

HOUSE OF REPRESENTATIVES*Wednesday, January 10, 1996*

The House met at 1.30 p.m.

PRAYERS[MR. SPEAKER *in the Chair*]**COMMONWEALTH DEVELOPMENT CORPORATION
(PRIVILEGES AND IMMUNITIES) BILL**

Bill to confer certain privileges and immunities on the Commonwealth Development Corporation [*The Minister of Foreign Affairs*]; read the first time.

PAPERS LAID

1. Report of the Auditor General on the Accounts and Financial Statements of the Restructuring Support Unit (RSU), Ministry of Planning and Development (The Executing Agency) in respect of the Business Expansion and Industrial Restructuring Loan (BEIRL) Project for the year ended December 31, 1994 as required by section 4.01(b)(i) of Loan Contract No. 3432 TR between the Government of the Republic of Trinidad and Tobago and the International Bank for Reconstruction and Development (IBRD). [*The Attorney General and Minister of Legal Affairs (Hon. Kamla Persad-Bissessar)*]
To be referred to the Public Accounts Committee.
2. Review of the Economy, 1995. [*The Minister of Finance (Sen. The Hon. Brian Kuei Tung)*]
3. Draft Estimates of Expenditure for the year 1996. [*Hon. B. Kuei Tung*]
4. Draft Estimates - Details of Estimates of Recurrent Expenditure for the year 1996. [*Hon. B. Kuei Tung*]
5. Draft Estimates of Revenue and Expenditure of the Statutory Boards and Similar Bodies and of the Tobago House of Assembly for the year 1996. [*Hon. B. Kuei Tung*]
6. Draft Estimates of Development Programme for the year 1996. [*Hon. B. Kuei Tung*]

7. Draft Estimates of Revenue for the year 1996. [*Hon. B. Kuei Tung*]
8. Public Sector Investment Programme 1996. [*Hon. B. Kuei Tung*]
9. The Medium-Term Policy Framework: 1996-1998. [*Hon. B. Kuei Tung*]

**APPROPRIATION BILL
(BUDGET)**

Bill to provide for the service of Trinidad and Tobago for the year ending December 31, 1996, [*The Minister of Finance*]; read the first time.

The Minister of Finance (Sen. The Hon. Brian Kuei Tung): Mr. Speaker, I beg to move,

That a Bill to provide for the service of Trinidad and Tobago for the year ending December 31, 1996, be read a second time.

Mr. Speaker, no government, far less a new government, should ever be called upon to deliver an annual budget for the nation, in just eight weeks from the date of its assumption of office. This is exactly what the new Government has had to do, given the fact that there is a propensity of incumbent Governments to hold elections in November or December, fully expecting to be there to deliver a budget for the ensuing year.

Be that as it may, I am honoured and particularly privileged to present to this honourable House the first budget of this new administration and to deliver the budget statement for the fiscal year 1996.

Since this administration came to office some two months ago there has been much speculation as to whether there would be a change in policy direction and if so, what is going to be the nature of that change. In every situation where change is imminent, there are those who fear change because they have benefited from the *status quo*, and there are those not being part of the "in crowd", who welcome change, but only if such change will redound to their own benefit. That is quite natural as far as personal and sectoral interests are concerned, but as a government of the entire country the vision must be much wider. Every new government is by definition, met with a given set of circumstances over which it has little or no control. There are signed contracts to which the new Government is committed, whether it likes them or not. There are projects in the pipeline-some good, some bad, some mad.

There are occupants in high and powerful offices whose only ambition is to frustrate and destroy the new Government so that they may return to the old days of corruption, waste and mismanagement-happily, they are in the minority. These are but some of the things confronting the new Government as it considers how to proceed to deliver upon the promises made in the election campaign which brought it to power. It is in this context that the new Government intends to view the question of change.

I am sure the country recognizes that the period of two months is hardly enough time by any stretch of the imagination, and even with the best will in the world, to review all the existing inadequacies in the economic and social conditions prevailing in the country. And even moreso, to deliver a full-fledged programme that will make the best use of our resources in effecting the kind of change that will result in a better life for all our citizens.

The Prime Minister has said repeatedly that his Government will not embark upon change for the mere sake of change. What is good will be kept; what is bad will be discarded, and what is salvageable will be altered accordingly. All of this will be done in the context of dialogue, discussion, consultation, and hopefully, consensus.

What we can do at this stage is to ensure Parliament and by extension, the nation, that this Government will pursue an economic policy that will encourage growth as well as development, maintain exchange rate stability, keep inflation under control, and continue to develop a climate conducive to investment, both local and foreign. Its monetary and fiscal measures will be informed by these considerations.

Mr. Speaker, a budget statement is not an end in itself, but rather the annual expression of measures to be taken within a particular year in the context of medium and long-term objectives. In normal circumstances a budget ought to be seen as being part, and within the framework of a medium-term plan, but this is not a normal budget, it is one that, by and large, is forced upon us, for example, the structure of income and expenditure.

In an annual budget of approximately \$10 billion, before one can pay or do anything, 65 per cent of all the revenue is taken up by payment of public service wages and salaries and servicing of the public debt.

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Before you can decide on how much you are going to allocate for water, for the repair of roads, housing, health, old age pensions and social programmes, 32 per cent of all our revenues will go towards public service emoluments and 33 per cent, will go towards merely servicing a huge public debt which we have inherited. In other words, this is not a \$10 billion budget but a budget of less than \$4 billion to provide the population with water, unemployment relief, health, pensions and road maintenance among other things.

In spite of all of these constraints, the new government has been able to keep its manifesto promises such as part payment of public servants, arrears in cash, reduction, and or removal of taxes, and removal of Value Added Tax on certain basic food items. *[Applause]* When we have had the time to lay the foundation required we will introduce and implement more of our election promises in the context of the medium term policy framework. This budget statement is therefore designed to achieve two principal objectives. Firstly, to highlight the challenges that lie ahead of us as a country, and secondly to outline the measures to address these issues within the framework of the medium term plan.

