

*Paper Laid**Friday, May 31, 1991***HOUSE OF REPRESENTATIVES***Friday, May 31, 1991.*

The House met at 1.40 p.m.

PRAYERS[MR. SPEAKER *in the Chair*]**PAPER LAID**

Recommendations for settlement of pay arrears to public sector employees and workers of Caroni (1975) Limited in the context of Government's policy of the widest possible public participation in business enterprise. [*The Minister of Finance (Hon. Selby Wilson)*]

BUSINESS OF THE HOUSE

Mr. Speaker: Hon. Members, you know that at the last sitting the House was adjourned to, Friday, June 7, 1991 at 1.30 p.m. The paper which was laid by the Minister of Finance was brought to the Speaker's attention, and pursuant to Standing Order 9, I have directed that this special sitting take place today. This is why we are here this afternoon.

**PUBLIC SECTOR EMPLOYEES
(ARREARS PROPOSALS)**

The Minister of Finance (Hon. Selby Wilson): Mr. Speaker, you will recall that in my budget speech of 1991, I stated:

"The arrears of emoluments owing to Public Servants and employees of Statutory agencies as at December 31, 1990, amounted to approximately \$1.7 billion. The cost of implementing the Court award will amount to approximately \$903 million if effected from January 1, 1991."

At that time I indicated that the financial resources of the state would not permit the settlement of the arrears in cash. As a result, I reported that I had proposed to the public sector associations, and unions that the arrears to all public sector employees and to employees of Caroni (1975) Limited, could be satisfied through the establishment of a State Unit Trust. I also reported that the Government would transfer to this State Unit Trust, a percentage of its shareholdings in the more profitable state enterprises and its shareholdings in publicly quoted companies. Units in the State Unit Trust would then be issued to each employee in satisfaction of the debt.

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Mr. Speaker, in the 1991 Budget, I announced a partial settlement in respect of the arrears of salaries and wages owed to public sector employees and Caroni workers as follows:

- "(i) full restoration with effect from January 1, 1991 of the 10 per cent cut in salaries and wages to all employees who suffered this loss. The cost of this was approximately \$300 million;
- (ii) payment of \$30 million towards liquidating the 1989 liability in respect of accumulated arrears of cost of living allowances; and
- (iii) payment of \$10 million on account of the arrears of wages to employees of Caroni (1975) Limited."

I am pleased to report that these cash payments have already been made. I indicated that this partial settlement was a demonstration of our resolve to honour our obligations and, indeed, confirmed that Government intended to satisfy the indebtedness to its employees over time as the public finances are strengthened.

Mr. Speaker, I also gave an undertaking to this honourable House to publish, as soon as the details were developed, a White Paper in respect of this State Unit Trust. Today, Mr. Speaker, I am honouring my commitment.

Over the past five months we have examined other alternatives, including those voiced by the public sector associations and unions, to settle the pay arrears liability. Our technical work has confirmed that the most practical solution to the pay arrears liability can be accommodated in the context of Government's policies.

Permit me to review briefly, Mr. Speaker, the alternatives to the establishment of a State Unit Trust that were considered and their disadvantages:

- (i) Borrowing:

It is a well-established fact that excessive borrowing to meet recurrent expenditure will lead to rapid loss in the value of the Trinidad and Tobago dollar, rapid depletion of our foreign currency reserves, progressive economic decline, galloping inflation and rising unemployment.

- (ii) Issue of Bonds:

The issue of bonds implies that the state at some future date would have the resources to redeem them. As a result, bond redemption.

Mr. Panday: Mr. Speaker, on a point of order. Is the Minister to be allowed to make a speech, the contents of which are such that it is debatable, under this item of merely laying papers? If this matter is to be debated, or not vetoed, the Minister should do it in the proper order, I thought that he was laying the paper, but what the Minister is doing, he is making a debatable speech.

Mr. Speaker: Since it is a special sitting for this particular purpose, it can be done either way. The Minister can accompany the tabling of the paper with a statement, or he can wait until we reach item (j) "Statements By Ministers". It can be done either way.

Mr. Panday: He is bringing it formally.

Mr. Speaker: Yes.

Mr. Panday: Under what rule, Sir?

Mr. Speaker: I said, under Standing Order 9.

Mr. Wilson: I continue with Issue of Bonds:

"(ii) The issue of bonds implies that the state at some future date would have the resources to redeem them. As a result, bond redemption would be satisfied from public revenues and/or borrowings; but given the present prospects, it is more than likely that the state would have to borrow to meet these future redemptions. Accordingly, this alternative would have the same disadvantages as borrowing."

