ABIC

Association of Bermuda International Companies
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October 22, 2004.

The Hon. Alexander Scott, JP MP
Premier
The Cabinet Building
105 Front Street
Hamilton HM 12

Subject: Independence

Dear Mr. Premier:

The subject of Independence for Bermuda has become a topic of discussion once again on the Island.

As the member organization comprising the largest number of international companies with a physical presence in Bermuda, the Association of Bermuda International Companies ("ABIC") would like to share with you and your Government colleagues, some of the issues and concerns of our membership.

ABIC and its member companies do not have a vote, but a majority of our employees being Bermudian do. Our interest in this subject is solely to contribute to an outcome that represents the true wishes of Bermudians and would encourage the continued growth and prosperity of our sector.

ABIC commenced in 1971 as the International Companies Division ("ICD") of the Bermuda Chamber of Commerce. Our membership now comprises some 133 international organizations including insurance, reinsurance, trading, oil management and investment companies. (See attached listing our current membership).

Collectively, we employ both directly and indirectly a large number of the Island's residents. We utilize all of the Island's services, from taxis to hotels, gas stations, grocery stores, landscaping firms, retail shops and restaurants.

While our member companies range in size from small one or two person organizations to substantial global firms listed on international stock exchanges, with their individual corporate resources exceeding those of Bermuda as a country, our focus here is on continued success in Bermuda. International Business, represented by our membership, is by far the largest contributor to the Bermuda economy. Our contribution has been recognized by your Government and we offer the following for your consideration as part of the debate and decision process on the subject of Independence for Bermuda.

INDEPENDENCE IS BOTH AN ECONOMIC AND AN EMOTIONAL ISSUE. As such, it should be thoroughly debated and decided by the majority of Bermudians. The form of vote in the process is paramount. Independence should not be forced on a reluctant population. Referenda have been successfully used by many other jurisdictions, most recently by a number of EU countries before joining that union. The alternative of using a single issue General Election is unattractive, given the distraction

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of individual candidates' popularity (or lack of) and the potential influence of "Party Politics" on the outcome. Similarly, a Parliamentary vote would not necessarily be representative of the majority's wishes.

Wide consultation with as many of the affected constituencies prior to a decision is highly desirable in order to thoroughly air all issues and address concerns. As the primary engine of the local economy, Bermuda's international companies should be included in these discussions.

Of the concerns to be addressed, perhaps the next most important surrounds the legal and judicial system. It is essential that stability be maintained in this area. Clarity on who would appoint the Judiciary, rights of appeal to the Privy Council or other body, overall governance structure and corporate and individual rights, must be determined in advance.

A system of checks and balances must also be considered. Who is the Head of State? Who appoints the Governor-General, or appropriate position? Who controls/oversees the Regiment, Police, National and International Defense? What consideration has been given to the renegotiation of treaties (such as, air transportation)? How do constitutional changes get effected? The entire tax and regulatory system needs to be addressed in advance.

Key to International sector's ongoing ability to do business in Bermuda is immigration and work permits. Substantial progress has been made recently, but will this continue in an Independent Bermuda? Assurances, perhaps even guarantees, on work permits, term limits, exempted categories, renewals, and the general ease of application in order to conduct global operations are important considerations.

Similarly, passports are an area of potential concern. What will be the status of Bermudians with UK passports with the right of abode in Bermuda? What will be the acceptance of an Independent Bermuda passport? Will Bermudians still have the right of abode in the UK and Europe? Will residents and visitors to the Island still enjoy U.S. immigration and Customs pre-clearance?

Although often accused of being a tax haven, Bermuda is far from it. The current payroll tax is a de-facto income tax on employees and in many cases, particularly for service companies, represents a substantial corporate tax. Company taxes are noticeable as are real estate taxes and import duties. Bermuda is not a low cost environment in which to do business. The 'cost' of Independence must be thoroughly examined and explained. Increased taxes to pay for Independence would weaken the appeal of Bermuda as a business base and potentially increase the attractiveness of other jurisdictions.

While most International companies conduct their principal business in US Dollars, Euros, Sterling and other major currencies, most of their local expenses are incurred in Bermuda Dollars. Consideration has to be given to Bermuda's trading partners (notably the U.S.) and the real value of the Island's currency. Many of ABIC's member companies have more cash on hand than Bermuda has currency in circulation. Bermuda's AA Standard and Poor's Rating could be exposed if its currency is not properly supported. While attached to the U.K., Bermuda enjoys the benefits of a G-7 country and the economic stability that it implies. This is an important factor for International Business.

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Other relationships and memberships need to be thoroughly examined in advance of any move toward Independence. The Public needs to know about the benefits, implications, cost and responsibilities of being associated with or having membership in organizations like CARICOM, WTO, OECD, and the UN. Expanded relationships with other countries also need to be carefully reviewed. Recent overtures to Cuba prompted a warning from the U.S. Consulate. The unintended consequences of these well intentioned forays could have long term negative impact on our relationships with other countries, particularly our largest trading partner, the U.S. Bermuda is one of a very small number of jurisdictions that enjoys pre-clearance of U.S. Customs and Immigration and visa waivers for Bermudians. ABIC members consider this one of the important components of promoting Bermuda as an International Business center. Anything that jeopardized this relationship would not be well received by our members.

Finally, an understanding of the social implications of Independence – beyond a new flag and the pride of being Bermudian -- is desirable as is a sense of the pace that policy changes would take place. Independence is not something that can take place in a vacuum without considerable involvement of all stakeholders.

Whilst there are a number of factors which should, and will, influence our individual decisions on this issue, ABIC seeks only to provide input on the potential impact on our members, and thus on the International Business sector. In that context, there are almost no positives in any move towards independence and, as outlined above, a number of potential negatives. These need to be carefully handled if this sector, which has become the lifeblood of the Bermuda economy, is to continue its substantial contribution as employers, taxpayers and contributors to the community.

Two essential ingredients in this process, in our opinion, are the need for a full and frank debate before any decision, and then an inclusionary process which will allow Bermudians to make this decision themselves by way of a referendum.

ABIC will continue our correspondence with you as this issue develops. We are, as always, available for a meeting with you and your colleagues at the appropriate time and we trust this can take place in the near future.

Yours sincerely,

David Ezekiel – Chairman

Gavin Arton – Chairman, Government Relations Committee

Attachments: 1) List of ABIC Directors
2) 2004 ABIC Member Companies

cc: Paula Cox – Minister of Finance
Charles Gosling – Chamber of Commerce