Our goal is not merely a healthy balance sheet, although we must be mindful always of the financial state of the nation. We have to develop a country built on national unity with an economy that can generate growth with equity for all the partners, create employment opportunities that will enable our people to believe in themselves and to have faith in their future.

In order to stimulate and encourage sustainable and equitable development, this Government of national unity will up-grade existing institutions which will ensure the delivery of improved and efficient services. Government recognizes that this can be achieved only through acceleration of reforms in Public Sector Management, institution of open and transparent Government, if Government is made accountable to Parliament, and if an appropriate legal framework is designed to facilitate development within the rule of law.

For us to achieve these objectives, we believe we must pursue our goals on three broad tracks, simultaneously and with determination. The first goal is to ensure the stability of the economic environment. This means that Government must address the macro economic fundamentals.

It requires that Government pursues policy measures that will reduce the level of inflation even further, which will strengthen the country's foreign reserves so

that the country can pay for its imports and withstand external shocks which will reduce the pressure on the exchange rate and ensure its stability and which will clean up the nation's finances.

The second and equally important is the pursuit of policies that would create the required employment opportunities to drive the unemployment rate down permanently.

The third is to establish the appropriate infrastructure that can deliver an effective level of social services which will address the intolerable poverty problem and improve the quality of life in Trinidad and Tobago, especially in the area of crime reduction.

Pursuing these is not a temporary challenge—it is certainly not a one-year task. It is a dynamic process that never slows down. In this year's budget, government will start the process to achieve these objectives, future budgets will stay the course.

To put our programme for the medium term in perspective, it is necessary that we are aware of and understand our current situation. Let me briefly, therefore, review developments over the past year. Last year, real Gross Domestic Product, (GDP) that is, the value of goods and services produced in the country, increased by a further 3.5 per cent with the petroleum sector growing by 2.1 per cent and the non-oil sectors by 4.0 per cent. This performance, welcome as it was, was not evenly distributed nor were its benefits widely dispersed.

Those sectors which have the potential for the greatest number of employment opportunities, namely agriculture, construction, manufacturing and tourism performed rather disappointingly. The agricultural sector's contribution to total GDP amounted to a mere 3.4 per cent, manufacturing 8.0 per cent, construction 9.7 per cent and tourism 0.4 per cent.

As at September 1995, the number of persons with jobs amounted to 430,100. Put another way, the number of persons without jobs stood at 93,300 resulting in an unemployment rate of 17.8 per cent. Of the number of persons without work, 75 per cent were within the age group 20—45 years. It is the conclusion that we simply cannot afford to pursue economic strategies that idle away our most productive resources. Unless we create jobs in the non-oil sectors of the economy, unemployment will remain high. This administration will address these deficiencies as a matter of urgency.

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The fiscal accounts showed a revised deficit of \$26 million, less than 0.1 per cent of GDP. Inflation is expected to average 5.4 per cent and the country's foreign reserves are expected to increase to over US\$700 million by the end of 1995.

At the close of 1995, the Central Government external debt amounted to US\$1,529 million while the domestic debt rose to TT\$6,823 million, with a total debt service requirement of TT\$2,876 million.

The social sectors have been forced to bear an enormous share of this adjustment. I have already alluded to the unemployment situation—a situation which impacts the level of poverty and crime in the society.

Mr. Speaker, poverty continues to be an intractable problem and must be addressed with urgency if Government is to get tough on crime and the causes of crime; is to eliminate hunger; and strive towards economic and social equity. The poor now comprise at least 21 per cent of the population, and in some quarters it is believed that this rate is as high as 30 per cent. Over one hundred thousand citizens have little hope and live in despair. Large sections of the population continue to suffer from a lack of shelter and the incidence of dispossession is prevalent.

The impoverished among us are unable to access quality health and educational services. There are thousands in this country who cannot access basic health care services, while there continues to be overcrowding of hospitals, lack of maintenance of existing facilities, and grave shortages of drugs and other medical supplies.

Although numerous social programmes are available to the poor, the benefits from these programmes have been limited. These programmes have suffered from the absence of an effective policy framework. There is no co-ordinating lead agency. Administrative costs are exorbitant. Targeting has been inappropriate and there have been significant duplication and gaps in coverage. Government proposes to address the issue of an efficient social programme in its entirety in 1996.

No one can deny that the number one concern of the population at this time is the spate of criminal activity, especially violent crimes which have been occurring with increased frequency. What is most alarming as well, is that the system of dealing with criminals appears to be ineffective and although more and

more laws have been passed, individual liberty has been infringed upon, and disorder is rampant. This situation must be reversed.

To successfully launch our offensive on crime, Government will establish a Task Force assisted by the Fast Tracking Support Unit in the office of the Prime Minister to prepare and implement a crime reduction master plan as a matter of urgency. The attendant solutions will not only deal with the detection and punishment of offenders, but of necessity, these solutions will address the prevention of crime. Four major areas have been targeted for inclusion in the comprehensive master plan and these are: Policing, the Criminal Justice System, Prison Reform and the Education System.

The police hold a unique position in this society. They are the trustees of the freedom of the population and it is imperative that they perform their duties in a manner that is not only socially acceptable, but also scrupulously within the framework of the law. There is no doubt that the focus must be on a pro-active, pre-emptive approach to policing rather than being “incident driven”. Public confidence and support for the police will certainly be influential in the crime reduction process.

