

## **OPENING REMARKS**

This government has, since 2007, embarked on a divestment project for Air Jamaica. Our goals were threefold:

1. The first was influenced by our recognition of the critical role that Air Jamaica played in the Jamaican economy, particularly in respect of the country's tourism industry. This means that the first goal of the Air Jamaica Divestment Project was to ensure that Air Jamaica's airlift from/to the country would be secured in a sustainable manner.
2. Our second goal grew out of an equally pressing acknowledgment - that is, that Air Jamaica represented an unbearable cash-drain for the Government's budget. This was not a hastily-formed assessment; it is a well-known fact that Air Jamaica recorded losses in 40 out of its 42 years of existence, and this led to the accumulation of approximately US\$1.5 billion of debt, backed or guaranteed by the Government. The second goal of the project was, therefore, to halt the cash-drain on the public purse.
3. The third goal, and by no means least, was to save as many jobs as possible, as the path on which Air Jamaica was on was unsustainable and would have resulted in a total loss of jobs. We have so far managed to save approximately 1,000 jobs, two-thirds of what was on Air Jamaica's payroll on April 30, 2010. Some of these will be short-term contracts but it provides those employees the opportunity to put adequate plans in place to secure future income streams.

In order to ensure that all these goals were achieved, this Government set as a requirement of the project that Air Jamaica's value - and the experience and skills that have been built up over the years - be protected.

Additionally, we were proactive in our efforts to ensure that the real value that Air Jamaica represented would be very apparent to any prospective investor. Therefore, through several initiatives encouraged by the government - inclusive of the crafting and implementation of a new business plan in 2009 - we saw the airline make steady progress in stabilizing its operations, so that, for instance, reliability could begin to return to more reasonable levels.

Additionally, the airline took steps to strengthen its management team with the appointments of Mr. Bruce Nobles as President and Chief Executive Officer; Mr. Subodh Karnik as Executive Vice President, Commercial Services; and Mr. Howard Hall as Senior Vice President and Chief Financial Officer.

I am to inform you that, with the signing last Friday of a partnership between Air Jamaica and Caribbean Airlines, the three major objectives and their guiding requirement have been met.

### ISSUES OF TRANSPARENCY, NATIONAL OWNERSHIP AND PROJECT TIMETABLE

Before I provide details on the agreement, allow me first to address three issues of particular importance.

#### 1. Secrecy

There have been allegations of "secrecy" in the Air Jamaica Divestment Project. I regard these complaints as ill-founded.

Since the beginning of the project, this Government established that it was keen on implementing a transparent and non-discriminatory bidding process.

In support of that objective, marketing documents were prepared and made available online to all prospective interested investors. Ads were also placed in widely-read media overseas. Additionally, then Minister without Portfolio, Don Wehby - who was the Government Minister with direct responsibility for the divestment - joined Divestment Committee Chairman Hon. Dennis Lalor and myself in briefing the media and this House on many occasions on those aspects of the project which we were able to disclose. What we did not disclose were those details which non-disclosure agreements prohibited us from making public.

As another measure toward ensuring transparency and a fair divestment process, we selected consultants - notably the International Finance Corporation of the World Bank Group - which had robust experience in airline divestments. Our intention in using such internationally-known consultants was to set a precedent for this country on the transparent divestment of a major state asset.

We wanted to ensure that the investors who met the consultants' clearly-drawn guidelines and who came to the table on time and with the most acceptable bids would be the ones with whom we would negotiate. When emotional responses are removed from the equation, it is clear that this is what transpired.

As the international bidding process proceeded, we received seven expressions of interest, five of which fulfilled the requirement to provide information on their financial strength and aviation expertise. The Divestment Committee, chaired by the Hon. Dennis Lalor, analyzed the submissions and concluded that four of the five companies met the technical and financial criteria. Ultimately, only two of them submitted proposals before the extended deadline of June 30, 2009.

The divestment committee submitted an evaluation report which concluded that both proposals were viable options for the future of Jamaica's national carrier. The project was initially awarded to one bidder whose submission the evaluation team assessed as having a slight edge. The negotiations with this bidder, Indigo Partners, were halted by mutual consent as the parties were unable to arrive at an agreeable position after

approximately four months of negotiation. The Divestment Committee felt that it was therefore necessary to re-engage Caribbean Airlines as the only other remaining bidder.