1.50 p.m.

(iii) **Amortized schedule of the liability:** The amortization of the liability over a period of say, five years, would have the same disadvantages as borrowing. The state would have to borrow to meet the scheduled payments. To minimize the negative effects associated with borrowing, the repayments would have to be spread over a long period, say 25 to 30 years. This would not be in the best interest of the public sector employees since the value of their money would be seriously eroded with the passage of time.

(iv) **Increased Taxation:** The Government also considered whether the liability could be discharged through increased taxation. The discharge of the debt out of tax revenues could only be possible either by having an enlarged cake or through a bigger bite of the same size cake. An

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enlarged cake is represented by an increased revenue base being taxed at current rates, but a bigger bite is represented by increased taxation on the current revenue base.”

Since the revenue base has not been significantly changed, the discharge of the liability could only be attempted through a bigger bite, resulting in increased taxes. This would mean increases in the value added tax, in marginal rates of taxation on individuals, and in tax rates on corporations and petroleum companies.

It has been specifically advocated that the supplementary petroleum tax should have been raised to take advantage of the higher oil prices in the last quarter of 1990. An increase in the SPT take, based on the value of a barrel of oil, has the corresponding effect of reducing profits, resulting in the petroleum profits tax being decreased by approximately 50 per cent of the SPT increase.

Any casual change in the taxation regime for oil companies based on a short-term increase in the price of oil would be a disincentive to exploration and/or production and, therefore, counter-productive to the efforts to stimulate this vital sector of the economy. At a time of less than buoyant crude oil prices, it is crucial for the level of production to be maintained and even increased in order to stabilize the state's revenue base.

Under the current petroleum tax regime, the Government receives approximately 65.2 per cent of the value of each barrel of crude while the companies receive 14.8 per cent after providing for operating expenses. The effect of increasing taxation to settle the outstanding arrears of approximately \$1.7 billion as at December 31, 1987, which is equivalent to 67 per cent of current oil revenues and 54 per cent of non-oil revenues, would be damaging to the national economy. It would have severe negative consequences for incentives to effort, savings and investment and would ultimately lead to a dramatic decrease in the levels of economic activity and an increase in the level of unemployment.

The Proposed Plan: The recommended proposal in the White Paper does not have the disadvantages of the alternatives which I have outlined. Instead, there are several advantages to be gained from the solution proposed because it achieves simultaneously, a number of meaningful and strategic objectives:

- (i) it is the most practical and least economically damaging solution to the settlement of the salary arrears liability;

- (ii) it is in keeping with the Government's major policy objective, which is to promote the widest possible public participation in business enterprise;
- (iii) it is primarily in favour of employees, in particular, and Trinidad and Tobago nationals in general.

The achievement of these multiple objectives will contribute significantly to Government's major goal of economic transformation with equity and responsibility, wide-spread ownership and an individual sense of participation in the economic life of the country.

The Government proposes a programme of divestment of certain selected state enterprises in two distinct phases. In the first phase scheduled for completion by December 31, 1991, shares in the selected state enterprises will be transferred into a new investment holding company—the National Investment Company. In the second phase, the National Investment Company will progressively divest its shareholdings, primarily via Stock Exchange quotations. It is intended that Phase II of the Divestment Programme will be completed within five years, although it is proposed to be achieved within two to three years by most companies.

The state enterprises being considered for divestment are detailed in the White Paper.

The Government's solution to the liability problem is to issue public sector employees, effective January 1, 1992, with redeemable units in the National Investment Company, whose asset base would be shares in the state enterprises. It is estimated that the amount in arrears of salary and wages owing to individual employees is between \$20,000 and \$25,000.

The major features of the proposed plan are as follows:

- (i) **The Five Series of Units:** Assets of at least the value of the arrears obligations will be transferred from the state to the National Investment Company. There will be five separate series of units. The combined value of the series will be equivalent to the debt owed. They will be known as A, B, C, D and E Units. Each series of units will be redeemable for cash or at the option of the unit holder, converted into a successor investment instrument on specific dates annually, over a period of five years.