The rise in crime has not been an isolated social phenomenon. There is a striking parallel in the demise of discipline in schools. Our offensive on crime will, therefore, address the education system from the pre-school to the university level. *[Applause]*

While crime is a complex issue, the key to making Trinidad and Tobago a less dangerous place in which to live is by changing the rules of the game. We must reduce the waste in the system. Sentencing must fit the crime, as well as the criminal. Sentences must be served promptly, and this Government has been advocating as you know that “If you do the crime, you must do the time.”

I have spent some time reviewing the economic and social circumstances of the country. This, I believe is necessary if we are to grasp fully the rationale for the policy agenda that this administration proposes to pursue over the medium term.

Let me assure this honourable House, and by extension, the national and international community, that this Government will not embark upon an economic policy that will serve to undermine the macro-economic environment. Government intends to consolidate whatever may have been achieved thus far, and fine-tune the existing policy framework, where appropriate, to extract a

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higher level of effectiveness and efficiency. Furthermore, Government will place an increased focus on these areas of policy that will drive towards a system of economic and social equity that addresses the needs and aspirations of all our people.

Our medium term programme, therefore, will be guided by the following broad objectives:

- Ensuring that the macro-economic fundamentals are on the right track;
- Economic growth with increasing social equity—that is to say people must be at the centre of the development process;
- Permanent increases in the level of employment;
- Empowerment of the economically and socially disadvantaged and;
- Substantial improvements in the social infrastructure

Our strategy for the development of the economy will be based on forging a consensus with the social partners, and these are—Labour, Business and the Government on behalf of the people. We believe that this process and approach will see growth with equity. If we are to resolve the problems of unemployment, crime and poverty, we must involve the entire population in the economic development process.

Creation of the requisite increases in employment opportunities must derive essentially from a growth process driven by increasing levels of investments. Our strategy for achieving the medium term objectives therefore, necessitates that we accelerate the level of investment, as well as generate a higher level of domestic savings. Investments, both foreign and local, will be encouraged in all sectors of the economy with special emphasis being placed on investments in agriculture including agro-industry, domestic tourism, construction, and manufacturing, particularly medium and small manufacturing. We believe that these sectors of the economy have the leverage to provide increasing employment opportunities.

It is imperative also that we move with dispatch to increase the level of national savings in both the private and public sectors. Our tax regime is still characterised by tax rates that are too high and a tax base for both individuals and companies that suffer from too many special deductions, exemptions, credits and other preferences. Our tax policy initiatives, therefore, would be directed toward broadening the tax base, lowering tax rates, reducing overall tax burdens,

simplifying the tax system, and this will also be to ensure neutrality and equity in tax treatment.

Accordingly, Mr. Speaker, this year we will undertake a comprehensive review and consolidation of the tax regime with a view towards increasing its effectiveness and efficiency, transparency, and most importantly, stimulating the saving and investment effort. This exercise will encompass the individual Income tax, the Corporate Tax and the Value Added Tax.

Our fiscal strategy over the medium term calls for a policy environment designed to stimulate the private sector and encourage investment and savings. Such a strategy requires a disciplined public sector that lives within its means and if possible, generates surpluses. It requires also a thriving and competitive financial sector that can finance the investment needs of the country at reasonable interest rates, and a tax system that is stable and predictable and which supports investments through a regime of broad tax bases and low rates.

The budget addresses this process in three very important ways. Firstly, it maintains tight fiscal discipline by generating a surplus. Secondly, it identifies those sectors of the economy that are currently not fully competitive and where monopoly pricing will not be tolerated.

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Thirdly, it begins the process of developing a broad-based, low- rate tax structure to both individuals and companies in order to encourage saving, investment, and the work effort.

Mr. Speaker, the extent to which these goals can be attained all at once depends on the constraints imposed by current financial circumstances. These measures will be supported by the containment of government expenditure in order to generate the required level of public sector savings. It is critical that government rationalize the structure and level of its expenditure if increases in taxes are to be avoided, if more resources are to be devoted to the reform of the social infrastructure including greater investments in people, health, education, housing, combating crime, and if we are serious about reducing the level of poverty. Government can no longer postpone or delay this rationalization exercise—to do otherwise will be counter-productive.

Mr. Speaker, our fiscal stance will be complemented by a monetary policy that seeks to maintain price and exchange stability, improve the country's foreign

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reserves position, while developing a competitive interest rate regime that is geared towards stimulating the level of savings and investment. A critical factor in the development of the required investment climate is the quality and efficiency of the regulatory and institutional framework.

This administration will do its part by addressing early in the new Parliament the regulations governing the new companies Act, the Securities Industry Act and the establishment of the Securities and Exchange Commission, as well as the regulations of the Venture Capital Act. These will be followed by the Customs (Amdt.) Bill, the Investment Promotion Act and the draft Insurance Bill. A draft Mutual Funds Bill is currently under preparation.

Mr. Speaker, the liberalization of the domestic economy has not resulted in the desired level of competitiveness. It has become necessary therefore to institute a number of safeguard measures aimed at creating free and fair competition in the domestic market-place. We have already sought to give effect to the Anti-dumping legislation on the books.

We believe it is necessary to begin implementing a comprehensive set of measures spearheaded by a clear competition policy, and bolstered by anti-dumping measures, Customs reform, and the introduction of anti-monopoly and anti-trust legislation.

The proposed competition policy will be implemented through the enactment and uncompromising enforcement of appropriate legislation which will promote the required level of competition within the domestic market-place.

This legislation will be designed to achieve the desired objectives by prohibiting the conduct of business in the form of private monopolies, cartels and quasi-cartels, prevent unfair trade practices, eliminate unreasonable restraint on the business activities of some firms by others, and ensure appropriate product quality and pricing.

The necessary legislation to give effect to the competition policy will be brought to Parliament in 1996.

