



Cayman Islands  
Chamber of Commerce  
1<sup>st</sup> Annual Economic Forum

October  
2001

*“The State of the Economy Report”*





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## OVERVIEW

The first annual Chamber of Commerce Economic Forum took place on Friday, 28<sup>th</sup> September 2001 at the Grand Pavilion Conference Centre. Sixty business leaders from more than 40 industry sectors and representatives from the Financial Secretary's office and the Economic and Statistics office attended (*see Appendix one*). Attendance was by invitation only and closed to the public and media in order to ensure a frank exchange of ideas and proposals. Chaired by Chamber President Mr. W. Burns Conolly, AIA, the forum was moderated by Chamber CEO Mr. Wil Pineau. Dozens of proposed solutions were shared during the five hours of open discussion.

The Chamber Council decided to organize the forum at its regular monthly afternoon meeting on 11<sup>th</sup> September, which coincided coincidentally with the tragic events in the United States. For several months, Chamber members had reported a decline in business, in some cases dating back to 1999. Membership of the Cayman Islands Chamber of Commerce, as of today (2<sup>nd</sup> October 2001), stands at 568 businesses representing all industry sectors, collectively employing 14,264 persons. There are 22 associate members (non-for-profit business, trade and civic associations), covering 1,332 employees and 38 individual members.

Based on the existing economic condition and the terrible tragedy on 11<sup>th</sup> September in the United States, the Council decided to take immediate action and to organize the forum as a matter of urgency.

Six main objectives were identified and approved by the Council and are as follows:

1. To gather leaders of all industry sectors annually to discuss the state of the economy and to identify trends that could impact business in the country.
2. To share economic data and statistics.
3. To produce a statistical report that could be shared with the membership generally.
4. To educate industry sector leaders about the macro-economic environment.



5. To propose short, medium and long-term solutions to address micro and macro-economic concerns.
6. To prepare an annual report to be presented to Government to use when developing its micro and macro-economic policy proposals.

It should be pointed out that objectives 5,6 are medium-to-long term in nature and 1,2,3,4 are objectives that the forum attempted to address.

## THE SURVEY

To fulfill the third objective and to better understand the depth of the economic slowdown, the Council developed a one-page survey entitled *"THE STATE OF THE ECONOMY STATISTICS SURVEY."* (**See Appendix two**).

The survey was distributed to more than 60 businesses. Each company also was invited to attend in the forum. Industry sectors surveyed included: hotels, condominiums, guest houses, car rental companies, construction firms, financial services providers, law firms, merchants, restaurants, marketing companies, retail outlets, architectural firms, supermarkets, wholesalers, communication and utilities providers etc. In total, 58 companies submitted statistical data. A series of specific questions relating to the current state of the economy were asked. These included:

- Will your business meet its 2001 projections?
- If not, what percentage decline are you estimating?
- What actions will the business take to minimize losses? ie. reduce staff, reduce spending, reduce hours etc.
- How many staff is employed?
- Has the company lain off any workers?
- Businesses were also asked to provide annual growth percentages for the past three years and to list three internal and external forces that are impacting the particular industry sector.



- And, finally, what suggestions, if any, would the company offer to improve the Cayman Islands' economy?

The main findings were as follows:

- 58 companies completed the survey, representing a total staff of 3,089;
- 39 of the 58 companies will NOT meet 2001 projections;
- 26 of the 58 companies forecasted negative annual growth for the year-to-date and 13 companies reported negative annual growth for the year 2000;
- Of the eight construction firms reporting data, 29 Caymanians and 43 expatriates have been laid off.
- Based on the negative forecasts companies plan to take the following actions:
  - 20 companies have reduced staff
  - 46 companies have reduced spending
  - 14 companies have reduced hours for staff
  - Companies are also implementing several other measures including hiring freezes, early retirement for employees over 65 years of age, outsourcing of staff and services and temporary closings.

It should be noted that situations are changing on a weekly basis as the impact of the terrorist attacks takes its toll on the North American economy.

