

**Deputy Premier of the Cayman Islands and Minister of District Administration, Tourism and Transport,
Hon. Moses Kirkconnell**

Speech to Cayman Society of Architects, Surveyors and Engineers, 20th March 2019 at Grand Old House

Good Afternoon,

I am very pleased to have this opportunity to spend some time with you today to talk about a subject that is very near and dear to my heart – and that is tourism.

I would like to thank Mr. Heber Arch for inviting me to join you; it's a real pleasure to be here.

I hope my remarks will give you a snapshot of our tourism industry. There is every reason to be proud of our success. Our tourism performance is among the best in the region and it continues to make a significant contribution to our economy.

It is also making a very real and positive difference in the lives of thousands of men and women who go to work every day in our service and hospitality sectors.

Government's Core Responsibility

One of the core duties of Government is to act as a catalyst for development.

From an economic standpoint that means that government has an obligation to grow and secure the economy. One way to do this is by creating an environment that provides opportunities for businesses and entrepreneurs to flourish – and then step aside to let private sector take over.

From a social perspective government also has a responsibility to provide the best education system possible, quality healthcare and social benefits for our seniors and citizens in need.

Twin Pillars – Finance and Tourism

To do these things, our economy depends on the twin pillars of finance and tourism; which are both fickle industries and subject to influences over which we have no control.

Our finance sector in particular is constantly under threat from global pressures. If we're not on a grey list today, we're on a black list tomorrow; and we are continually portrayed in a negative light as an unregulated 'tax haven' when that clearly isn't true.

A year ago the British House of Commons mandated that their Overseas Territories must provide a public register of beneficial ownership by the end of 2020.

No-one knows yet the full effect this will have on our financial services industry, but we know enough to know it won't be as 'beneficial' to our Islands as the name implies.

This threat is why tourism is so important to our economy.

In my remarks today I will speak briefly about some of the tourism strategies and results spearheaded by my Ministry. I have been asked to specifically provide an overview of the cruise berthing project, which I am happy to do. I look forward to discussing why this project is necessary for the future of our cruise

tourism industry and for the thousands of Caymanians whose families and livelihoods depend on its success.

Collaborating for Success

In terms of tourism, we have experienced tremendous growth in recent years and medium term forecasts anticipate a continuation of that trend.

Great results don't happen by accident. For the last 6 years my Ministry has worked hard to break down silos and put everyone – stakeholders, partners and Ministry staff - in the same room to talk openly about what was needed to grow tourism. That kind of inter-connectivity has proven to be a more effective way for encouraging open dialogue and ensuring the best ideas are shared in an unobstructed environment.

We identified that infrastructure was desperately needed at the airport to eliminate the overcrowding and congestion that was leaving visitors with a bad final experience and impression of our Islands. The airport has now been expanded to comfortably process 2.7M passengers annually and offers triple the space. It has been built using cash and is a tremendous asset to this country. I look forward to it being officially reopened next week.

In terms of our brand, we knew that we had to improve our marketing and have everybody working together in synergy, to better plan how and where we market to prospective travelers and repeat visitors.

Strategies were implemented to reposition our tourism product to level out the peaks and valleys between high and low season. More effective planning and product management has led to more weddings, conferences and sports tourism activities in the shoulder seasons.

February Tourism Stats

This strategy has proved successful and we have registered record-breaking arrivals year over year. Hot of the press I am happy to share with you highlights of our most recent results.

Statistics for the month of February show that stayover arrivals have increased by 12.13% over the same time last year, while cruise arrivals have declined by 10.59%. This equates to 4,856 more air arrivals and 23,369 less passengers arriving by sea.

Looking at our tourism arrivals year-to-date, air arrivals are up 8.88% while cruise is up by 6.68%. The combined increase (YTD) for air and cruise is 7.01%

Our ADR remains among the highest in the region and more and more ordinary Caymanians are getting involved in the industry through AirBnB.

Balancing Growth in Stayover and Cruise

Having put strategies in place to grow stayover arrivals, the other opportunity that we looked at was how to achieve a balance and maintain growth in cruise sector.

We knew from the industry that a berthing facility was needed and we also knew that the country couldn't afford to build it using public funds because that would place us out of compliance with the FFR.

When I became Minister of Tourism in 2013, a Strategic Outline Case had already been completed by the former administration. Rather than starting that process all over again at more cost to the public purse, the decision was taken to move forward to the next step.

An RFP was issued and PwC were hired to develop a business case.

Cruise tourism supports 4,500 jobs¹ and contributes \$200 million annually to our economy. Even though the need for a berthing facility was self-evident, Government's goal was to ensure that the economic benefit outweighed the inevitable environmental impact that would occur.

PwC Business Case

After conducting their analysis, PwC came back with 2 important findings:

1. They confirmed that the economic benefits did outweigh the environmental impact that construction of the piers would cause.
2. Given that the Government couldn't afford to pay for the project from public funds, PwC looked at various options involving the private sector and recommended a PPP (Public /Private Partnership) as the best way to proceed.

