

Statement To Parliament

Repayment Of Cap Debt, Mutual Termination Of Alumina Sales Agreement And Entry Into A Marketing Agreement

**Hon. Nigel Clarke, D.Phil., MP
Minister Of Finance And The Public Service**

With the support of the Ministry of Finance and the Public Service, the Clarendon Alumina Production Limited (“CAP”), which is wholly owned by the Government of Jamaica (“GOJ”) and is a 45% shareholder in the unincorporated JAMALCO Joint Venture, has reached a commercial agreement with its Joint Venture partner, the Noble Group as follows:

- (i) CAP (through a loan from the GOJ) will repay debt obligations due to the Noble Group, in the amount of approximately US\$136.7 million (the “Noble Group Loan”).
- (ii) The associated security package held by the Noble Group that secures the loan will be released on repayment of the Noble Group Loan. The security package consists of:
 - (a) A debenture comprising a fixed and floating charge over CAP’s interest in the JAMALCO joint venture;
 - (b) Security Assignment Agreement; and
 - (c) Mining rights granted by way of Special Mining Lease 170 (SML 170).
- (iii) CAP and Noble Group will immediately terminate, by way of mutual agreement, the “Alumina Sales Agreement”, (which ordinarily terminates in 2025, and under which CAP sold its alumina forward to Noble in 2013), and replace it with a three year alumina marketing agreement in respect of CAP’s alumina off-take from the JAMALCO operation.

Under the three-year marketing agreement, CAP will enjoy the same price for alumina that Noble has secured for itself with respect to its alumina off take from the JAMALCO operation. This has not been the case under the existing Alumina Sales Agreement. In return for the marketing of CAP’s alumina at an equivalent price to what it obtains for itself, Noble will be paid a commission of 2% by CAP on the sales price obtained.

These transactions (the “Transactions”) represent an important step towards the incorporation and eventual IPO of the JAMALCO Joint Venture. The Transactions align the interests of the Joint Venture partners who will now, for the first time enjoy the same fortunes with respect to the JAMALCO operation: the same costs and the same revenue less the aforementioned commission.

The Board of CAP and the Cabinet have approved the Transactions.

BACKGROUND

On 17th June, 2013 CAP entered into a Pre-Payment Facility (“PPF”) Agreement and an Alumina Sales Agreement with Noble Resources Limited (“NRL”), a company in the Noble Group.

Under this arrangement, NRL provided a prepayment financing facility to CAP in the sum of One Hundred and Twenty Million United States Dollars (US\$120M) for the purpose of repaying amounts previously owed to the joint venture and temporarily bridged by the PetroCaribe Development Fund, the National Insurance Fund (“NIF”) and the Development Bank of Jamaica (“DBJ”), primarily to pay off CAP’s portion of its working capital debt to Alumina Company of America (“ALCOA”) and also to fund further shortfalls that were expected to occur, in the medium term, until recovery of the alumina market.

On or around 1st October, 2014, the PPF and the Alumina Sales Agreement were novated to Noble Resources International PTE Limited (“NRI PTE”) (Dubai Branch).

Under the 2013 Alumina Sales Agreement, CAP agreed to sell forward the alumina comprising its 45% interest from the JAMALCO operations, and use the income to set off the amounts advanced by NRL. The price at which CAP’s alumina was sold forward to NRL was determined by a formula referring to the London Metal Exchange (“LME”) index. Under the Alumina Sales Agreement, NRL and its affiliates have been and are free to sell the alumina purchased from CAP in this manner on the open market and retain, for itself, the price differential.

It should be noted for historical accuracy that the 2013 forward sale agreement does not represent the first time that CAP sold alumina forward. The first forward sale agreement took place over 30 years ago. Furthermore, the 2013 forward sale agreement was an improvement on the forward sales agreement of 2006 that they replaced.

However, over the course of the 2013 Alumina Sales Agreement CAP’s proceeds from its share of the alumina off take have been insufficient to meet JAMALCO’s cash calls. This has exerted significant fiscal pressure on the GOJ which has had to support CAP with working capital, draining precious resources from the GOJ and impairing CAP’s equity value.

Over the course of the past 16 years the GOJ has supported CAP in the net aggregate amount of over US\$800m¹. Over the past four years net working capital support advanced by the GOJ to CAP, excluding amounts repaid, totals

¹ Source: GOJ/CAP

US\$64m all of which has come in this financial year². The need for working capital support arises as CAP's proceeds from its share of the alumina off take has been insufficient to meet JAMALCO's cash calls.

The GOJ does not have any more space to advance working capital to CAP in this financial year. Instead, with these Transactions we will be strategically using resources that can be made available for debt repayment to structurally improve the cash-flow of CAP – by getting better prices for Alumina relative to market – thereby reducing the likelihood of new working capital needs that require the GOJ's intervention.

BENEFIT OF THE TRANSACTIONS

- (1) The CAP debt to Noble is a part of Jamaica's national debt stock. The Transactions result in a lowering of the national debt by approximately 1% of GDP.
- (2) The CAP debt to Noble carries an interest rate of 8% per annum and matures in 2025. For financing of similar tenure the GOJ is now able to borrow at substantially lower interest rates.
- (3) The Transactions reduce the fiscal risk that CAP poses to the GOJ by immediately improving CAP's cash-flow.
- (4) The Transactions free security interests pledged to Noble which provide CAP with greater flexibility going forward.
- (5) The transactions allows for mutual termination of the Alumina Sales Agreement whereby CAP sells its alumina forward to Noble which Noble has been able to resell at a profit. Given how commodity markets have performed over the course of the Alumina Sales Agreement to date, with the benefit of hindsight, the Alumina Sales Agreement has been disadvantageous to Jamaica. The transactions provide an exit from these arrangements.
- (6) With a replacement marketing agreement where CAP obtains the same price that Noble receives for its off take from the JAMALCO refinery, less a 2% commission, CAP is projected to enjoy better prices for its alumina going forward, *relative to market*, than has historically been the case. For example, CAP's calculations suggest that had this new marketing agreement been in place over the period 2015 – 2019 CAP would have

² In 2017 US\$27m was advanced by the GOJ to CAP which has been fully re-paid in line with the agreement.

been better off by approximately US\$31 million per annum or US\$150 million over that period.

(7) The marketing agreement is of short tenure – three years – relative to historical arrangements whereby Jamaica has been locked in for the better part of a decade or longer. It is anticipated that after the incorporation and listing of JAMALCO on the Jamaica Stock Exchange, the JAMALCO entity will build the technical capacity to market its own alumina. It is intended that by the time the three year marketing agreement ends the technology transfer will have occurred for JAMALCO, in which the GOJ, Noble, and, by that time, others are invested, to profitably market its alumina.

(8) The Transactions improve CAP's equity value.

(9) The Transactions pave the way for the incorporation and IPO of JAMALCO that are vitally important and essential steps to remove CAP as an enormous fiscal risk to the Government of Jamaica and unlock and realize the significant latent value of this GOJ asset. I cannot stress how important this is. CAP only ceases to be a fiscal risk to the GOJ once the incorporation and IPO are completed.

The GOJ has no business owning an asset such as this in the form of an unincorporated Joint Venture. Incorporation, which is now far advanced, is a strategic priority for the GOJ and will continue to require the cooperation and coordination of many Ministries, Departments and Agencies of Government.

In the meantime the Transactions reduce the GOJ's debt, structurally improve CAP's cash-flows, increases CAP's equity value, and reduce the fiscal risk of CAP to the GOJ.