## SURVEY CONCLUSIONS

Overall, across most industries, the survey reflected what many business leaders have known for several months: the Cayman Islands' economy is in the midst of a recession. It is well known by everyone that our economy depends on a steady flow of inward foreign investment from tourists, international investors and/or expatriates who move here to live or conduct business. Survey results indicate that investor confidence is at an all-time low, causing several sectors to reduce original projections and, in some cases, reduce staff and spending. In turn, Government duties and



fees in several essential areas including import and stamp duties, companies' registration, tourism accommodation and trade and business license fees are down, draining the Government coffers. Respondents believe the slowdown is linked to several macro-economic factors:

- Unrestrained Government spending, ie. unsustainable growth of the civil service and social programmes which has caused Government to impose higher fees on the private sector over the past five years;
- A significant reduction in private client business as a result of the OECD/FATF decisions and a drop in consumer confidence from long term expatriate residents (more than 10 years) whose immigration status remains unclear;
- A continuing decline in the number of overnight visitors since 1998;
- Failure to implement a long-term economic development strategy (ie. failure to implement Strategy #13 of Vision 2008 and to update to the Tourism Management Policy which expired in 1999. The country has also been without a Director or Deputy Director of Tourism for several months.)
- Poor investor confidence mainly caused by:
  1. lack of clear investment guidelines towards foreign nationals and
  2. lack of reasonable immigration policies.
- A high cost of doing business locally, which has forced businesses to increase prices to near record levels just to survive.

## SUMMARY OF THE FORUM RECOMMENDATIONS

More than 60 persons attended the 1<sup>st</sup> annual Chamber of Commerce Economic Forum. These individuals contributed to an open discussion and proposed several ideas to help to stimulate the local economy over the short (three months), medium (6-12 months) and long term (one to three years). Many of the suggestions listed below may not reflect the final proposals that will be submitted to the Government. Several of the proposals listed below require detailed industry sector discussion and analysis and Government economic review. We welcome further consultation once Government has reached a decision on pursuing any of the suggestions in this report.



## SHORT TERM PROPOSALS (three months)

### Real Estate/Construction sector

1. **Temporarily lower Stamp duty on property transfers to 5% across all categories within the next six months only.** This should not be proposed to be extended as the sense of urgency must be kept to the transactions. This will stimulate the real estate industry by increasing sales with short-term closings and transfers.
2. **Maintain current level of Planning Fees, but reduce Building Control fees by 50% and Infrastructure fees by 70% for new projects going into construction by March 1, 2002.** Full fees would be paid into an escrow account by developers. Building construction must continue for a minimum of six months under pre-approved schedule for reimbursement. Interest earned should be paid to Government at end of period. Government can extend the period in February 2002, if deemed necessary.
3. **Reduce duties for construction and building materials to a flat 7% for six months.** Stagger duty rates for local merchants. If you currently have a Trade & Business license for hardware etc., duties would be dropped to 4% for building materials. Some duty free concessions (mechanical systems, A/C, elevators but not raw materials) for buildings beginning construction before February 28, 2002. Reduce duty free allowance for residents from CI\$350 per person to CI\$200 per person or per family.
4. **Introduce registration laws for Architects, Surveyors, Engineers and Project Managers that will require local participation in Cayman projects.** Double Planning, Building and Infrastructure fees for projects presented to the Planning Department without local company listed on drawing title. This would form the "Import Duty" on drawings and increase the opportunity for local professionals. Government should be mandated to hire local companies with a valid Trade & Business License for its services. Services unavailable locally can be secured through partnerships with local companies.
5. **Encourage investment in the Eastern Districts.** Provide more commercial, institutional and hotel zoning on the eastern end of Grand Cayman similar to those initiated for Cayman Brac. Currently, there is practically no such use on the zoning plans. This will allow growth in the sparsely populated and lightly developed areas of the Islands. Reduce the costs of survey and subdivisions in the areas of low land value to increase the value and stimulate development in those areas. These areas currently have existing roads and utility services. This will reduce the continual pressure on western peninsular.