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- (ii) **Initial Cash Payments:** The Government proposes to pay up to \$300 million, in cash, to employees at the inception of the Plan. This cash will be secured by the sale of units in the National Investment Company to local institutional investors such as insurance companies and pension funds, credit unions and co-operatives.
- (iii) **The State Guarantee:** The Government will guarantee the nominal value of the units at their respective redemption dates. This guarantee will preserve the nominal value of the units and, therefore, not expose unit holders to downward market fluctuations in the value of the units. However, unit holders will be entitled to any capital increases in the value of the units.
- (iv) **Unit Negotiability and Collateral Value:** The units will be negotiable. Unit holders will be able to sell their units and/or use them as collateral security for borrowings.
- (v) **Dividends and Taxation:** Dividends on the units will be free of tax. Capital gains will also be tax free.
- (vi) **Employee Share Ownership:** Employees of the divested state enterprises will also be invited to participate in the ownership of their companies.

2.00 p.m.

Benefits of the National Investment Company Plan: The National Investment Company Plan also provides substantial benefits to the national community. Firstly, the public sector employees: The plan will provide:

- (a) Up to \$300 million in cash to public sector employees at inception and units in the National Investment Company in respect of the balance owed to them (net of tax) to be redeemable annually over five years;
- (b) It will provide an attractive alternative to a full and immediate cash settlement which is clearly not practicable in the current circumstances of the state finances;
- (c) It will provide public sector employees with an instrument that is negotiable and subsequently will be marketable; and finally,
- (d) Unitholders with dividend income and an entitlement to any capital increase in the value of the Units.

Benefits for the Trinidad and Tobago economy: The plan will:

- (a) support Government's development thrust in the promotion of the widest possible public participation in business enterprise;
- (b) be a superior alternative to borrowing which would be damaging to the national economy; and finally,
- (c) improve the performance of the divested state enterprises to the overall benefit of the economy.

Benefits for Trinidad and Tobago citizens. The plan will:

- (a) increase immediately and substantially, the ownership of shares by a wide range of different segments of the community;
- (b) provide a significant boost to the development of private savings;
- (c) provide for the wider community to invest in state enterprises, including the National Investment Company.
- (d) provide an important improvement in the quality of investment opportunities open to citizens; and
- (e) provide a practical solution to the pay arrears problem, thereby helping to relieve the financial burden on public sector employees, their families, and local communities.

Securing the national interest: The Government is mindful of its role to protect the national interest in the pursuit of these policies. Accordingly, the strategy for divestment will be guided by the following principals:

- (i) the selling price of the equity should reflect the initial investment, risk, and other legitimate costs of establishing the enterprise and its future earnings potential;
- (ii) the need to avoid the concentration of shareholdings within a narrow segment of the society and to provide the widest possible public participation in ownership, including greater worker participation of the enterprises;
- (iii) divestment arrangements should not contain any commitment on the part of Government to subsidize the operations;

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- (iv) the state should continue to hold a controlling interest in state enterprises which are considered to be of strategic importance to the national economy;
- (v) the state will encourage and promote Employee Share Ownership Plans in the divested enterprises;
- (vi) the state will hold a special share in each state enterprise of national importance whose securities are transferred to the National Investment Company. This special share will give the state special authority in the enterprises with respect to shareholders' relationships; and
- (vii) provision will be made to ensure that no person or corporation holds in excess of 10 per cent of the shares in the divested state enterprises.

Public sector pay arrears and future pay obligations:

The liability to public sector employees arising from the Industrial Court award, is projected to be approximately \$2.3 billion at December 31, 1991, representing 11 times the 1990 fiscal deficit. The Government is clearly convinced that discharging this liability by a cash payment is not possible within the state resources.

The Government acknowledges the liability resulting from the Special Tribunal award which covered the six-year period ending on December 31, 1989 and will seek to honour it as the state resources permit. The Government intends to continue discussions with the representative associations and unions of the public sector employees to honour the liability arising from the Special Tribunal award and to negotiate the salaries and other terms and conditions for the period 1990 to 1992 in order to arrive at a mutually satisfactory solution to the issue of public-sector employees' pay.

Public comment: The Government proposes to meet with the public sector associations and unions and other special interest groups to discuss the recommendations in the White Paper.

The Government invites the public to comment on its proposals. All public comments should be received no later than June 30, 1991 at:

Divestment Programme Secretariat,
Ministry of Finance,
8th floor,
Finance Building,
Eric Williams Plaza,
Port-of-Spain.

The Government's proposal for the settlement of the arrears of salaries and wages due to public sector employees and the employees of Caroni (1975) Limited, is framed on the context of Government's policies on divestment and the widest possible public participation in business enterprises.

The very foundations of these policies are rooted in our basic philosophy of reaching out to all our people, regardless of one's station in life, to replace self-pity with self-respect, to replace self-deprecation with dignity and to empower our people to realize their full potential.