## **2. Lack of interest**

It has also been suggested that the government is not interested in keeping Air Jamaica in Jamaican hands. There was one previous effort at the divestment of Air Jamaica. It was implemented with Jamaican investors. Whatever the reasons, it must ultimately be admitted that that "divestment" could, at best, be described as less than successful.

Although expressing an interest in the airline, many potential investors analyzed that they would not be able to effect a turnaround at Air Jamaica so that the company could become profitable. In other words, they were deeply concerned about the related financial risks.

The Divestment Committee eventually advised the Government that it should remain as a minority shareholder in any future carved out for Air Jamaica, in order to represent Jamaica's interests. This recommendation was accepted and is now enforced with the Caribbean Airlines transaction.

I should mention that the proposal from JALPA was not ignored by the Government or the Divestment Committee, which was an opinion that many persons expressed. The Government had promised that this would be a transparent and fair process, and a part of that must include the need to ensure that the process is

followed as outlined and that no party receives any advantage not afforded to another.

This meant that the JALPA proposal not coming within the established timeline and process laid out could not have been considered unless the bid process was re-opened.

If it were the case that Caribbean Airlines had not closed the transaction, then the JALPA bid would have been invited along

## **3. Divestment timetable**

The third issue which I wish to address relates to the timetable of the project. It is true that we originally set March 2009 as the project deadline. However, we acknowledged that the Divestment Committee was operating in a very difficult environment as the aviation industry went into crisis.

Over the last two and a half years, huge losses were realized in the industry due to high fuel costs, particularly in the 2008, and weak consumer demand as a result of the global economic crisis. Airlines cut thousands of jobs, sharply reduced the number of flights offered as well as the number of aircraft in their fleets.

There was rapid downsizing as the industry saw a number of mergers to combat the crisis:

- In 2008, Southwest Airlines acquired certain assets of the bankrupt ATA Airlines
- In 2009, republic airways holdings purchased Midwest Airlines and Frontier Airlines
- Earlier this year, Delta Airlines finalized a merger with Northwest Airlines
- Just yesterday United Airlines announced its merger with Continental Airlines, making it the world's largest airline.

We did not want to divest the airline at any cost merely to meet a deadline. The government instructed the Committee to take the time necessary to help ensure the protection of the interest of the government and people of Jamaica.

Let me now underscore for you the features of the transaction between Air Jamaica and Caribbean Airlines.

#### THE AIR JAMAICA / CARIBBEAN AIRLINES TRANSACTION

- a. The partner: Caribbean Airlines.
  - i. Caribbean Airlines has emerged as one of the leading airlines in the Caribbean in terms of operational performance. The combination of Caribbean Airline's strong expertise in airline operations and Air Jamaica's strengths, particularly in the areas of marketing and online sale, will help create a very solid airline operation.
  - ii. Caribbean Airlines has adequate financial strength to sustain their commitment to Jamaica. In the context of this transaction, the government of Trinidad & Tobago has agreed to increase Caribbean Airlines' capital by US\$49.2 million, increasing from US\$126 million to US\$175.2 million - providing more than sufficient assurance to the

Divestment Committee that adequate funding will be available to the project.

b. The Project:

- i. Last Saturday, May 1, 2010, marked the commencement of a transition plan under which Air Jamaica will continue its operation under contractual arrangements with Caribbean Airlines. The carrier has given an assurance that there will be no disruption of service, as all the tickets previously issued to passengers will be honoured.
- ii. After a period of between six and 12 months, Caribbean Airlines will fully enforce its plan to provide sustainable airlift to/from Jamaica. The plans call for the initial operations to continue serving routes from JFK to Montego Bay, JFK to Kingston, Baltimore to Montego Bay, Philadelphia to Montego Bay, Toronto to Kingston, Fort Lauderdale to Montego Bay, and Fort Lauderdale to Kingston
- iii. Also commencing last Saturday, May 1, 2010 Caribbean Airlines assumed full financial responsibility for Air Jamaica.
- iv. The transaction has resulted in Caribbean Airlines flying the same routes Air Jamaica did, which resulted in the GoJ acquiring a 16% (valued at US\$28.5 million) ownership in Caribbean Airlines in exchange for facilitating that process. It is important to emphasize that the Government of Jamaica will remain the owner of all of air Jamaica's other assets, including its real estate assets and its industrial assets. Under the Transition Services Agreement, Caribbean Airlines will lease these assets from Air Jamaica. Under these terms, the deal is, financially speaking, superior to the initial bid submitted by Caribbean Airlines and superior to the transaction which was contemplated with the other bidder, Indigo Partners.
- v. In order to ensure the long-term sustainability of its new Jamaican network, Caribbean Airlines must operate a streamlined operation. As part of that process, all Air Jamaica employee positions were made redundant on April 30, 2010. We are extremely gratified that the

requisite redundancy and severance payments - which approximated US\$24 million - were set aside to meet those payments in a timely manner. Cheques were issued to all 1,823 Air Jamaica employees.