Mr. Speaker, let me assure you that this administration is committed to honouring our Caricom obligations, including lowering of tariffs to agreed levels, as well as our commitments under bilateral trade agreements. Indeed, we propose to strengthen our regional trading relationship by forging further trade links with the Mercosur Group, members of the Association of Caribbean States, and

NAFTA. Let me hasten to add, however, that this expanded trading relationship must take place within a framework that pays due cognizance to our domestic producers for the local market.

While we must respond to the global trend in trade liberalization and the creation of regional trading blocs, our trade policy thus far has been characterized principally by a lowering of tariffs and the removal of non-tariff barriers. These efforts are only part of the requirements of an effective trade policy.

In order to protect our local industries from predatory pricing, we must accelerate implementation of the Anti-dumping and Unfair Trade Practices legislation currently on the books. And equally important, we must ensure that our domestic producers operate in a truly competitive market-driven economy—not only in their output, but competitive as well in their inputs.

Mr. Speaker, while we acknowledge that increases in employment must be pursued through the growth process, we must recognize also that this is only part of the solution. We must empower the population, particularly the economically disadvantaged, not only to take advantage of the opportunities that will be created, but also to create their own opportunities. This will require the development of appropriately structured programmes to provide effective training and retraining, financial assistance and support, export promotion, and marketing for both the external and domestic market for medium size, small and micro enterprises.

Current employment policies have focused on the implementation of temporary employment relief and training programmes and these are designed to improve the employability of the labour force, and to lead to an increase in productivity and employment. While training programmes are important to upgrade the quality and productivity of the work-force, we must recognize that this country's unemployment problem has been a result of a contraction in aggregate demand and not necessarily by an over-supply of labour.

In addition, the current programmes that have not been properly coordinated and have led to duplication of efforts and excessive administrative costs.

In order to correct this situation, employment policies over the short and medium term will focus on developing the appropriate economic conditions to promote the types of investment that will lead to an increase in the aggregate level of employment in the country.

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Furthermore, Mr. Speaker, in order to improve the effectiveness of employment and training programmes, we propose to merge most, if not all, of the programmes under the control of a National Training Organization. The existing proposal to set up a National Training Agency will be reviewed and amended to make sure that in fact it encompasses all the relevant training programmes in order that this new institution can develop a comprehensive training policy for the country. In addition, all training and employment programmes will be revisited to evaluate and ensure their relevancy and effectiveness in achieving the desired objectives.

One of the policies for consideration in the short term is the rationalization of the minimum wages legislation. Currently, Mr. Speaker, there are 60 different minimum wages in Trinidad and Tobago depending on the type of industry and occupation. Such a wage policy is unduly complicated and cumbersome, and introduces labour market distortions.

Government, in consultation with its social partners, will introduce a standard minimum wage for all industries at a level that does not create an obstacle to employment or interfere with the collective bargaining process. Special emphasis, Mr. Speaker, will be placed on the protection of women and children against abuse by unscrupulous employers.

Given the importance of the energy sector to the overall economy, the sector must be able to adapt to changes in the future. Therefore, certain policy adjustments are necessary. Government will develop an energy policy that addresses the total range of inter-related energy and economic issues both on a local and global level, within a framework of existing realities and projected possibilities.

In addition, the role of all the principal agencies of the state which are involved in developing policy and undertaking programmes of action in the oil and gas sector will be reviewed. These include the Cabinet Sub-committee on Energy, the Standing Committee on Energy, the Ministry of Energy and Energy Industries, and the National Gas Company.

In the case of oil production, Government will facilitate the implementation of an aggressive exploration and production programme in both land and marine areas, and appropriate measures will be taken to promote drilling at water depths greater than 1,000 metres. The programme of lease operatorship and farmouts utilizing local private sector companies will be encouraged.

The upgrading of the refinery at Pointe-a-Pierre will be supported in order to increase the yield and value of its product as well as to increase throughput. Consideration will be given to external participation in the refinery, with Government reserving the right to have the final say in the form of the partnership.

In the case of natural gas, an appropriate framework and a consistent pricing structure for natural gas marketing will be put in place to determine gas prices and guarantee supply to new investors.

Additionally, a support policy for the development of downstream products in the energy sector will be devised. This policy will be implemented through a co-ordinating agency engaged in market intelligence, engineering and financial analyses. The production and export of downstream industry products will be encouraged through both private sector and state participation.

The role and functions of the National Petroleum Marketing Company will be reviewed. Demonopolization of the company will take place in 1996, with consideration being given to a possible deregulation where there is a sufficient number of suppliers to guarantee a competitive market.

In the case of quarrying, Government will develop a comprehensive minerals policy and establish a leasing framework to regulate mining activity on state lands in the short to medium term.

Mr. Speaker, the agricultural sector will be required to play an increasing role over the medium term given the sector's employment creating capacity.

Agricultural policies will be informed by both an inward looking and outward looking perspective whereby production will be organized to meet domestic demand as well as to secure niche markets overseas for non-traditional agricultural products. These policies will focus on strategies designed to stimulate economy activity and employment opportunities, to promote domestic food and nutrition security, to secure private investment, and to ensure sustainable management of land, water, forest and marine resources. Special emphasis will be placed also on increasing foreign exchange earnings, providing for social stability and rural development, and revitalizing agriculture in Tobago.

These strategies will include implementation of the State's Land Distribution Programme, increased access to agricultural credit, improved linkages with agro-processing, input supply and tourism, and strengthening the capacity and

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capability of the Ministry of Agriculture, Land and Marine Resources in the planning process.

To facilitate this, several measures will be implemented this year, including the following:

- (a) the distribution of 2,000 acres of land from Caroni Limited and at least 7,000 acres of additional state land to private farmers;
- (b) the drawdown of \$22 million from the Inter-American Development Bank to provide increased access to agricultural credit;
- (c) Injection of some \$42 million in capital equipment to Caroni Limited;
- (d) formulation of a Social Mitigation Programme which will involve the disbursement of \$60 million to farmers who have suffered from the adverse effects of structural changes in agriculture.