## Hospitality sector

6. **Appoint a new Director of Tourism and Deputy immediately.** Locate the 'preferred' person from regional tourism departments and private sector companies. Offer a \$200,000 signing bonus if the person takes up the position by December 1, 2001. Person must have demonstrated contacts in the field and experience. Offer salary/benefits package at 15% more than they are currently earning. Deputy Director of Tourism can be identified through normal process. Place capable Caymanian to understudy Director for five years of contract.
7. **Hire a new public relations firm to create a new brand for the Cayman Islands tourism product.** Short list PR firms based on their existing clients and expertise. Produce a Request for Proposal with aid of private sector and issue.
8. **Reduce alcohol costs to consumers.** Initiate a meeting between the Financial Secretary's office and importers, wholesalers, retailers, and bar operators to confirm the over the counter price to consumers prior to lowering duties. Establish a monitoring process bearing in mind that some properties incur higher operating expenses/etc.
9. **Review the liquor laws to extend the hours of operation of bars/restaurant.** The idea is to allow the operators a longer time to recoup their costs (sell more drinks) and the knock on effect will be to reduce the illegal sale of alcohol / "sessions" after-hours.
10. **Solicit private sector input when preparing the 2002 marketing budget for tourism.** Private sector priorities can be identified so that a collaborative approach can be developed over a longer period. This would enable the private sector to offer direct input in advance of spending any money. This would improve efficiency and would lead to cost savings.
11. **Introduce special incentives to tourists who visit the Cayman Islands more than twice per year.** For example, a tourist who visits more than 2 times a year can be entered into a raffle for US\$10,000 tax-free. More than 3 times the raffle for US\$20,000 etc. The minimum stay in a hotel must be three nights per visit. A single five-night stay in Cayman Brac/Little Cayman also qualifies the visitor for \$10,000 raffle. This incentive can also be offered for cruise ship passengers. Promote on-line, to existing visitors and by travel agents. Create database from responses.
12. **Allow casinos and gaming industry.** This may generate up to \$50m per annum in revenue to Government and increase the depth of the tourism product. These casinos would not be open to Caymanians. Set up National lottery and market to cruiseships, locals, and overnight guests. Tax free winnings offshore.



13. **Explore co-marketing options through American Express, VISA etc. and Chambers of Commerce.** Use the Chamber's International Business and Development Council (IBDC) to assist with the promotion of the Cayman Islands overseas. (*See Chamber's Inward Foreign Investment Report, Appendix 3*)
14. **Allow hospitality workers to interchange internally between jobs. Allow multi-tasking within a specified range.** This will allow more flexibility by employers and possibly reduce number of permits required on island.
15. **Introduce mandatory customer service training for hospitality, Immigration and Customs.** If you are in the industry you must take the training. Training should be undertaken during October, November and December 2001, while businesses are slow. To be spearheaded by Government and CITA. Place name badges on all officers who interact with the public and complaint forms in handy location. 3 strikes and you are out of a job. Set up complaint process to be readily accessible.
16. **Try non-traditional methods of attracting tourists through incentive group market and co-marketing.** Government to assist private sector in building or securing conference facilities. Secure tax benefits from USA for all conferences/meetings now that we comply with FATF/assisting with terrorist tracking.
17. **Extend the runway to allow direct flights from and to Europe/Canada.** This will also help solve the problem that Cayman found itself in Sept. 11-15 where it was 'marooned' without significant connection to the world including separation to our food/clothing supply, revenue base and business partners. This is a separate national issue that needs significant thought.
18. **Implement the recommendations of Strategy 13 in the Vision 2008.**

#### Cruise Ship industry

19. **Provide cruise ship passengers with information to encourage them to return for a longer onshore vacation.** Issue a voucher or a coin, offering package at end of 3 or 4 overnight stay/etc.
20. **Direct market to cruise passengers while on Island other tourist attractions and beauty of overnight stay.**
21. **Increase cruise ship head tax for the additional ships approved to call from Sept. 11, 2001.** Explain that the additional calls present unexpected infra-structural pressure on the country. This extra fee should be specifically earmarked to upgrading the landing facilities and restrooms.



22. **Allow ships to stay over until 7 or 8 p.m. or later in harbour.** The cruise lines should be allowed to open their casinos and stores in harbour but no earlier than 4:30 pm. No on-ship visits for locals after 3 p.m. This will allow longer on Island tours (Maybe to North Side and East End) and the possibility of longer shopping in town.
23. **Investigate having Caymanians work on the cruise ship industry as the start of a training programme.** Locals could be trained in an exchange programme to get into the hospitality industry.
24. **Place Caymanian greeters at the cruise ship landing to welcome cruise ship passengers.** Maybe re-deployed staff from Customs/Immigration after customer service training.

