operational and legal framework for commercial banking based on the highest international standards. Your support is crucial as we strive together to enhance the domestic financial system.

As Barbados continues to build its financial sector and especially the international business sector we are committed to a very clean and well regulated jurisdiction in order to mitigate the occurrences of illegal activity, tax evasion, tax crimes and money laundering.

As you are no doubt aware the International Business Sector has contributed in large measure to the economic development of Barbados and therefore the Government of Barbados in seeking to further develop the sector.

Services is the path which we have chosen for the early twenty-first Century and the foreseeable future. Indeed this is a universal pattern which means that we have to be super competitive. We are competing with the world. Barbados will focus on the development of the sub-sectors such as Financial Services, Informatics, E-commerce, Tourism, Educational and Health Services and cultural services. Many countries, including those in the Caribbean, are selling essentially the same product. We have to find ways to be ahead of the competition.

Barbados has always been promoted as a reputable, low tax jurisdiction that offers benefits through a network of tax treaties which have been negotiated with developed countries, among them the United States, Canada and the United Kingdom. We are unique in this respect among Caribbean offshore jurisdictions. Further Barbados has also been promoted as a jurisdiction that favours active business operations in the interest of employment generation.

It is therefore against the backdrop of the issuance of the 1998 Organisation for Economic Development (OECD) Report on Harmful Tax Competition that Barbados took particular note and tracked the developments with some intensity. This report raised a number of issues that the OECD, a 29 developed country self-appointed organisation, determined were harmful.

Subsequently a list of uncooperative countries was published and Barbados was listed as a tax haven. This report has been a source of concern for us, both public and private sector, as Financial Services have become a major part of the economic landscape of Barbados. Traditionally, Barbados had been a low tax jurisdiction with a reputation that was beyond reproach.

After much expenditure of effort and energy on our part and led by Prime Minister Arthur in the international arena, the OECD has agreed that the broad political principles of transparency, non-discrimination and effective exchange of information should be the hallmark of the international financial sector. Additionally, it is expected that a development of a programme of work with an agreed timetable will achieve widespread implementation including implementation by all participating jurisdictions of globally agreed standards by December 31, 2005.

It must be noted that many of the reforms in our financial sector were contemplated before the OECD report was written and the Government is committed to continuing to build on the foundation of a low tax regime, modern legislation, sound infrastructure, political and economic stability, state-of-the-art telecommunications and excellent professional services.

The Government has always expressed its commitment to high regulatory standards and has always taken the necessary actions in order to meet internationally accepted standards.

As part of the overall plan to ensure that Barbados remains one of the top places to do business in the region, the Government has undertaken to review all aspects of its tax policy to ensure a better match with on shore and offshore activities.

Government had been considering the possibility of converging the international and business sectors in the context of its Double Taxation Agreements with Canada, prior to the OECD initiative. Local tax planners and lawyers are of the view that this would be the single most important step in removing what the OECD refers to as "ring-fencing". However, the Government will engage a consultant to undertake a study to determine the best mechanism for a full or partial convergence. The OECD appears to have taken ring-fencing off the table but the study and evolving events will determine the best road to take.

But attractiveness as a location must go far beyond the attractiveness of tax measures and must speak to the ability to generate new products as existing products are expected to have short shelf lives. As a consequence, we will need to continually review legislation to ensure that it is up to date to meet and anticipate investor requirements.

In terms of international business, in 2000 Barbados signed Double Taxation Agreements with the People's Republic of China and Cuba. We now have eleven Double Taxation Agreements and will continue our efforts to expand our network of Double Taxation Agreements targeting mainly countries in Latin America. Particularly the Mercosur countries which are required by their treaty to operate multilaterally so that the CARICOM Secretariat needs to be fast forwarding its initiative with the Mercosur Secretariat.

Government is committed to continue its drive towards trade liberalization policies. Trade liberalization is inescapable and imminent and we should therefore prepare not only for the threats but should also seek out the opportunities that liberalisation can provide.

Barbados is currently participating in three negotiations processes relating to Trade in Services. These negotiations flow from the amendments to the Treaty of Chaguaramas that created the Caribbean Community (CARICOM), the creation of the Free Trade Area of the Americas (FTAA) and progressive liberalization under the WTO.

In the CARICOM context, the full implementation of Protocol II is the number one priority. The primary objective of this protocol is to create a single economic space for the free movement of labour, capital and the provision of services within our region. It is expected that this protocol will help to create the economies of scale that would assist the region in becoming more competitive. As stated before, we wish to make Barbados the most competitive economy of the region by 2005 especially in the area of services where we have a comparative advantage.

In addition to all of the financial and institutional arrangements made for business I am sure that you will agree with me that the physical environment is equally important. For some time now the Government has been seeking ways to enhance the overall ambience of the city area. I very much regret the temporary inconvenience you may be suffering by the diversions and disruptions that will ultimately redound to a more improved Barbados.

The construction of this main branch complements Government's plan for the redevelopment of Bridgetown which constitutes the second phase of the more comprehensive Urban Rehabilitation Programme. This programme is designed to address certain physical deficiencies which impact negatively on the business environment, physical surroundings and quality of life for residents, business people and visitors.

The objective of the Bridgetown phase of the Programme is to stimulate economic growth in the city centre by improving access, traffic and town management; social amenities and the physical environment of the city for the benefit of residents, business people and visitors, especially cruise passengers.

The rationale for the project relates to Government's awareness of the changes taking place in Bridgetown. The redevelopment project is complemented by other public and private sector initiatives intended to refocus attention on the city as a place in which to shop, do business and live. The project involves work at the Bridgetown Port, designed to provide improved facilities for cruise passengers; reconstruction of the Pelican Shopping Village; beautification of Trevor's Way; reconstruction of the Cheapside and Fairchild Markets and the re-creation of a green space in the Lower Green. Also included are the rebuilding of the Swing Bridge and inner Careenage works as well as the continuation of the Wickham-Lewis boardwalk and the development of Independence Square.

When completed, these various projects will serve to provide a safe redeveloped corridor stretching from the Bridgetown Port and the northern end of the city leading into Broad and Swan Streets, the principal shopping area and on up Bay Street to join the Needham's Point Redevelopment of which a rebuilt Twenty-first Century Hilton Hotel is a part.

A major private sector project is also being developed for the nearby Pierhead in association with one of the island's leading conglomerates. It has been designed to increase activity in the city during the evening, and to encourage greater use of the city for dining and entertainment in addition to shopping and business.

Several private sector proposals are being prepared for development of the adjacent Carlisle Bay area. In addition, a complementary study has been completed, the recommendations of which seek to improve the attractiveness of Bridgetown as a duty-free shopping port.

With work already completed on Swan Street and Wharf Road/Cavans Lane and plans to address the housing, transportation, drainage and parking problems in the city, Bridgetown, at the completion of the Programme, should regain its vibrancy, vitality and appeal. It is expected that enhancements to the business, social and physical environment of the areas will serve as stimuli to commercial activity and economic growth by increasing the tourism potential of the city area.

A blurb on Royal Bank's website reads that "the main branch occupies one of the most prominent sites in Bridgetown, right next to the Houses of Parliament and National Heroes Square" – and so it does and will continue to do so.

I wish to congratulate the Royal Bank of Canada for taking this commendable step at such an important juncture in the economic development of Barbados. This event and a similar one last year will definitely serve as a strong statement of the commitment of your bank not only to the physical environs of the city but also to the financial health of Barbados.

It is now my great pleasure to declare this new building open.