Our objective is that employees must have their hands on the levers of economic power and independence, pulling together to strengthen and build our nation. We have come a long way from the economic chaos which we inherited. In the process, it was necessary to take difficult but purposeful decisions to enhance and promote the welfare of our people. Today, Mr. Speaker, the vast majority of our citizens would agree that the course we steered was inevitable and in their best interests.

Mr. Speaker, I have the honour to lay on the table a White Paper, *Proposals for Settlement of Pay Arrears to Public Sector Employees and Workers of Caroni (1975) Limited in the Context of Government's Policy of the Widest Possible Public Participation in Business Enterprise*. I make the request, Mr. Speaker, that this White Paper be published as a House paper.

Question put and agreed to.

Mr. Ramnath: May I enquire of the hon. Minister whether Parliamentarians are to be treated as members of the public to submit comments, or does he intend to have this matter debated in the form of a motion?

Mr. Wilson: Mr. Speaker, I was of the opinion that Parliamentarians always have a right to comment on any paper laid in this honourable Chamber.

Mr. Ramnath: With the greatest deference, I was simply asking whether Parliamentarians were going to be treated as members of the public to submit comments, or whether he should not be courteous enough to have a debate on this White Paper in the Parliament.

Mr. Wilson: Mr. Speaker, I am sure when we come to implement this plan, this House will be accorded the opportunity to debate the paper.

BUSINESS OF THE HOUSE

Mr. Basdeo Panday (*Couva North*): Mr. Speaker, earlier today, I had intimated to the Clerk of the House that I proposed to seek your leave, under the item listed on the Order Paper (k), "Personal Explanations", to deal with this statement of the hon. Prime Minister which was published in the *Express* in the issue of May 27, page 6. I seek your leave now.

Mr. Speaker: I received notification of the request around 1:25 p.m. when I came to my chambers. Firstly, I have not had time to consider the contents of the explanation, and secondly, Standing Order 9, as I indicated before, deals with this special sitting, and it reads as follows.

- 9(2) If at any time when the House stands adjourned pursuant to its own order the Speaker is satisfied that there is urgent necessity for the House to meet upon a day earlier than the day to which the House stands adjourned, he may, subject to the provisions of paragraph (3) of this Standing Order, direct the Clerk to summon a meeting of the House for such time on such day, whether Friday or otherwise, as the Speaker may determine.
- 9(3) Every direction under paragraph (2) of this Standing Order shall be in writing and shall be signed by the Speaker and shall bear the date upon which it is given to the Clerk and shall specify the business to be transacted at the meeting to which it relates.
- 9(4) Forthwith upon receipt of any direction under paragraph (3) of this Standing Order, the Clerk shall inform every Member of the House, personally if practicable, of the day and hour appointed by the Speaker for the holding of the Special meeting of the House and of the business to be transacted at such meeting.
- 9(5) Except by leave of the House, no business other than the business specified in the direction under paragraph (2) of this Standing Order shall be transacted in any Special meeting of the House under the said paragraph.

Mr. Panday: Mr. Speaker, it is under (5), "Except by leave of the House..." and that is the leave I am seeking because the article is the article headed, "P.M. stresses Absence of Panday, Manning." I think it is worthy of answering and it is

under (5) of Standing Order 9 where it says, "Except by leave of the House..." I am seeking leave of the House to give a personal explanation on this matter.

Question put.

The House divided: Ayes 9 Noes 18

AYES

Ramnath, Mr. K.

Panday, Mr. B.

Humphrey, Mr. J.

Palackdharrysingh, Mr. R.

Manning, Mr. P.

Marshall, Mr. M.

Donawa-McDavidson, Mrs. M.

Valley, Mr. K.

Pollard, Mrs. G.

NOES

Tewarie, Hon. B.

Robinson, Hon. A.N.R.

Richardson, Hon. S.

Hosein, Hon. E.

Johnson, Hon. J.

Myers, Hon. L.

St. George, Hon. A.

Charles, Hon. C.

Wilson, Hon. S.

Nicholson, Hon. P.

Henry, Mrs. G.

Samaroo, Hon. B.

Business of the House

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Toney, Hon. J.

Hem Lee, Mr. O.

Fox, Mr. J.

Raphael, Mr. R.

Guerra, Mr. T.

Sanderson, Mr. A.

Question negatived.

Mr. Speaker: The House now stands adjourned to Friday, June 7, 1991 at 1:30 p.m.

Question put and agreed to.

House adjourned accordingly.

Adjourned at 2.20 p.m.