This Government is also gratified that approximately 1,000 employees are being re-hired by Caribbean Airlines during the transition period. These employees have already been identified and have received job offers from Caribbean Airlines.

- vi. We believe this transaction creates a unique and historic opportunity to create a true Caribbean Air carrier, leveraging the expertise and strengths built up by BWIA, Air Jamaica and Caribbean Airlines and able to compete in a fierce global market environment.

c. The Partnership:

We are satisfied that the proposed partnership with Caribbean airline meets the objectives of the Air Jamaica Divestment Project and protects the interest of the Government and Jamaica as a whole.

- i. Our partner has strong airline expertise and appropriate capital.
- ii. The partnership will ensure the provision of adequate and sustainable airlift to and from Jamaica, which remains a favoured tourist destination.
- iii. The cash drain on the government's resources associated with the financial obligations to Jamaica's national airline will cease.
  - The financial deal terms finalized between the Government and Caribbean Airlines are fair and I reiterate that this deal, from the point of view of the Government, is even superior to the ones contemplated in the initial Caribbean Airlines' bid or by the other bidder.

- The interests of the Air Jamaica passengers have been protected.
- iv. The Air Jamaica legacy in terms of the experience of its staff and the loyalty of its customers will contribute to the creation of a regional carrier - one which is able to compete and grow against increasing international competition.

#### Divestment and Legacy Costs

The Government of Jamaica (GoJ) has included the amount of J\$22.5 billion or US\$250 million in its budget for 2010/2011 to address certain financial obligations related to the divestment of Air Jamaica.

These include:

- Payment of advanced ticket sales
- Employee separation payments.
- Payment of amounts due to statutory bodies that affect employee benefits such as NHT, NIS.
- Termination of contracts such as aircraft and property leases etc.
- Settlement of creditors who are not GoJ agencies or whose obligations have not been guaranteed by GoJ.
- Funding of winding-down operations.

The immediate payment obligations arising from the divestment amount to US\$81.5 million. These are:

- Employee separation payments, estimated at \$24.0 million
- Payment of advanced ticket sales, estimated at \$19.0 million
- Critical payments to creditors required to ensure seamless transition estimated at US\$23.0 million
- Cash deficit of US\$15.5 million

In addition to the costs associated with the divestment, the Government of Jamaica is required to assume responsibility for the total debt of Air Jamaica.

As at February 28, 2010, Air Jamaica had total liabilities of US\$939.99 million comprised of:

Guaranteed obligations –US\$763.44 million Obligations not guaranteed -US\$176.55 million Of the guaranteed obligations, the central government is currently servicing debts totaling US\$407.42 million. These are:

Bear Stearns 2015 Bonds –US\$157.14 million RBTT 2015 Bonds –US\$125.0 million Bear Stearns 2027 Bonds –US\$125 million With Air Jamaica now divested the remaining US\$532.57 million of debt is now assumed.

## CONCLUSION

I cannot close without putting a very important issue on the table: the matter of having to confront opportunity costs during the budget process.

It is an issue that responsible governments can no less avoid, than responsible householders are able to side-step. Every householder knows that one cannot put everything one wants into the trolley - not if one has a limited amount of cash. One might try to avoid having to make choices by using a credit card. But this is only postponing the inevitable.

Eventually, the chickens come home to roost. Eventually, creditors collect their pound of flesh. Eventually, one is forced to make choices between what one can, and cannot



afford. It is a hard, cold fact of life; and it is the position that Jamaica has found itself in today.

Allow me to illustrate the dilemma by drawing a few comparisons. Compare, if you will, the average annual cost of subsidizing Air Jamaica's operations - a whopping \$10 billion - to the cost of supporting 3 indispensable social programmes: the school feeding programme; providing free drugs at public health facilities; and tuition support to our school children.

