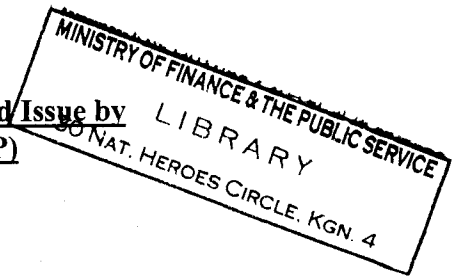


MINISTRY PAPER NO.....

Government Guarantee of a US\$200 Million Bond Issue by  
Clarendon Alumina Production Ltd. (CAP)



The Honourable House is being requested to approve the granting of a Government Guarantee, under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act, as security for a bond issue in the amount of Two Hundred Million United States Dollars (US\$200M), to be issued by Clarendon Alumina Production Ltd. (CAP) in the international market.

**Background**

2. CAP was created by the Government in 1985 as a strategic response to the closure of the JAMALCO refinery in February of that year by its owner, Alcoa Minerals of Jamaica Inc. Despite difficult market conditions which precipitated the closure of both the JAMALCO and Alpart refineries in that year, CAP operated the plant at full capacity between the restarting of production in August 1985 and March 1988, when Alcoa resumed ownership participation in the Joint Venture.
3. The operating of the plant between 1985 and 1988 saved hundreds of jobs and ensured the continued earnings of foreign exchange in an era when this was a scarce commodity in Jamaica.
4. On Alcoa's indication that it wished to return, new ownership arrangements were negotiated which resulted in Alcoa's equity being reduced to 50% and the Government's (eventually all through CAP) increased to 50%.
5. To reduce the likelihood of the plant being closed in the future as a result of market conditions, the Government of the day made two strategic decisions that impacted on the company's future operations. First, it entered into a 10-year contract for the supply of alumina between 1986 and 1996, on a price basis which, save for unusual circumstances, would not have enabled significant profits being made. Second, amendments were made to the Joint Venture Agreement to require that in the event one Joint Venture partner does not wish to take a part or all of its share of the production in any given year, it must offer that share to the other party on fairly precisely defined terms in respect of future pricing.
6. The approach worked well in that, but for a number of industrial actions, and *force majeure* conditions such as hurricanes, the JAMALCO plant has operated at full capacity since 1988. Furthermore, its contributions to the economy have been significant over the period. Contribution to Government revenues, foreign exchange earnings and investments since it came into being are US\$160 million, US\$1,650 million and US\$351, respectively.

7. Over the years, the company has had to manoeuvre through a commodity market that is notoriously cyclical. Nevertheless it maintained profitable operations throughout the late 1980s and early 1990s, recording cumulative net profits of US\$36.3 million between 1987 and 1990.

8. The collapse of the Soviet Union in 1991 had a serious impact on the company's operations due to the significant drop in world aluminium prices as a result of the additional output coming into the world market from that source. This resulted in losses in the immediate years following the collapse. Since then, the company has had to face a number of challenges which have impacted negatively on its financial performance.

9. CAP has had to service debts and meet significant capital needs, (largely out of cash flows) for its highly capital intensive activity. In this regard, the House might be aware that the company had to secure two major loans, one in 2001 in the amount of US\$125 million and for which Parliament gave a guarantee; and one in 2002, to finance the company's share of the 250,000 tonne per annum expansion of the JAMALCO plant completed in 2003. These have resulted in high debt servicing obligations.

10. More recently, an extraordinary series of natural disasters (Hurricanes Charlie, Ivan, Dennis, Emily and Wilma) damaged the facilities (e.g. the Rocky Point port) and affected production in an adverse way. In addition, the significant increase in the price of energy has resulted in the cost of oil alone in producing a ton of alumina, rising from US\$28 in 2002 to US\$81 year-to-date 2006.

