



ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE  
FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

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MINISTRY OF FINANCE AND THE PUBLIC SERVICE  
30 NATIONAL HEROES CIRCLE  
P.O. BOX 512  
KINGSTON  
JAMAICA

June 9, 2009

Dr. Omar Davies, M.P.  
Opposition Spokesman on Finance and Planning  
c/o Houses of Parliament  
Gordon House  
Kingston

Dear Dr. Davies,

**Re: Ministry Paper for Government Guarantee of Loans to Air Jamaica Limited (AJL)**

The attached replaces the Ministry Paper for the Government Guarantee of Loans to Air Jamaica Limited which was dated May 19, 2009, and which was not tabled.

The current Ministry Paper represents a higher amount than that which was included in the previous Paper. The amount on the previous Ministry Paper was increased from US\$50.6 million to \$US101.8 million, which is critical for AJL's operational requirements. This amount will satisfy all the guarantees currently being sought on behalf of AJL.

In view of the urgent situation at Air Jamaica, I am seeking your co-operation in having this guarantee issued this afternoon.

Additionally, I am also preparing answers to questions in your letter dated May 25, 2009 regarding Air Jamaica Limited, which I will give you when I arrive at Parliament.

Yours sincerely,

Audley Shaw, MP  
Minister of Finance and the Public Service

**GOVERNMENT GUARANTEES OF LOANS OF APPROXIMATELY  
US\$101.8 MILLION TO AIR JAMAICA LIMITED (AJL)**

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**1.0 INTRODUCTION**

- 1.1 The Honourable House of Representatives is being asked to consider and approve Government of Jamaica guarantees under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act (the Act) in respect of borrowings by AJL of approximately One Hundred and One Million Eight Hundred Thousand United States Dollars (US\$101,800,000.00) or the J\$ equivalent thereof.
- 1.2. AJL has to date negotiated financing facilities with the Bank of Nova Scotia Jamaica Limited (BNS); National Commercial Bank Jamaica limited (NCB); NCB Capital Markets Limited (NCBCM); First Global Bank Limited (1<sup>st</sup> Global), International Lease Finance Corporation (ILFC) and CIT Aerospace (CIT).

**2.0 BACKGROUND**

- 2.1 AJL's Business Plan for 2009/2010 (the Plan) which proposes to stabilise the airline and make it more attractive for divestment was considered by the Government. The main focus of the Plan is the restructuring of AJL to achieve a break-even position by summer 2009 and a return to net profit by 2010.
- 2.2. The objectives include refocusing the operations of the airline; resizing its fleet; and increasing aircraft utilisation and productivity by a reduction in the size of the fleet from fifteen (15) to nine (9) aircraft, and an increase in the average utilisation of aircraft from eight (8) hours to ten (10) hours per day.

**3.0 FINANCIAL CONSIDERATIONS**

- 3.1 The Plan projected net operational losses and transition costs equivalent to US\$63.2 million (inclusive of projected profit of the equivalent of US\$10.9 million) for the twelve month period ending December 2009, and identified a financing requirement equivalent to US\$150 million: US\$135 million for January to June 2009 and US\$15 million for July to December 2009.
- 3.2 In seeking to satisfy its financing requirements, AJL has identified potential sources of financing of up to US\$149.5 million inclusive of local borrowings of up to the equivalent of approximately US\$62.8 million and



external obligations of up to the equivalent of approximately US\$39 million that would require Government guarantees. AJL will be seeking guarantees of an amount of up to the equivalent of US\$101.8 million.

- 3.3 The airline's performance for the period January to April 2009 showed losses before Government subsidies of US\$50.62 million compared with a budgeted loss of US\$66.78 million, an improvement of 24%. This outcome resulted mainly from reduced operating expenses of US\$123.32 million compared with budget of US\$142.85 million given lower than budgeted fuel charges of US\$15.77 million. Fuel charges were US\$14.80 million or 48.4% lower than budget based on the decline in world oil prices. However, due to declining market conditions revenues reflected a 10.8% shortfall from budget.

#### **4.0 ISSUE**

- 4.1 Loan proposals were received from BNS, NCB, NCBCM, 1<sup>st</sup> Global, ILFC and CIT for the provision of financing of up to the equivalent of approximately US\$101.8 million in local, Canadian Dollar (C\$) and US\$ currencies.
- 4.2 The salient indicative terms of the facilities subject to final approvals are outlined in the Appendix hereto.