Let us take a closer look at these examples, whilst keeping the \$10 billion figure front and centre in our minds:

- In 10/11, the school feeding programme will be substantially expanded. Under the PATH Programme alone, 220,000 students will benefit. But this is not the whole story. Some 493,000 students will benefit via feeding grants, nutrition subsidies to schools, and direct funding to Nutrition Products Limited. For many of these children, the meal received is their only guaranteed one for the day.

Yet the total cost of the PATH-administered School Feeding Programme, as well as these other programmes, is \$2.9 billion. Compare this, if you will, to the \$10 billion we have been spending to subsidize Air Jamaica's operations each year

- In 09/10, the total cost of providing free drugs in public hospitals and clinics was \$2.2 billion. Again, I ask you to stack this figure up against the \$10 billion forked out by taxpayers to keep the airline flying
- Finally, let us consider the number of students who benefited from tuition support during 09/10.

A total of 220,957 children received support at a cost of \$2.6 billion. That figure would have been reduced by the amount collected from cost-sharing, please note. But let us be conservative and compare the entire \$2.6 billion to the \$10 billion spent to subsidize Air Jamaica.

When these comparisons are made, one begins to get a better appreciation of the challenge that we faced going forward. For, whilst no one would question Air Jamaica's economic value to our tourism industry, or its psychic value to our sense of nationhood - no one can question the good sense involved in maintaining - and in some cases, expanding - these social programmes.

At the end of the day, responsible government is about making responsible choices. And that process begins with an honest appraisal of our economic situation...followed by a careful cost/benefit analysis of all expenditure.

With this in mind, i am confident that we made the right decision in favour of maintaining our social programmes.

And I quote him:

*"If a country has an extra dollar, some of it has to go to debt reduction and some of it has to go to supporting the social safety net. That is why Jamaica cannot give that extra dollar to subsidise Air Jamaica.*

End of quote.

Mr. Speaker, in any terms, \$10 billion is a lot of money. It was not a one-time cost; neither was it the only cost associated with maintaining a national carrier. It simply could not continue - not if we wanted to support poor children being guaranteed at least one balanced meal per day, and the needy getting life-saving drugs they couldn't afford.

So, with heavy hearts and tears in our eyes, we have had to say, "thank you", but goodbye to a 40-year old institution...an institution that served us well, but one that we could no longer afford. Ultimately, it was not a choice against Air Jamaica; it was a choice in favour of Jamaica, our social programmes, and frankly, our sheer survival.

I would like to take this opportunity to express appreciation to all those who supported Air Jamaica over the years... And who helped to forge an undeniably strong brand, while building a loyal clientele in the Jamaican Diaspora and beyond.

First, I would like to say how very appreciative this Government is of the employees who served Air Jamaica so well. The airline was fortunate to have a stable and talented labour force, made up mostly of Jamaican nationals, who had a strong sense of pride and loyalty to their company.

I would encourage those of you who have found employment with Caribbean Airlines to provide an equal level of service, as you continue to play your part in helping to ensure that, among other things, airlift to and from Jamaica continues to be secure.

I must also acknowledge the role that the cadre of pilots who were, in the main, Jamaicans, played in the brand loyalty air Jamaica enjoyed. Not only did the availability of these skilled Jamaican pilots result in minimal need for outsourcing to external contractors, but they helped Jamaica to establish an unblemished safety record spanning 42 years of existence.

Of course, as we all know, that enviable safety record was strongly connected to the high calibre of the airline's staff as a whole - inclusive of those found in Air Jamaica's operations and maintenance departments.

Finally, I would like to express the sincere gratitude of the Government of Jamaica to the Honourable Dennis Lalor for his dual role as Chairman of the Divestment Committee and Chairman of the present Board of Air Jamaica. I wish also to thank

the former Chairman of the Board of Air Jamaica Ms. Shirley Williams who along with her Board helped prepare the way for divestment.

Equally, I thank the management of Air Jamaica, for all their diligence and hard work which, when combined, resulted in the successful divestment of the operations of Air Jamaica.

At the same time, I want to welcome the management and staff of Caribbean Airlines Limited to this new partnership with the Government and people of Jamaica, in the operation of what promises to be a world class regional airline, securing airlift to and from the Caribbean and, in so doing, creating enjoyable and lasting memories.