Mr. Speaker, the tourism sector is also being targeted for urgent attention with a view to maximizing its potential, particularly its capacity to generate significantly increased employment opportunities within a short period of time.

In order to derive the benefits which this sector can provide, while at the same time preserving the integrity of the sector, Government will institute a carefully planned tourism development programme.

The programme will enlist the input and support of the private sector and would rely as little as possible on new public expenditure; it will depend as much as possible on self support from the development of the resources themselves.

Given this policy orientation, Government proposes to implement certain recommendations with modifications, which can be adapted from the existing Tourism Master Plan, while other initiatives will be developed anew.

Accordingly, we propose to develop a "one stop shop" for hotel and tourism investment approvals, in conjunction with a similar facility for general investment promotion, under the management of the Tourism Industrial Development Corporation (TIDCO).

Government will establish a comprehensive market database for the country, expanding on the initial efforts by TIDCO and utilizing newly designed visitor survey instruments and available studies on North American and European source markets.

Government proposes to undertake an air services review, addressing the issue of space availability on flights to Tobago, and consider the option of an open skies agreement for Tobago, if not the entire nation.

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Funding for these two initiatives will utilize resources in the upcoming IDB Tourism Sector Development Loan.

In order to make this country competitive with respect to the honeymoon segment of the tourism industry, Government will bring to Parliament early in the new year legislation to amend the Marriage Act to reduce the number of days for bans to be posted to a minimum of three days. [*Desk thumping*]

As a means of encouraging and increasing visitor expenditure, the number of duty-free shopping areas will be increased to include Crown Point Airport, Scarborough Wharf, Port of Spain Wharf as additional points of exit at which items bought duty free could be delivered to departing visitors. In recognition of the fact that the tourism industry comprises not only the hotel sub-sector but various other ancillary activities and services which form an integral part of the hospitality industry, Government intends to amend the Hotel Development Act to include Approved Tourism Projects in order that such projects may enjoy the same benefits as Approved Hotels. Details of the definition of an Approved Tourism Project and the procedures for approval will be published shortly.

The Port Authority of Trinidad and Tobago Schedule of Charges will be amended to facilitate the collection of the US\$10 cruise ship passenger processing fee inclusive of Value Added Tax. This measure is in keeping with our Caricom obligations.

As part of our focus on domestic tourism, Government will design and implement a National Park Service, along with supporting legislation for environmental protection and management of public lands. Funding for the design of future operations of the National Park Service will utilize resources generated by the auction and lease of concessions for public attractions within this new system.

In addition to these initiatives, the development of resort-type projects on the north and north-east coasts of Trinidad, as well as convention and event-type tourism will be pursued.

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Mr. Speaker, no one can deny that there is an urgent need to improve the quality and delivery of services provided by the social sectors in Trinidad and Tobago.

Our health care services have suffered in the past from a lack of proper co-ordination and management, and entrenched bureaucratic inadequacies. To remove these constraints Government will expedite the administrative decentralization of the public health services. In addition, we will put added emphasis on the efficient delivery of primary health care services. The National Health Needs Assessment Survey has already been completed. Construction of seven district hospitals, rebuilding and renovation of a number of district health centres, and a planned programme of training and retraining of staff will be implemented over the medium term. This will be supported by a new approach to health care financing, including the consideration of a National Health Insurance System. Restructuring of the education system will focus immediately on decentralization of the day to day management function out of the Ministry of Education to Divisional School Boards, as well as ensuring cost effectiveness. This will include the long-awaited standardization of textbooks for Primary and Secondary Schools; improvement in the school transportation system and the continuation of the School Feeding Programme. Of specific importance to the reform of the educational system will be the emphasis on the expansion of technical, vocational and managerial training, and increasing access to training through the Skill Development Programme for heavy industry and advanced technology.

Mr. Speaker, rapid advances in telecommunications and computer technology in the nineties have revolutionized education systems the world over, and Trinidad and Tobago cannot afford to be left behind if we are to succeed in a globalized environment. Government, with the assistance of educators and business, will begin a programme to integrate technologies such as the multi-media and distance learning programmes within the education process, and this is in order to provide increased and equal access to knowledge. The establishment of an open university with direct linkages to the University of the West Indies Distance Education Outreach Programme and other similar programmes available at other institutions of learning will be part of Government's strategy to modernize the system of education.

Mr. Speaker, Government will expand and strengthen the housing sector. We will fast track the Housing Authority's \$30 million housing construction

programme; regularize the tenure of squatters; upgrade the basic infrastructure of squatter settlements and begin the Ministry of Housing and Settlements' \$214 million accelerated housing construction programme.

Management of the Public Utilities will focus, in the first instance, on promoting greater efficiency and minimizing the cost of such services through the establishment of the long-term viability of these utilities. Government is therefore in the process of reviewing the introduction of private sector participation and the injection of private capital into selected utilities, as well as revising the legal, institutional and regulatory framework within which these utilities operate.

Mr. Speaker, the effectiveness of the current social programmes has been significantly strained with the increase in unemployment levels. Furthermore, increases in food prices and the cost of other basic services have eroded the real benefits of the various programmes.

The delivery of social services will benefit from our efforts to establish an integrated and co-ordinated approach to such services among the Ministry of Social Development and those Government and Non-Government agencies which are currently engaged in the many diverse delivery mechanisms. The objective is to bring all these units under one common umbrella organization. The actual form of this organization will be the subject of consultation and consensus of the many groups and agencies involved in the delivery of these services.

To further strengthen the social programme, Government will make provisions to render assistance to victims of crime who are evaluated as being in need of state assistance. Government will discuss with the relevant NGOs the mechanism for establishing and operating the service.