#### **5.0 RESULTS OF BUSINESS PLAN 2009-10**

- 5.1 Despite the financial challenges associated with the delay in obtaining financing, the airline is on target in the implementation of the key aspects of the Business Plan. Key results are outlined below:

- The closure of non-core markets, namely: Los Angeles, Atlanta, Grand Cayman, Jamaica to the Eastern Caribbean and the consolidation of Miami into Fort Lauderdale was conducted in February 2009.
- Regarding the reduction of the fleet from fifteen to nine aircraft, discussions with lessors have been concluded with a view to returning five aircraft by September 2009.

- 5.2 AJL's operating reliability for January to April 2009 has shown significant improvement over that for the similar period in 2008 and is expected to improve further during the remainder of the year. The Table below illustrates key performance indicators for the period.

	April 2009 (YTD)	April 2008 (YTD)
	Actual	Actual
Aircraft Utilization (Hrs per day)	7.7	7.8
Dispatch Reliability (%)	99	93
On Time Performance (%)	63	52
Passenger Load Factor (%)	69	64
No. of Passengers	385,586	465,847

## 6.0 CONSULTATION

- 6.1 The Attorney General's Department's review of the loan and guarantee documentation and its advice on their appropriateness for execution by the Government have been sought, and any necessary adjustment will be made prior to finalisation.

## 7.0 FEES AND SECURITY

- 7.1 Pursuant to the provisions of Section 3 (2) of the Act requiring the payment to the Government of a commission not exceeding one per cent of the amount borrowed, as the Minister may determine, it is proposed that, in light of AJL's financial condition, AJL pays to GOJ a token fee not exceeding 0.0010% of the guaranteed facilities, payable in the J\$ equivalent within thirty (30) days of execution of the Guarantees.
- 7.2 In the event that the Government is required to make any payment under the facilities to be guaranteed hereby, it is proposed that such payments would be charged upon the revenues and assets of AJL to be repaid on terms to be agreed with the Ministry of Finance and the Public Service.

## 8.0 RECOMMENDATION

- 8.1 The Honourable House is accordingly being asked to consider and approve:
1. the guarantee of the repayment of principal and the payment of interest in respect of financing facilities in the aggregate amount of up to the equivalent of ONE HUNDRED AND ONE MILLION EIGHT HUNDRED THOUSAND UNITED STATES DOLLARS (US\$101,800,000.00), to be raised by Air Jamaica Limited, under the provisions of the Approved Organisations and Authorities Loans

(Government Guarantee) Act, and under general terms as set out under paragraph 4.2 above and to be finalised in the appropriate Loan and Financing Agreements;

2. exemption of the facilities from the payment of duties or fees payable under the Stamp Duty Act; and
3. the payment by AJL of a fee of 0.0010% of the guaranteed facilities as per paragraph 7.1, and the protection of any amount paid by the government as indicated in paragraph 7.2 above.

9.0 I will move the appropriate resolution in due course.

A handwritten signature in black ink, appearing to read 'Audley Shaw', with a stylized flourish at the end.

Audley Shaw, M.P.  
Minister of Finance and the Public Service  
June 08, 2009



## PROPOSED FINANCING TERMS

a) **Offers from BNS:**

(i)	Type of Facility	Non- Revolving Demand loan
	Loan Amount	US\$10.0 million – J\$ equivalent, up to a maximum of \$950 million
	Tenure	One (1) Year
	Interest Structure	Fixed at 22.50% p.a. for six months; thereafter at the 6-month Treasury Bill rate plus 2.0% p.a. or the prevailing rate on the 180-day BOJ Repo rate plus 2.0% p.a. (whichever is higher) for the remaining six months, to be reset quarterly
	Current Rate	22.5% p.a. for 6 months
	Default Interest	Current rate plus 3.0% p.a.
	Interest Payments	Monthly in arrears, on the first day of each month
	Repayment	At maturity
	Commitment Fee	1.0% + GCT (if applicable)
	Security	Government Guarantee
(ii)	Type of Facility	Letters of Credit
	Amount	Seven facilities in J\$, US\$ and C\$ and in the aggregate equivalent amount of US\$1,107,862
	Tenure	Up to a maximum period of one year
	Rate/Commission	2.5% p.a.
	Fees	Annual review fees of 1% of the facilities, plus GCT.