#### Government/Public Sector

25. **Change direction of public relations strategy that protects Cayman's financial services sector image and educates the world that the country does not harbour money launderers, terrorists and tax cheats.**
26. **Reduce Governor's, MLA's and Civil service salaries for 6 months using a staggered system.** For example, civil servants earning under \$1,500 per month would realize no change. \$1,501-2,500 less 5%, \$2,501-3,500- less 8%, \$3,501-5,000 less 15% and above \$5,000 less 20%. 50% of cut payments to be given back January 2003 with no interest.
27. **Re-deploy staff from other departments (Customs, Planning, PWD, etc.) to Tourism Statistic, Economic/etc. Departments.** Those critical departments will therefore receive more help now for their new efforts (Database compilation, stuffing envelopes, customer surveys, phonebanks etc), at no new cost to Government.
28. **Restructure Cayman Airways to make profitable without subsidy.** Shut down if cannot make profitable in a phased process. Have Cayman run shuttles between 'profit' centres (Miami, Kingston). Cut Houston, Cayman Brac etc. Cut staff by 50 persons to begin to bring in line with world airline personnel ratios. Consider daily flights to Cuba. Increase the in-transit route of Miami-Cuba. In short term (2 months) offer 50% rates from Tampa, Houston, Orlando.
29. **Reform Immigration/Customs at the airport by introducing customer service and improved lines.** Create an international business line at the Immigration department at the airport that can deal on the spot with temporary work permits. This will increase revenue because most people coming to Island tick the tourist box and avoid the 2-week hassle. Establish a business/tourist line in the customs area for persons who have nothing to declare. This will improve efficiency and provide improved customer service



for our guests. Establish a separate area for persons who are asked to be screened similar to other airports.

30. **Continue to explore the pre-clearance of USA authorities here.** This will improve Cayman's marketing image from a security point of view. The USA may also regard this as a security advantage for them.
31. **Remove X-ray machine (subject to specification and cargo department needs) from outgoing cargo area and add to outgoing security checks at airport.** This is a good PR issue that costs very little and improves outward security systems pre-flight, cutting down on time and congestion.
32. **Remove outgoing immigration clearance of passengers.** Use space for enhanced security measures. Does require some additional training of existing airline employees and possible up to date on-line computer systems.
33. **Suspend pension contributions partially for 6 months.** Leave a minimum contribution for both employee and employers of 1% so as not to lose idea that pension is here to stay. Allow employees only to continue to contribute standard payments without employer matching beyond 1%. The current thought is that most pension contributions are now making a negative return based on the administrative costs and stock market chaos. The extra money can be used in the economy over the next few months. This pension money is going overseas for investment anyway so this must have a positive step of leaving more dollars on the Island.
34. **Suspend any new tax measures.** Implement cost savings and efficiency ideas only.
35. **Lower electrical costs to consumers.** Reduce diesel fuel tax to 25-30 from 50 cents per gallon. This will translate to an immediate lowering in electricity bills since duty is passed on directly to consumers. Additionally, encourage CUC to undertake an extensive public education campaign to promote demand side energy reduction in order to save money on electric bills. Review the electrical rate structure to encourage reduced energy consumption by providing preferential rates for companies and residents that consume less energy. Urge CUC to implement payment schedules for customers who demonstrate need.
36. **Require Government to purchase local equipment and services.** All services and goods should be purchased directly through local companies with Trade & Business licenses. A group of persons from Financial Secretary's office and the Council of Associations should review international purchase proposals for approval of contemplated direct purchase overseas. All professional services shall be done through local professional companies. There is no reason for Government to ask local firms to compete with firms that do not pay local costs/government fees.



## MEDIUM TERM PROPOSALS (6-12 months)

1. **Support the current civil service review commissioned by the Governor.** Implement strategies to reduce the cost of the civil service as a matter of priority.
2. **Privatize sectors of Government that can be carried out by the private sector to reduce the bottom line costs for its infrastructure and staff.** For example, some areas of the Department of Tourism, Public Works Department, Motor Vehicles Licensing, Garbage collection and disposal, Computer Services, Government Information Services, Prison Service etc.
3. **Offer permanent residence to expatriates who have lived in the Cayman Islands for more than 10 years who have bought real estate over \$250,000 or is willing to purchase property worth \$250,000 or more within the next six months.**
4. **Implement Chamber of Commerce Inward Foreign Investment Report proposals. (See Appendix 3)** Develop a public education campaign illustrating the importance of attracting inward foreign investment and how the country relies on investment to generate revenue and jobs. Political input/support is essential to clarify this important issue to Caymanians.
5. **Establish a public/private sector committee to develop the format for a regular statistical report that will measure economic performance in the main industry sectors.** This report should be highly publicized and distributed to all of the major media outlets and business associations.
6. **Identify parcels of crown land that can be made available to the private sector, in partnership, for the construction of low cost housing developments for Caymanians.** This will enable Caymanians to own their own homes at an affordable price. It will also be important to allow building systems that are hurricane resistant, but are affordable to build.
7. **Simplify the import duty rates for businesses.** Introduce a higher rate of duty for persons who do not possess a Trade and Business license (20% across the board). This will raise additional revenue for Government and will allow local businesses to offer better pricing which will increase consumer spending in the local economy.