As part of our programme to reorganize and strengthen the social services, we will undertake a comprehensive review and restructuring of the National Insurance Board. Consideration will be given to consolidating the services and benefits provided by the NIB and the Ministry of Social Development, as well as the introduction of a contribution-based system of Pensions for the entire country.

Mr. Speaker, I have sought to highlight, very briefly, some of the immediate challenges which this Administration will address over the medium term. Further details of our medium-term programme are contained in the *Medium-Term Policy Framework, 1996-1998*. I have no doubt, however, that during the course of the dialogue on this Bill, my ministerial colleagues will elaborate on those issues and

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the specific policies and programmes which we intend to implement in order to propel the country forward.

Mr. Speaker, I will now turn to the specific fiscal measures which will give effect to our policy agenda in 1996.

First, the expenditure measures.

Total expenditure in 1996 is budgeted at \$9,652 million, approximately \$1,100 million higher than the 1995 level. This level of expenditure is consistent, nevertheless, with the objectives of maintaining fiscal discipline and increasing the level of public sector savings.

Several factors account for this increase. We have made provisions, under the Wages and Salaries Bill, to meet some of the cost of arrears of remuneration to public sector employees, and anticipate that those public sector unions and associations that have not yet accepted the settlement package offered by Government will do so early in 1996. Government has made available the sum of \$90 million to be paid in cash as part of this package.

In addition, transfers to the state enterprises and the public utilities have increased as a result of the need to service a number of debt obligations associated with the Divestment Programme of the previous administration.

Interest payments reflect our anticipated reduction in domestic interest rates, as Government adopts a more aggressive approach to the management of its domestic liabilities. Working with the Central Bank, Government will pursue a number of strategies to contain its debt service commitments.

Given our constrained financial resources, \$810 million have been allocated to the Development Programme. I assure you, however, that priorities under the Programme have been reviewed and restructured with emphasis being placed on projects intended to address, in the first instance, the weaknesses in the social infrastructure. Accordingly, Mr Speaker, \$332 million have been allocated to finance projects in the social sectors.

Our estimates for 1996 indicate that Government can expect to collect \$9,936 million in revenues. At an oil price of US\$17.50 per barrel and an average daily production of 133,618 barrels, oil revenues are estimated at \$2,107 million in 1996. Approximately \$7,829 million will be generated from the non-oil sector, based on a targeted real growth rate of 4.5 per cent and heightened enforcement and compliance efforts of the revenue collecting agencies.

Mr. Speaker, I wish to assure you that every attempt will be made to collect the revenues due to the Exchequer. We can no longer afford to have a situation whereby huge amounts of taxes are being avoided or evaded, and the tax base eroded, if we are to further reduce tax burdens and yet meet the increasing demands to improve the social infrastructure.

To support our enforcement and compliance efforts, we propose to establish a Tax Court to deal specifically with matters relating to the Individual Income Tax; the Corporate Tax and the Value Added Tax.

I propose to implement a number of revenue measures in 1996, and shall briefly highlight the key ones. The details of these measures are contained in the Provisional Collection of Taxes Order, and the annex to the budget statement entitled "Fiscal Measures in the 1996 Budget.

The tax on individual incomes will be reduced as follows:

The top marginal rate for individuals will be reduced from 38 to 35 per cent, and the middle rate from 33 to 30 per cent.

Under the existing regime, where an individual's chargeable income is \$16,000 or less, no tax is payable and the marginal relief is provided for persons with chargeable income between \$16-\$20,000. Mr. Speaker, I propose to increase the current exemption to \$20,000, and provide marginal relief on chargeable income between \$20,000-\$30,000.

What this means, Mr. Speaker, is that an individual with a chargeable income of \$20,000 or less will pay no tax and furthermore, will also be entitled to a refund of any taxes paid on interest in any savings account at any financial institution.

An individual with a chargeable income between \$20-\$30,000 will receive marginal relief of \$1,200 less 12 per cent of chargeable income exceeding \$20,000.

This measure will take effect from January 01, 1996.

Mr. Speaker, I now turn to Corporation Tax.

The rate of Corporation Tax will be reduced from 38 to 35 per cent. Approved small companies and other approved companies which are entitled to a tax credit of 15 per cent of chargeable profits will now only pay an effective tax rate of 20 per cent.

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This measure will take effect from January 01, 1996.

Mr. Speaker, the Value Added Tax regime requires a person to be registered for Value Added Tax where the level of his commercial supplies is \$100,000 or more. Mr. Speaker, I propose to raise this threshold to \$150,000. This measure, as you know Mr. Speaker, is designed to exempt micro businesses from the payment of Value Added Tax, as well as to facilitate the start-up of such small businesses.

This measure is to be implemented with effect from January 01, 1996.

Mr. Speaker, a number of business associations, particularly those with large sales turnover but small margins, have lamented repeatedly that the Business Levy of 0.5 per cent is equivalent to a tax rate of 50 per cent, notwithstanding a Corporation Tax rate of 35 per cent and the provision for set-off of the Business Levy against Corporate Tax liabilities. Mr. Speaker, I propose to lower the Business Levy from 0.5 per cent to 0.4 per cent. Furthermore, self-employed persons and corporations with gross receipts or sales of \$150,000 or less per annum will not be required to pay the Business Levy. This measure is intended to provide considerable assistance to small and micro businesses. Both these measures, Mr. Speaker, will take effect from January 01, 1996.

Let me hasten to add that this Administration expects to see a corresponding reduction in retail prices, and in particular, food prices.

2.25 p.m.

It was indicated in the 1995 budget statement that the exemption from tax on rents under section 42 of the Income Tax Act, Chap. 75:01 will be removed in 1996. I propose that this exemption continue in 1996 pending a review of the rental control Acts.

While Government must focus its policies on the continuing expansion of economic activity in order to create the required number of jobs, it must take cognizance also of the concerns of our citizens in accessing some of our basic necessities.