#### **Strategy to Return the Company to Profitability**

11. CAP remains an important strategic asset for the Government in pursuance of the country's economic development. It is against this background that the Board of CAP has proposed a Plan of Action to return the company to profitability. The major tenets include the following:

- a) Refinancing its debts to: (i). extend the average life of liabilities; (ii) reduce debt service payments; and (iii) release currently encumbered reserve funds.
- b) Hedging future alumina sales, to the maximum extent possible, to provide "downside" protection (for example, compared to a projected price of US\$206 per tonne for 2006, the average price for 2007 and 2008 will be US\$235 per tonne; translating, other things being equal, into increased cash flows of US\$40 million for the company over the period.
- c) Seeking to negotiate alumina sales when the current contracts run out over the next 4-6 years with a fuel protection clause.
- d) Working with the Managing Partner, Alcoa, to reduce costs especially in the key areas of energy and caustic soda consumption, and effect other efficiencies through the expansion of the plant (the first phase of which will be completed by year end) and the rest to be implemented as soon as the natural gas supply arrangements are in place.

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12. CAP has retained the services of Bear, Stearns & Company Inc. through a competitive process to assist in securing funding in the international capital market. Bear, Stearns has arranged a long term fixed rate facility for US\$200 million, and given market conditions, a Government Guarantee is being requested to secure the facility.

#### Use of Funds

13. Net proceeds from the facility will be utilised as follows:

	<u>US\$M</u>
Redemption of existing bond (with higher interest rate)	69.9
Repayment of advance from Accountant General	20.0
Repayment to Alcoa	18.6
Repayment to BATCO/JBM	14.0
Working Capital for 2006 and 2007	72.5


#### Terms of the Loan

14. The net proceeds from the offering will be utilised to assist in achieving the financial objectives of the Plan of Action and provide the company with greater financial flexibility. The details of the transaction are as follows:

- Amount US\$200 million
- Repayment 5-Year moratorium; Amortized with 21 equal and consecutive semi-annual payments commencing in Year 5
- Interest Payable semi-annually
- Security Guarantee of the Government of Jamaica

15. The Honourable House of Representatives is accordingly being asked to approve the issue of a Government Guarantee, under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act for a US\$200 million bond issue by the Clarendon Alumina Production Ltd. (CAP) in the international capital market.

16. I will move the appropriate Resolution in due course.

  
Omar Davies M.P.  
Minister of Finance and Planning  
November 6, 2006

**GOVERNMENT GUARANTEED LOANS OUTSTANDING BALANCES  
UNDER THE APPROVED ORGANIZATIONS AND AUTHORITIES  
LOANS (GOVERNMENT GUARANTEED) ACT  
AS @ 30th SEPTEMBER, 2006 (J\$)**

**DOMESTIC DEBT**

<b>ENTITY</b>	<b>AMOUNT AUTHORISED</b>	<b>AMOUNT DISBURSED</b>	<b>AMOUNT REPAID</b>	<b>AMOUNT OUTSTANDING</b>	<b>No. of Loans</b>
JMB	\$ 500,000,000.00	\$ 500,000,000.00	\$ -	\$ 500,000,000.00	1
JUTC	\$ 300,000,000.00	\$ 300,000,000.00	\$ -	\$ 300,000,000.00	1
NWC	\$ 1,321,110,000.00	\$ 990,832,500.00	\$ 66,055,500.00	\$ 924,777,000.00	1
NROCC	\$ 3,552,000,000.00	\$ 3,552,000,000.00	\$ -	\$ 3,552,000,000.00	1
PAJ	\$ 693,582,750.00	\$ 693,582,750.00	\$ 334,772,841.00	\$ 358,809,909.00	1
PCJ	\$ 1,056,888,000.00	\$ 1,056,888,000.00	\$ 132,111,176.37	\$ 924,776,823.63	1
SCJ	\$ 1,981,665,000.00	\$ 1,981,665,000.00	\$ -	\$ 1,981,665,000.00	2
SLB	\$ 1,775,200,000.00	\$ -	\$ -	\$ 1,775,200,000.00	1
<b>TOTAL</b>	<b>\$ 11,180,445,750.00</b>	<b>\$ 9,074,968,250.00</b>	<b>\$ 532,939,517.37</b>	<b>\$ 10,317,228,732.63</b>	<b>9</b>

