

DRAFT

PORT AUTHORITY

Minutes of the 327 Meeting of the Members of the Port Authority Board of Directors held at 45A Harbour Drive at 1000 hours on Thursday, May 19, 2011.

Present:

- Mr. Stefan Baraud (Chairman)
- Mr. James C. Parsons, Jr (Acting Secretary)
- Mr. Ashton Bodden, JP
- Mr. Curly Evans
- Mr. Lee Ramoon
- Mr. James A. Bodden MBE, JP
- Mr. Carson Ebanks MBE, JP
- Mr. Collie Powery

Attendees:

- Mr. Clement Reid
- Mr. Tully Cornick - KPMG
- Mr. Daniel Priestley - Priestleys
- Mr. Alastair Swarbrick – Auditor General
- Mr. Martin Rubin – Audit Manager
- Mr. Kenrick Webster – Webster Tours

Apologies:

- Mr. Rudy Garvin
- Mr. Woody Foster (Deputy Chairman)
- Mr. Noel March

		NOTICE AND QUORUM	

		The Chairman noted that due notice of the Meeting had been given to all Members and that a quorum existed. Accordingly, the Meeting could proceed.	
1		The Minutes of the 325 meeting were approved on a motion moved by Mr. James A. Bodden and seconded by Mr. Ashton Bodden. The Minutes of the 326 meeting were read and changes proposed after which they are to be circulated to members and brought before the Board at the next meeting.	
2		MATTERS ARISING	
		With the exception of a few punctuation and grammatical changes the minutes for March 31, 2011 was approved.	
3		OFFICE OF THE AUDITOR GENERAL	
		The Auditor General, Mr. Alastair Swarbrick and his audit manager, Mr. Martin Ruben were invited to the Board meeting so that they could get an update on the new cruise project. Attached, is detailed notes taken by Daniel Priestley and therefore forms a part of these minutes, "see attached document".	
4		Kenrick Webster	
		Mr. Webster explained that he would like to see a better passenger flow at the RWCT especially the pre-booked passengers. At present his business was being hindered mainly through the delay in getting his pre-booked passengers through the entrance gate and into the staging area. He suggested that the current gate that the passengers use, that is located next to the Immigration/Customs office, be changed so that a more	

		<p>efficient and timely traffic flow for the pre-booked passengers can be had which would enhance their visit. The board suggested to Mr. Webster that he canvas the other tour operators and get their feedback on his suggestion and get back to the board at his earliest convenience.</p> <p>Mr. Webster also mentioned to the Board that the Port Authority need to take action against persons messing up the staging area namely around the area closest to the Kiosks. He explained that on many occasions he had to wash down the area with bleach to kill the foul scent before he could allow passengers to board his buses. The board suggested that port management write to all operators about the problem and communicate that it's an offense to mess any area of the dock and punishable by suspension. The Board further suggested that the port security must be more vigilant and forthright with the users of the facility. If necessary, more portable toilets must be located in strategic areas.</p>	
5		Job Placement on Cruise Ships	
		<p>A discussion took place around getting the PACI involved in an apprenticeship program onboard the cruise ships. This could be carried out with the assistance of the FCCA, DOT and the Human Resources Manager of the Port Authority. It was suggested that since St. Vincent had such a program that it would only be fitting to make contact with their DOT counter part and solicit ideas.</p>	
6		Agenda items 6, 7 and 8 were deferred.	
7		Other Business	

	<p>- Members wanted to know if PACI have in place a policy requirement for third parties conducting business on its premises. Does the policy require third parties to have liability insurance, a TBL, a certificate of good standing, references, a clean police clearance, and any other document that would suggest that the party is a reputable one to be doing business on the Port premises? If there is one in place its time that one should be put in place. Attending management was not aware of such a policy.</p>	
	<p>There being no further business the meeting was adjourned at 1445 hours. The next meeting will be announced once the time is determined.</p>	