In order to reduce the cost of basic foods to the population, I propose to extend the list of basic foods zero-rated for Value Added Tax purposes to include such items as cheddar cheese, corned beef, curry, fresh butter, salt, macaroni, peanut butter, salted butter, tinned sardines, smoked herring, yeast and baking powder. In addition, I propose to remove the import duty on those items on this list which presently attract import duty. A complete list of the items on which

Value Added Tax and import duty will be removed is included in the Provisional Collection of Taxes Order. These measures will take effect immediately.

There has been and continues to be mounting pressures to open up this country to the importation of used motor cars on the basis that prices of new cars are exorbitant and outside the financial reach of the ordinary citizen, whereas the prices of good quality used cars are considerably less than that of new cars. Our fear is that to accede to these pressures may serve only to make this country a dumping ground for used motor cars from the rest of the world.

In order to circumvent the restriction on imported fully assembled used cars and take advantage of the lower prices of used and new parts, a number of spare parts dealers have been assembling motor cars using new and used parts and seeking to have these cars registered with the Licensing Authority without having paid customs duty, Value Added Tax and motor vehicle tax which is normally associated with the importation of fully assembled new cars.

To accommodate the registration of such cars on which the duties and taxes applicable to a completely built-up car have not been paid, I propose to implement a special motor car registration fee of \$20,000 on motor cars with engine size not exceeding 1599 cc and \$30,000 on motor cars with engine size exceeding 1599 cc.

However, in order to provide some degree of assistance to the prospective car buyer, I propose to reduce the import duty on new motor vehicles with engine size of 1599 cc and lower from 25 per cent to 20 per cent of the c.i.f. value. Accordingly, Trinidad and Tobago will seek a suspension of the present Common External Tariff rate.

In addition, I propose to eliminate the motor vehicle tax on imported new motor vehicles with engine sizes of 1599 cc and lower. These measures will take effect immediately.

I must point out that in August 1995, the import duty on new motor vehicles with engine sizes of 1999 cc and lower was reduced from 35 per cent to 25 per cent. Yet, the retail prices of some models and makes of vehicles have increased. I am still to be convinced that between August and December, 1995, the Japanese and Korean currencies appreciated to such an extent, or that insurance and freight charges increased to such a level that the reduction in the import duty has been eroded completely.

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Having now reduced the import duty from 35 per cent to 20 per cent—and that is a 42 per cent reduction—as well as remove the motor vehicles tax, this Government expects to see some significant reductions in the retail prices of new motor cars. If this measure does not trigger the appropriate reaction nor achieve the desired results, we would, of necessity, have to revisit our position on the importation of used motor vehicles.

I indicated earlier that our medium term strategy requires that we strengthen the tax base, lower tax rates, reduce tax burdens, and improve the competitiveness of the tax regime. To do so implies that we must start the process of cleaning up the tax regime by removing a number of nuisance taxes and the myriad of exemptions, deductions and concessions that distort the tax regime and constrain our ability to lower tax rates. This budget commences that exercise in earnest.

It is proposed, therefore, to remove a number of licences, permits and taxes in respect of which special tax regimes are no longer necessary. The following licences, permits and taxes will be affected:

- (a) Pool table tax; pinball machine tax;
- (b) Licence fees and permit fees in respect of pool rooms and pinball machines;
- (c) Licence fees and permit fees in respect of video entertainment;
- (d) 5 per cent in-bond sales tax.

The deduction of mortgage interest payments, including interest payments on bridging finance for tax purposes will be reduced from \$24,000 to \$20,000 per annum, with effect from January 1, 1996.

The tax credits granted under section 48F of the Income Tax Act to an individual who purchases Government's National Tax Free Savings Bonds will be removed.

The tax credit granted to individuals and companies in respect of interest payments on bonds issued by the Trinidad and Tobago Mortgage Finance Company Limited under section 48J of the Income Tax Act will also be removed with respect to bonds issued on or after January 1, 1996.

These measures will take effect from January 1, 1996, and are in keeping with our objective to preserve the tax base in anticipation of lower rates of tax, as well as level the playing field.

I wish to turn now to a matter that has been considered extremely contentious, and I refer to returning nationals.

The 1995 Budget established a regime whereby nationals living abroad were encouraged to return home. The regime provided for the exemption of customs duty, Value Added Tax and motor vehicle tax on a vehicle, new or used, with a c.i.f. value of TT\$200,000 or less, as well as exemption from customs duty and Value Added Tax on new or used household effects to a maximum c.i.f. value of US\$100,000. The stated intention was to attract individuals who had acquired valuable skills abroad to make these skills available to the benefit of Trinidad and Tobago.

The results of this initiative have been simply disastrous—a virtual abuse of the regime!

To illustrate my contention—the records show that last year

- 774 individuals claimed to be returning nationals
- 563 motor vehicles were imported at a c.i.f. value of TT\$60.2 million
- TT\$21.5 million in customs duty were forgone
- TT\$12.7 million in Value Added Tax were exempted

The revenue loss, excluding motor vehicle tax, amounted to TT\$34.2 million. All this regime has served to accomplish is to provide a wide open door for nationals, whether resident abroad or here at home, to import motor vehicles and household effects free of tax. It was simply the wrong way to attempt to improve the skills base of the country.

I propose to terminate this regime—immediately—and revert to the provisions which existed prior to the introduction of the 1995 regime.

The imposition of the tax of 15 per cent on dividend income was intended to encourage companies to seek listing on the domestic stock exchange, as well as facilitate access to equity financing in lieu of traditional debt financing. The results have shown that there was only one new listing on the domestic stock exchange—this was a state enterprise, the National Flour Mills—and one new issue of shares seeking investment capital.

The net results were significant increases in share prices and capital gains.