b). **Offer from NCB Capital Markets Limited:**

▪ Lender	NCB Capital Markets Limited
▪ Type of Facility	J\$ Secured Variable Rate Notes
▪ Loan Amount	\$3,100.0 million (US\$34.4m)
▪ Tenure	Twenty four (24) months
Interest Structure	Fixed at 22.51% p.a. for 3 months, thereafter at 2.0% p.a.

	above the GOJ 6-Month Treasury
▪ Current Interest Rate	Bill rate
▪ Interest Payments	22.51% p.a.
▪ Principal Repayment	Quarterly
▪ Commitment Fee	Bullet payment at maturity
▪ Security	0.50% of amount + GCT
	Government Guarantee of all principal and interest payments
c). <b><u>Offers from 1<sup>st</sup> Global</u></b>	
(i) Loan Amount	US\$5.0 million
▪ Tenure	One (1) year
▪ Interest Structure	1st Global's Base Rate of 10.25% plus 1.00% p.a.
▪ Current Interest Rate	11.25% p.a.
▪ Late Fee	2% on overdue amounts with a minimum charge of US\$35
▪ Interest Payments	Monthly
▪ Principal Repayment	Balloon payment at maturity
▪ Facility Fees	0.75% + GCT
▪ Security	Government Guarantee
(ii) Loan Amount	US\$2.0 million
• Tenure	Nine (9) months
▪ Interest Structure	1st Global's Base Rate of 10.25% plus 1.00% p.a.
▪ Interest Rate & Payment	11.25% p.a. payable monthly
▪ Principal Repayment	At maturity after 9 months
▪ Commitment Fee	0.75%
▪ Documentation Fees	For the account of Air Jamaica
▪ Security	Government Guarantee
d) <b><u>Offer from NCB</u></b>	
• Type of Facility	Overdraft
• Amount	\$895 million
• Purpose	Working capital
• Tenure	One (1) year
• Interest Rate	NCB's Base Rate of 23.0% plus 1.25% p.a.
• Commitment Fee	0.5% of amount plus GCT
• Security	GOJ Guarantee

## TERMS OF LESSOR REFINANCING

### a) Offer from ILFC

▪ Lender	International Lease Finance Corporation
▪ Type of Facility	Promissory Note
▪ Loan Amount	US\$38.3 million
▪ Tenure	Five (5) years
▪ Interest Structure	Fixed
▪ Current Interest Rate	8.0 % p.a.
▪ Interest Payments	Monthly
▪ Principal Repayment	Monthly
▪ Facility Fees	None
▪ Security	Government Guarantee

### b). Offer from CIT

▪ Lender	CIT Aerospace
▪ Type of Facility	Promissory Note
▪ Loan Amount	US\$724,064
▪ Tenure	One (1) year
▪ Interest Structure	Fixed
▪ Current Interest Rate	10.5 % p.a.
▪ Default Rate	12.5%
▪ Interest Payments	Monthly
▪ Principal Repayment	Monthly
▪ Facility Fees	None
▪ Security	Government Guarantee



## RESOLUTION

The Minister of Finance and the Public Service to move:

“BE IT RESOLVED THAT with reference to Ministry Paper No.                      dated June 8, 2009, this Honourable House of Representatives approve Government Guarantees under the provisions of the Approved Organisations and Approved Authorities Loans (Government Guarantee) Act, in respect of financing facilities in the aggregate amount of up to the equivalent of ONE HUNDRED AND ONE MILLION EIGHT HUNDRED THOUSAND UNITED STATES DOLLARS (US\$101,800,000.00) to be raised by Air Jamaica Limited, in support of the financing requirements for its approved Business Plan for 2009/2010.”