Stefan Baraud Chairman

James C. Parsons (Acting) Secretary

Project for the expansion of the George Town, Grand Cayman Port

**Minutes of a meeting of PACI's Board and the Auditor-General at 12pm on 19 May
2011 at the offices of PACI, Harbour Drive, Grand Cayman**

STRICTLY CONFIDENTIAL

In attendance:

Stefan Baraud - PACI
Clement Reid – PACI
James Parsons – PACI
Tully Cornick – KPMG
Curley Evans – PACI
James Bodden – PACI
Ashton Bodden – PACI
Carson Ebanks – PACI
Collie Powery – PACI
Lee Ramon - PACI
Daniel Priestley – Priestleys Limited
Alastair Swarbrick – Auditor-General
Martin Ruben – Audit Manager, offices of the Auditor-General

SB opened the meeting by making introductions of those present.

AS explained that the reason he asked for a meeting is because at least a year had passed since there had been any substantive contact between the A-G's office and PACI concerning a very large procurement exercise. There had been a lot of speculation in the press about the project and the A-G wanted to know how things had progressed to date and how matters would be progressing in the future. The A-G's office was also interested from the perspective of informing future procurement exercises.

AS also explained that in order to protect the public purse, his office intended to adopt a proactive approach and rather than just "bayoneting the wounded" (i.e. not providing any guidance along the way and merely looking at the project after the procurement exercise has been completed and then critiquing the process); his office would now like to be involved on a regular basis so as to provide informal advice and hopefully give informal guidance so as to improve the execution of the procurement process.

SB then gave a brief overview of the conduct of the project so far. SB stated that the overarching principle guiding the Board was implementation of the policy of the Cayman Islands Government ("CIG"). The process had begun with the publication of a tender document. There were 12 or 13 respondents. A selection committee was formed and evaluation criteria agreed upon. Decco Ltd. ("Decco") was chosen as the "best fit", particularly because of its ability to fund the project. The parties agreed an MoU and then came to agreement as to the form of a framework agreement (although that

framework agreement was never fully executed). The negotiations broke down because Decco had demanded a 99 year lease which was considered to be politically unacceptable. Decco then withdrew from the project and it was decided to invite the second placed bidder, GLF Construction Corporation ("GLF") to execute a framework agreement, which took place on 14 December 2010. The framework agreement provided a structure for moving the project forward, including: (1) an initial term of 4 months subject to extension for a further 2 months, (2) no recourse to existing revenue streams for funding purposes, (3) no security (except perhaps over project land), (4) no sovereign guarantees, (5) the creation of two piers providing 4 berths, including certain reclamation works, (6) other ancillary infrastructure works, (7) a requirement for the developer to create the revenue streams necessary to fund the project for which extra reclamation was possibly envisaged in order to create facilities for tourists to generate revenue although subject to a restriction that anything constructed could not prejudicially compete with existing businesses in George Town. SB explained that the principal source of funding would be from commitments given by the cruise lines and that the principal players, Carnival Cruise Lines ("Carnival") and Royal Caribbean Cruise Lines ("RCCL"), had tentatively agreed, respectively, to pay approximately US\$5 per passenger over 20 years for a guaranteed annual minimum throughput of 600,000 passengers and approximately US\$6 per passenger over 20 years for a guaranteed annual minimum throughput of 250,000 passengers. These commitments still resulted in a shortfall. By April of this year CIG had apparently formed the view that GLF would be unable to fund the project, leading to the termination of negotiations with GLF. SB noted that PACI had been reasonably satisfied with the progress GLF had made and was somewhat surprised by CIG's decision to end negotiations with GLF.

AS asked what the status of the framework agreement with GLF now is. DP stated that whilst CIG had purported to terminate the framework agreement, CIG had stated in its communication with GLF that it was still willing to work with GLF on a non-exclusive basis. DP stated that GLF had informed him that GLF was not prepared to proceed on a non-exclusive basis because this would involve committing further funds when GLF could be "gazumped" at any time.