Based on PwC's recommendation, that's what this government has driven forward.

No Impact to SMB

Government also included a caveat that said if there was going to be any damage or negative impact to SMB the project would stop.

After an open tender process, BAIRD were hired to carry out the environmental assessment and subsequently came back saying there would be no damage to SMB. They made a public statement to that regard, and on that basis Government decided to proceed to procurement, which was the next phase in the project's continuum. It is worth noting that BAIRD's results regarding SMB are consistent with the results of an earlier study undertaken for the Department of Environment.

Best International Companies

The CBF is the biggest infrastructure project any CI Government has attempted to undertake. To make sure all decisions were based on sound, reliable, scientific and economic evidence, Government has issued multiple RFP's to secure the best independent advice possible.

Some of the best international companies in the world have been contracted to undertake studies, conduct research and provide their analysis, supported by input from local companies.

Reducing Environmental Impact

¹ Source Business Research & Economic Advisors Report (BREA) Report October 2015, Page 3¹

In addition to establishing that SMB would not be affected, all of the environmental issues were carefully considered. Government gave an undertaking to see whether it would be possible to put the piers in deeper water to minimize dredging and reduce the overall environmental impact.

Baird went back to look at what the implications of this would be and the engineering report came back confirming that it was possible to go deeper and the dredge pocket would be reduced. However, because the value for money estimate was based on construction in shallower water, we knew the cost of going deeper would be more expensive.

Best Practice Procurement

Having taken the decision to move forward on that basis, an RFP was issued to identify suitably experienced consultants to help guide the procurement process.

Typically government procurement projects are managed by the Major Procurements Office which falls under the Public Works Department and is headed up by Max Jones and Peter Ranger.

Following the RFP, KMPG were appointed to provide assistance with the financial modelling aspects of the project and Appleby were hired to oversee the legal aspects.

The Major Projects Office has followed a procurement process that is based on international standards of best practice. This takes time; but it provides the assurance that decisions are being taken based on sound principles, to achieve the best possible outcomes for the Country.

DBFM Financial Model

The PwC report recommended the Design, Build, Finance and Maintain model would be the best way to build the piers. DBFM is used worldwide for these types of projects and means that the successful bidder will finance the design and construction of the piers and retains responsibility for its maintenance for the next 25 years.

It has taken almost two years of procurement to get to the point where final tenders could be issued to the prospective bidders. In the meantime, we are continually asked the same questions:

1. What will the final design be;
2. Are there other environmental concerns;
3. How much will the piers actually cost; and,
4. How will passengers be protected and businesses remain open while construction takes place?

In response, I can say that the first three of those questions are included under the Design, Build, Finance aspects of the DBFM model. Government has set the criteria and parameters for what is required of the CBF and when the final bids are received we will have the specific answers to those questions. For example, we know that the piers will be two fingers and built on pilings in deep water; and we have published renderings which give a pretty good idea, but we need to wait for the final bids to see precisely how each bidder has envisaged their construction.

Next Steps

The bids are due to be returned in a month or so and will be evaluated to determine who is the preferred bidder.

At that point PwC will finish the business case.

The EIA will be completed

And Cabinet will decide if the berthing project goes forward or not.

Cruise Line Partnerships

There have also been questions regarding the financial agreements received from three cruise lines.

As I have said previously, Government is not in a position to finance the CBF project and the business case recommended a public/private partnership to fund the piers construction. Those agreements represent the public/private partnership and in essence ensure that cruise lines have 'skin in the game.'

This means that they have a vested interest in returning to Grand Cayman and we have the assurance that when the piers are built, the world's largest cruise lines will include Grand Cayman on their itineraries for decades to come. This will help to secure our cruise industry over the long-term and it has been accomplished without using public funds. Cruise lines will be repaid from a portion of the per-passenger fee that they remit to the port authority each time they are in port. This underscores that the only way they can benefit from their investment is to continue using the facility.

Port Expansion

The plans for the construction of the cruise berth facility also include an upgrade of the cargo port which is 40 years into its 50-year life span. It was built at a time when our population was 14,800 and our cargo needs amounted to 50,000 tons annually. Today, the port handles over 300,000 tons of cargo each year and according to the Economics and Statistics Office, the total value of goods imported through the cargo port in 2017 was CI\$658.7 million. That is almost CI\$13 million worth of goods weekly and needless to say, it is too small to adequately handle that volume of business.

As our population grows and more cargo is required to meet our needs, the port will not be able to cope. This is why it makes sense to expand and modernize the port at the same time as the piers, and more importantly, that can be accomplished without any government borrowing.

Alternatively, if we build the port as a stand-alone project, port charges will have to be increased.

I started my remarks by outlining government's core economic and social obligations, and will end by saying that we are working hard to strike the right balance between the needs of our economy, our environment and our obligations to society, while creating opportunities for growth, development and prosperity.