

**STATEMENT BY THE HONOURABLE D. KURT TIBBETTS, OBE, JP,
MINISTER FOR PLANNING, LANDS, AGRICULTURE, HOUSING & INFRASTRUCTURE**

**TO THE
LEGISLATIVE ASSEMBLY OF THE CAYMAN ISLANDS
Thursday, 13 August 2015**

Fuel Prices and its Impact on the Local Economy

**Government 's Initiative to Ensure Competition
In the Fuel Market Sector**

Madam Speaker:

It is not an embellished or exaggerated statement to say fuel is one of the most important drivers of the Cayman Islands economy or any modern economy for that fact. Fuel prices are essential for the economy's competitive advantage and any negative or anti-competitive behaviour by the industry has a colossal impact on the whole economy.

Successive administrations have struggled for years now to come to grips with the pricing structure of fuel by the local bulk distributors. We can no longer turn a blind eye to what's taking place locally within the fuel market. There is no proper way to explain the unbalanced and arbitrary behaviour of the local prices as they relate to what is taking place on the global market. The public's perception is that the local market prices are immediately reflected when prices increase on the world market but slow to respond when prices have the opposite effect globally.

This Government is committed to requiring the fuel importers to explain their apparently irrational behaviour as it relates to global fuel prices. The Government's first step to regularizing this sector of our economy will be the embedding of a monitoring & oversight mechanism in the new "Public Utilities Commission," which is currently being developed. This is an essential step as we believe that the availability of fuels at reasonable prices is vital to the national economic wellbeing.

The current laissez-faire approach (or lack of oversight) of the fuel market is clearly not working and it is obvious that the industry is not doing a great job of communicating to their consumers. Based on frequent public outcry of foul play and market failure, it appears that the public's view is that there is no

clear correlation to the international market or justification for local fuel prices.

We are certain that market fair play is a key ingredient for the country's continued economic growth. When we factor in the recent reduction of government duty on fuel and the currently low global fuel prices we still see that there has been no noticeable relief of local fuel market pressure. It is evident that the Cayman Islands residents and businesses are not seeing these savings from global trends and reduction in fuel prices indicated in the Platts fuel postings.

It is the Government's firm position that we must first determine if competition truly exists in the local fuel market. If it is determined that the market is not competitive then Government will promote and ensure true competition by creating a suitable framework (with a view to carrying out/promoting effective competition). If these measures fail to ignite competition amongst the participants then the next step will be outright market price regulation. In order to ensure true competition within the local market the Government...must collect data from the bulk importers and immediately conduct analysis of historical data comparing and contrasting. Going forward the agency responsible will develop the necessary database and data mining tools and skills to properly monitor the fuels market. We also need to evaluate and perform analysis of trends observed in the market; understand the dynamic of fuel prices together with the parallels between the local market prices and the Platts fuel prices. We need to better understand the commercial strategy of the local companies. In short we need transparency.

Currently legislation is being drafted to enable market oversight and is to be presented at the House's next Meeting. This legislation will permit the gathering of data from the industry for the economic monitoring of the importation of fuel to determine the level of competition. The main objective of the legislation is to protect the economic wellbeing of the people Cayman Islands. The proposed Competition policy espoused in the legislation will allow the government to build an adequate (institutional & legislative) framework for competition to determine the market efficiency and act after it determines that companies in the market activities are anti-competitive or inefficient. The Government policy will escalate to regulation of the market if it determines outright market failure in the fuel sector.

In CONCLUSION a competitive economy is the basis for Government action. An economy that can compete globally based on fair prices for external inputs/resources is a healthy economy. The more competitive an economy is the more potential it has for economic growth and higher income for citizens.

This Government will look to regularize any factors that negatively influence the productivity of our economy.

The old argument that Cayman market is 'too small' is stale and no longer an acceptable premise. It is a truism that our per capita fuel usage is significant and surpasses most countries in our region. We must find a way to achieve fuel prices that are fair and indicative of the international markets. The fuel suppliers need to be good corporate citizens and work with Government to find a balance. We the Government will remain vigilant on the issue and will adapt our policies to attain this end.

If this initiative to establish fair market prices is unsuccessful then it is crucial that the Government pursues other policies that will promote an attractive competitive environment for the local fuel importation market. For example, the Government will look at relaxing or reducing some of these formal and informal barriers to encourage more competition and diminish the market concentration which is the situation that currently obtains. Additionally the Government will look to attract investors for a storage facility that will have the capability to store a larger volume of fuel than currently imported. In any such arrangement the Government will consider setting rates for fuel that is for local consumption. This will help to stabilize local fuel prices and create revenue for the Islands.

The Government will also look at incentives to promote the importation of substitute goods to reduce the negative impact of fuel on the consumer and the economy caused by unfair market prices.

So, let the industry take note that we as a Government will take all necessary actions to ensure that the economy of these Islands continues to grow across all sectors and that one segment of the economy does not intentionally or unintentionally stifle growth for the others.

Thank You