SB stated that PACI is obliged to follow CIG policy. If CIG changes its policy (eg by mandating a new developer) then PACI must follow CIG's lead. SB stated that, at the behest of CIG, he and Woody Foster had met with representatives of China Harbours who CIG had now designated as the new developer. SB stated that it was clear that China Harbours are at a very preliminary stage in their planning.

AS asked who would be the appropriate person to talk to in order to obtain a clear understanding of CIG's policy in connection with the project. SB stated that the Premier had indicated that he would be personally leading the project from now on and therefore the Premier is the appropriate person to speak to.

AS asked what the cost consequences of the project had been. SB said that the only costs incurred by PACI to date were in relation to consultants' fees. DP stated that GLF had suggested making a claim against CIG/PACI for breach of the framework agreement.

AS suggested that delays in executing the project may negatively impact on Cayman's cruise business, especially as there are now so many berthing facilities elsewhere in the Caribbean. SB agreed and stated that it is important to Cayman's cruise business to get the project completed. SB stated that PACI/CIG has good relationships with Carnival and RCCL. There had been some decline in cruise business as a result of the economic downturn. The Oasis class ship had begun service in the Western Caribbean and does not stop in Cayman and so revenue was definitely being lost as a result of that. The RCCL business model calls for RCCL's existing ship stopping in Cayman to be relocated to the Mediterranean. RCCL values Cayman as a destination and had pledged to keep coming to Cayman for as long as possible but it was noted that financial considerations may dictate otherwise. Cayman must improve its infrastructure in order to be competitive in the market. There were two ports capable of berthing cruise ships in the Caribbean in 1997. There are now 20 such ports. This project has broad political and public support.

AS asked whether PACI is of the view that GLF could have procured funding for the project. TC stated that GLF had been working on a BBB- rated bond issuance to fund the project. As at the time negotiations with GLF were terminated, GLF had requested a meeting with CIG to present its finance plan to be sponsored by Citibank. GLF had been willing to inject up to US\$30M in equity. Citibank had agreed to sponsor the bond issuance on a contingent basis and it is therefore TC's view that Citibank must be very confident about the prospects of a successful take up of the bonds although there would always be the risk that the bond issuance is unsuccessful.

MR asked whether there are any other significant difficulties associated with the project. SB said that an environmental impact assessment ("EIA") would be required in connection with the project. An EIA had been commissioned by Decco in connection with their bid for the project but Decco is unwilling to allow anyone to see their EIA unless Decco is compensated for it in the amount of approximately US\$2M. Time is being lost but a commitment to make such a large payment could not be given unless and until the value of the materials to be acquired is ascertained. In addition, Department of Environment ("DoE") had not had sight of Decco's EIA and it is uncertain as to whether DoE would approve its terms of reference. SB noted that terms with the cruise lines still needed to be negotiated and that the project must comply with their requirements. The Public Management and Finance Law must be complied with and the project must be procured on a competitive basis.

SB asked AS what his office would be looking for in its assessment. AS stated that it is concerned about how procurement was being carried out in Cayman generally, that he would like to see the necessary expertise being applied and for there to be accountability. MR stated that he is having some difficulty understanding the roles and responsibilities of the various parties in connection with this procurement exercise. SB stated that because all of PACI, the elected arm of CIG and the administrative arm of CIG had roles in the project, this made it somewhat difficult to create a consensus.

AS stated that CIG sets the policy and PACI works within the policy mandated by CIG. AS stated that his experience showed that political pressure is always brought to bear in these kinds of projects and he is concerned that good business decisions can be adversely affected by policy considerations which are not practical. AS suggested that, going forward, there should be minimum quarterly meetings to discuss the progress of the project.

JP asked how information forthcoming from PACI to the A-G's offices would be used. AS stated that he would be prepared to give informal advice along the way. AS stated that the A-G's offices must not be part of management decisions but also that his offices must be practical in order to assist in delivering best value for money. AS stated that formal advice would only be given in connection with his offices' audit of the project after execution.