## LONG TERM PROPOSALS (one-three years)

1. **Establish a committee to explore methods of reducing the cost of airline tickets to the Cayman Islands.** Encourage price cuts across all industry sectors, including C&W, CUC, Water Authority, merchants, restaurants and construction industries through a review of the cost of doing business in the country by reducing Government fees.
2. **Establish a public/private sector initiative to improve the islands' tourist attractions and to beautify the islands with native vegetation, sidewalks and scenic trails.** Investigate the flow of traffic in central George Town with a view of closing off Harbour Drive for certain peak hours each day so that cruise ship passengers can walk with ease and not feel threatened by oncoming traffic.
3. **Review the Statistics Law and the mechanisms Government and the private sector uses to gather economic statistics.** Amalgamate Government's statistics gathering operation under one department. Work closely with the Chamber of Commerce to develop strategies to improve the collection of economic statistics. Mandate statistics gathering and collection at the time of a renewal of Trade and Business licenses.
4. **Develop a long-term economic strategy.** This strategy should provide for integration of Government services with a view of reducing costs, increasing financial reserves, encouraging good business practices and increasing accountability. Reward civil servants positive performance through an incentive system.
5. **Identify medium term (high season) and long term (2002-2003/4) strategies to improve our marketing message.**



1st Annual Chamber of Commerce Economic Forum

28th September 2001 at the Grand Pavilion Commercial Center

COMPANY	NAME
The Burns Conolly Group Ltd.	W. Burns Conolly, AIA
UBS	Grant Reid
CASE	Jim Scott
Holiday Inn	Willy Giger
Liberty's Restaurant	Barbara Liberty
Liberty's Restaurant	Mr. Liberty
Cayman National	Eric Crutchley
Cayman Turtle Farm	Kenneth Hydes
Red Sails Sports	Rod McDowall
K Coast Development	Gilles Langlois
Kirk Freeport Ltd.	Gerry Kirkconnell
Dart Management Ltd.	Mark Vandevelde
Dart Management Ltd.	Jim Lammers
Dart Management Ltd.	Michael Wheaton
Home & Office City	Everard Leacock
Deloitte & Touche	Mario Ebanks
Baraud International	Betty Baraud
Accountant General	Sonia McLaughlin
Director BMU	Peter Gough
Economic & Statistics Office	Francis Arana
Economic & Statistics Office	Stran Bodden
Economic & Statistics Office	Cassandra Conolly
Economic & Statistics Office	Dr. Elizabeth Parsan
Economic & Statistics Office	Brian Boxill
Asst. Financial Secretary 11	Ken Jefferson
Crighton Properties	Dale Crighton
Coldwell Banker	J.C. Calhoun
Century 21	Belinda Burrows
Thompson Development	Norberg Thompson
RE/MAX Cayman Islands	James Bovell
Ritch & Conolly	David Ritch
Myers & Alberga	Michael Alberga
Esso	Alan Neesome
Cable & Wireless	Lester Foreman
Bank Austria	Allan Davis
Insurance Managers Association	David Self
CITA	Nicole Lavalette
Bank of Butterfield	Erwin Dikau

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Island Supply	Chris Pope
Puritan Cleaners	Cardinal DaCosta
Puritan Cleaners	Jason DaCosta
JLT Risk Solutions Ltd.	Wayne Cowan
Eats Café	Frank Fleiger
	Phil Michael
Lone Star Bar & Grill	Mike Flowers
Baraud International	Stefan Baraud
CITA	Ken Thompson
Wendy's	Thomas Jefferson
Seven Mile Beach Esso	Mitch Ectain
Wastewater Purification Systems	Derrington Miller
Hobbies & Books	Billy Adam
Wendy's	Richard Parchment
Solomon Harris	Sophia Harris
GEL Wholesale	David Dibben