

MINISTRY PAPER NO 24/03

Provision of a Guarantee for a loan of Euro 90 million to fund the Government's Programme of Support to the Sugar Industry under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

1. Parliament is being requested to approve a Government Guarantee for loan facilities totaling Euro 90 million to fund the Government's Programme of Support to the Sugar Industry. This would supersede the existing Parliamentary Guarantee, which was approved in January 2000 in respect of a loan of Euro 85 million, secured from Global Trade Finance Group of Kredietbank N.V (KBC Bank N.V).

Background

2. Parliament is asked to refer to Cabinet Decision MFP 3/00 of January 24, 2000 in which approval was given for the issuance of a Government Guarantee to Ratoon Limited, for the obligations of the Agricultural Credit Bank of Jamaica Limited (ACB), in support of funding totaling Euro 84 million. KBC Bank N.V., the largest commercial bank in Belgium, and a syndicate of other European Banks provided the funding. The proceeds of this loan were utilized for the rehabilitation of sugar mills and factories, providing equipment, financing sugar cane planting and replanting and restructuring certain bad debts for working capital purposes. This was in keeping with government's decision to provide assistance to the sugar industry.

3. Parliament will recall Cabinet Submissions MFP 89/97 and 411 MFP- 86/00 and the decisions taken with regards to Governments Assistance to the Sugar Industry. Parliament will also recall the Programme of Support to the Sugar Industry agreed on in 1997, which is outlined in Ministry Paper No. 39/97. The programme provided loans to sugar cane farmers to undertake replanting exercise, occasioned by the drought experienced in 1996/97. Loans were also provided to sugar manufacturers for factory rehabilitation to enable the sugar manufacturers to attain the requisite production levels to Jamaica's export quota under the ACP/EU Sugar Protocol for the crop year 1997/1998, and to put them in a state of readiness to produce for the crop year that followed in 1998/99.

4. The initial cost of the GOJ Programme of Support to the Sugar Industry approximated to US\$ 100 million. The financing was sourced by a loan to the GOJ of US\$ 25 million from the CDB and a GOJ guaranteed 5-year loan of Euro 65 million from a consortium of European Banks. All the terms and conditions for disbursement under the loan agreement were met and the facilities were fully drawn. To date the facilities have been satisfactorily serviced.

Financial Terms

5. The major financial features of the transaction are:

Amount: Euro 90 million

6. *Purpose:* **Tranche A- Euro 65 million:** to purchase capital equipment, to repay net outstanding amounts due to the Agent from Ratoon with respect to the current facility, to establish a Debt Service Reserve Account and to finance outstanding amounts provided to the industry from the DBJ for working capital support. **Tranche B- Euro 25 million:** to increase and continue the provision of an annually revolving working capital facility for the industry.
7. *Interest Rate:* **Tranche A: 300 basis points above** Euribor and **Tranche B: 200 basis** points above Euribor.
8. *Term:* **Tranche A:** Five (5) years and **Tranche B:** revolving annually.
9. *Repayment:* **Tranche A** will be repaid based upon an agreed schedule of principal reduction each season, over the term of the loan. **Tranche B** will be repaid in full by the end of each season on a revolving line basis.
10. *Source of Repayment:* The proceeds of the sale of sugar by Jamaica Cane Products Sales Ltd (JCPS) to Tate and Lyle and other purchasers of Sugar in the European Union (EU). JCPS has assigned to the ACB now named DBJ, 100% of the proceeds of sale of sugar to the EU. The ACB has subsequently transferred its rights over the proceeds to a Special Purpose Company-Ratoon Ltd, domiciled in Gibraltar, in support of the facility.

Recommendation

- The Honourable House of Representative is accordingly asked to approve, a Government Guarantee for a loan facility of Euro 90 million from KBC Bank N.V, on behalf of a group of European banks, to Ratoon Limited for the obligations of the Development Bank of Jamaica Limited in support of the Sugar Industry under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act:

I will move the appropriate Resolution in due course.

Omar Davies M.P.
Minister of Finance and Planning

May 20, 2003