**GOVERNMENT GUARANTEED LOANS OUTSTANDING BALANCES  
UNDER THE APPROVED ORGANIZATIONS AND AUTHORITIES  
LOANS (GOVERNMENT GUARANTEED) ACT  
AS @ 31st DECEMBER, 2008 (J\$)**

**DOMESTIC DEBT**

ENTITY	AMOUNT AUTHORISED	AMOUNT DISBURSED	AMOUNT REPAID	AMOUNT OUTSTANDING	No. of Loans
AIR JA	\$ 804,713,000.00	\$ 804,713,000.00	\$ -	\$ 804,713,000.00	1
DBJ	\$ 600,000,000.00	\$ 600,000,000.00	\$ 50,002,000.00	\$ 549,998,000.00	1
JMB	\$ 500,000,000.00	\$ 500,000,000.00	\$ -	\$ 500,000,000.00	1
JUTC	\$ 300,000,000.00	\$ 300,000,000.00	\$ 131,250,000.00	\$ 168,750,000.00	1
NWC	\$ 2,157,417,995.00	\$ 2,157,417,995.00	\$ 352,370,436.02	\$ 1,805,047,558.98	3
NROCC*	\$ 3,552,000,000.00	\$ 3,552,000,000.00	\$ -	\$ 7,984,709,358.00	1
PAJ	\$ 7,556,255,070.00	\$ 7,556,255,070.00	\$ 1,441,217,324.44	\$ 6,115,037,745.56	3
PCJ	\$ 1,287,540,800.00	\$ 1,287,540,800.00	\$ 337,979,726.36	\$ 949,561,073.64	1
SLB	\$ 1,774,170,000.00	\$ 1,757,040,000.00	\$ 373,138,888.90	\$ 1,383,901,111.10	1
<b>TOTAL</b>	<b>\$ 18,532,096,865.00</b>	<b>\$ 18,514,966,865.00</b>	<b>\$ 2,685,958,375.72</b>	<b>\$ 20,261,717,847.28</b>	<b>13</b>

**LEGEND**

AIR JA	Air Jamaica
DBJ	Development Bank of Jamaica
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
SLB	Students Loan Bureau

**EXCHANGE RATES**

US\$1 = JAS 80.4713  
€ = JAS104.3475  
(as @ 2008/12/31)

\*Linked to CPI; includes inflation- compensating amount in the form of capitalised interest.

## JAMAICA GOVERNMENT GUARANTEED LOANS

## STOCK OF EXTERNAL DEBT

By Creditor in USD

December 31, 2008

ENTITY	CURRENCY	LOAN AMOUNT Original Currency	AMOUNT DISB. Original Currency	AMOUNT REPAID Original Currency	DISB. OUTSTANDING US\$US Equivalent
Air Jamaica	USD	US\$450,000,000	450,000,000.00	-	450,000,000.0
Port Authority (PA)	JPY	JPY266,368,381	266,368,381.00	218,083,021.00	357,866.9
	GBP	GBP 757,532	757,532.00	294,350.00	802,542.1
	CHF	CHF 3,613,628	3,613,628.00	1,501,284.00	2,392,639.0
	EUR	EUR 18,811,808	18,664,003.00	10,045,158.68	11,980,193.6
	USD	US\$233,523,970	196,826,408.00	45,832,181.00	150,994,227.0
					166,527,468.6
Jamaica Telephone Co.(JTC)	USD	US\$21,500,000	21,500,000.00	16,102,127.71	5,397,872.3
Development Bank of Jamaica (DBJ)	USD	US\$72,000,000	72,000,000.00	43,676,231.09	28,323,768.9
	EUR	EUR 108,860,000	108,860,000.00	95,478,795.15	18,599,874.7
					46,923,643.7
Urban Development Corporation (UDC)	USD	US\$15,000,000	15,000,000.00	3,159,273.60	11,840,726.4
Coffee Industry Board (CIB)	EUR	EUR 3,300,000	1,830,762.00	707,573.40	1,779,804.7
National Water Commission (NWC)	EUR	EUR 16,495,150	16,495,150.00	6,091,646.19	14,460,870.3
	USD	US\$4,818,180	4,818,180.00	2,409,090.00	2,409,090.0
					16,869,960.3
BOND Holders (CAP)	USD	US\$200,000,000	200,000,000.00	-	200,000,000.0
NROCC	USD	US\$75,000,000	75,000,000.00	75,000,000.00	-
University of the West Indies (UWI)	USD	US\$3,350,102	3,350,102.00	2,642,678.00	707,424.0
Caribbean Housing Finance Corporation	GBP	GBP 10,000,000	10,000,000.00	8,671,166.40	1,666,667.0
TOTAL					901,713,566.9
TOTAL J\$					72,562,062,955.4

Legend

USD United States Dollars

JPY Japanese Yen

GBP Great Britain Pound

CHF Switzerland Francs

EUR European Currency

NROCC National Road Operating and Constructing Company

Debt Management Unit

February 16, 2009