**LEGEND**

JMB	Jamaica Mortgage Bank
JUTC	Jamaica Urban Transit Company Limited
NWC	National Water Commission
NROCC	National Road Operating and Constructing Company
PAJ	Port Authority of Jamaica
PCJ	Petroleum Corporation of Jamaica
SCJ	Sugar Company of Jamaica
SLB	Students Loan Bureau

**EXCHANGE RATES**

US\$1 = JA\$ 66.0555

**Debt Management Unit  
2006/11/06**

**JAMAICA GOVERNMENT GUARANTEED LOANS  
STOCK OF EXTERNAL DEBT  
By Creditor in USD  
Aug-06**

<b>ENTITY</b>	<b>CURRENCY</b>	<b>LOAN AMOUNT Original Currency</b>	<b>AMOUNT DISB. Original Currency</b>	<b>DISB. OUTSTANDING U\$US Equivalent</b>
Air Jamaica	USD	US\$325,000,000	325,000,000.00	<b>325,000,000.0</b>
Port Authority (PA)	JPY	JPY266,368,381	266,368,381.00	704,362.0
	GBP	GBP 757,532	757,532.00	1,028,125.0
	CHF	CHF 3,613,628	3,613,628.00	2,020,798.0
	EUR	EUR 12,199,480	12,199,480.00	14,683,637.0
	USD	US\$233,523,970	200,833,438.20	103,147,860.0
				<b>121,584,782.0</b>
Jamaica Telephone Co.	USD	US\$21,500,000	21,500,000.00	<b>6,038,298.0</b>
Development Bank of Jamaica (DBJ)	USD	US\$72,000,000	72,000,000.00	27,869,391.0
	EUR	EUR 108,860,000	108,860,000.00	61,017,337.3
				<b>88,886,728.3</b>
Trafalgar Development Bank (TDB)	USD	US\$3,579,098	3,579,098.00	<b>4,541,875.0</b>
Urban Development Corporation (UDC)	USD	US\$15,000,000	15,000,000.00	<b>14,902,021.0</b>
JNIC	NLG	NLG 9,167,000	9,167,000.00	<b>1,109,193.0</b>
Coffee Industry Board (CIB)	EUR	EUR 1,830,762	1,830,762.00	<b>1,633,195.0</b>
Bloody Bay Development	USD	US\$4,300,000	4,300,000.00	<b>143,333.0</b>
National Water Commission (NWC)	EUR	EUR 12,034,784	6,951,024.00	8,806,566.8
	USD	US\$7,786,996	6,090,529.00	6,090,529.7
				<b>14,897,096.5</b>
BOND Holders - CAP	USD	US\$125,000,000	125,000,000.00	<b>69,900,000.0</b>
NROCC	USD	US\$75,000,000	75,000,000.00	<b>75,000,000.0</b>
University of the West Indies	USD	US\$3,350,102	3,350,102.00	<b>1,568,412.0</b>
Caribbean Housing Finance Corporation	GBP	GBP 10,000,000	10,000,000.00	<b>5,622,000.0</b>
<b>TOTAL</b>				<b>730,826,933.8</b>

**Legend**

**AID** Agency for International Development  
**BNS** Bank of Nova Scotia  
**BPS** Banque de Paribas  
**CDC** Commonwealth Development Commission  
**CDB** Caribbean Development Bank  
**DEG** Duetsche Entwicklungsland GMBH  
**EDC** Export Development Corporation  
**EUIB** European Investment Bank  
**EEC** European Economic Community Commission  
**HSBC** HSBC Bank  
**IDB** Inter American Development Bank  
**KBC** KBC Bank  
**OPEC** Organisation of Petroleum Exporting Countries  
**NIB** Netherland Investment Bank  
**CAP** Clarendon Aluminum Partners

**USD** United States Dollars  
**JPY** Japanese Yen  
**GBP** Great Britain Pound  
**CHF** Switzerland Francs  
**EUR** European Currency  
**NLG** Netherland Guilders

Debt Management Unit  
November 6, 2006