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Furthermore, the imposition of the reduced rate of tax on such income in the case of listed companies has tended to work against those smaller companies which are unable to meet the criteria for inclusion on the stock exchange.

Accordingly, the tax on dividend income will be removed and the dividend income allowance eliminated.

The removal of the tax will not apply to dividend payments on preference shares. Preference dividends are paid out of pre-tax profits unlike other dividends which are paid out of after-tax profits.

In the case of unlisted companies, dividend payments which are normally taxed at the individual's marginal rate will now not be subject to tax and the dividend income allowance removed.

Additionally, the tax of 15 per cent on distributions made by mutual funds, including distributions by the Unit Trust Corporation under the Second Unit Scheme, will be removed. Instead, interest income in the hands of Mutual Funds and the Unit Trust established by the Unit Trust Corporation will be subject to a tax of 15 per cent.

In effect, other than preference dividends, distributions to residents will be exempt from tax.

Furthermore, the present tax credit of 25 per cent on net increases in purchases of units in the Unit Trust, up to a limit of \$625, will be eliminated, as well as the \$5,000 tax exemption on distributions made to individuals by the Unit Trust Corporation. Distributions under the First Unit Scheme will be exempt from tax.

These measures are intended to level the so-called playing field, and will take effect from January 1, 1996.

I wish to point out that the existing tax credit of 25 per cent on net increases in purchases of credit union shares, up to a limit of \$625, will be removed in 1997.

It has been observed that a number of businesses operating under a Special Restaurant Licence are now operating under a members' club licence. This is being done in an attempt to obtain a reduction in the amount of licence fees payable. In order to correct this situation, I propose to increase members' club licence fees to \$1,500.00.

With respect to retailers and dealers of intoxicating liquor, Government proposes to amend the Shop (Hours of Opening and Employment) Act ("The Shop Act") to permit the sale of liquor at any time from Monday to Sunday, including public holidays.

In addition, it is further proposed to increase the licence fees under the Second Schedule to the Liquor Licence Act by 50 per cent.

In order to stimulate the level of business activity and increase the opportunities for additional employment, it is proposed to further amend the Shop Act to remove the limitations relating to opening hours in order to permit shops to operate at any time from Monday to Sunday, including public holidays.

These measures will take effect from January 1, 1996.

A number of loopholes have been identified in the existing Motor Vehicles and Road Traffic Act, Chap. 48:50, which contribute to significant losses in revenue.

In order to improve the revenue collection system at the Transport Division of the Licensing Office, I propose the following amendments to the Act:

1. Compulsory payment of all outstanding motor vehicle licence fees before a vehicle can be transferred to a new owner.
2. The imposition of a penalty of three hundred dollars (\$300.00) on holders of driving permits which have expired for a period of six months or more. In addition to this penalty, holders of driving permits which have expired for a period in excess of three years, be subjected to a full driving test before such permits are renewed.

These measures, however, do not apply to persons who were out of the country during the period in which the driving permits expired. These measures are to take effect immediately.

All financial institutions are subject to a licence fee. Both Money Lenders and Pawnbrokers are considered to be at the end of the scale of the financial institution structure, and are therefore also subject to such a fee. In order to cover adequately the administrative costs for the collection of fees from Money Lenders and Pawnbrokers, I propose to increase Money Lenders' Licence Fees to \$500 and Pawnbrokers Licence Excise Duty in respect of an excise licence to \$2,500. These measures will take effect from January 1, 1996.

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The Alcoholic Beverage Tax was introduced in 1984 as a revenue raising measure and at the same time to offer some protection to local manufacturers. With the introduction of the Value Added Tax in 1990, this tax was scheduled to be replaced by the import duty and Value Added Tax regime. This, however, was not done. I propose therefore to eliminate the Alcoholic Beverage Tax on imported alcohol and spirits and increase the import duty on these items as set out in the Provisional Collection of Taxes Order.

This measure will take effect immediately.

2.40 p.m.

Mr. Speaker, before I conclude, I wish to make one final point. This budget has been able to provide a surplus of almost \$300 million on its fiscal operations. One may ask why have we not used this surplus to provide more goods and services to the people of Trinidad and Tobago, or to provide for increased payments on the debt to public servants? The reason is that we have discovered that because of the financial management of the former regime, this country is required to pay a loan of US \$150 million, or approximately TT \$900 million, which was borrowed in 1992, and must be repaid in 1997. In order to avoid the totality of the burden of that debt upon the citizens in 1997, we have decided to prepare ourselves now to meet that debt.

Budgets by their very nature are about numbers, and yes, we must get the numbers right, if we are to take the required measures to get the economy right. The fiscal measures we have introduced today, significant as they may be, are not ends in themselves. Rather, they must be viewed as part of the process of moving the economy forward. We are doing as much as we can given our fiscal circumstances. We would do more as our financial condition improves, and today, we have started that process.

Mr. Speaker, one would agree, however, that we are not here simply to keep better books. We are here to build a better country and a better society; a free society built on our diversity and sustained through tolerance in which people are at the centre of all development.

We firmly believe that these are the values that would strengthen us as a country and guide our vision. And, while some of our challenges may differ, given our individual circumstances, all of our opportunities must be the same.

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Though there are differences among us, there is nevertheless consensus on the kind of country we want to create. That is, a country where everyone who is able to work can find meaningful and rewarding work, and a country where there is social and economic equity.

I look forward to the discussions that will guide us in achieving these goals together.

I beg to move.

Mr. Speaker, with your permission, may I name Monday, January 15, 1996 at 10.00 a.m. as the date and time for the resumption of the budget debate.

Thank you, Mr. Speaker.

Motion made and question proposed, That the House do now adjourn to Monday, January 15, 1996 at 10.00 a.m. [Hon. K. Persad-Bissessar]

Question put and agreed to.

House adjourned accordingly.

Adjourned at 2.44 p.m.