

## **Black Gold, White Gold and the Gentrification of Belize**

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### **Abstract**

Much ado has been made of the recent discovery of “black gold,” i.e.: oil in Belize.

Expectations are high. Best practices in managing oil revenue could benefit the country, but a far more valuable resource, overlooked by most, is “white gold” or coastal land. Application of classical economist David Ricardo’s lesser known principle of economic rent to coastal land, and extended to all land in the country would provide far more revenue on a sustainable basis than oil. Oil is a finite, non-renewable resource that will be depleted in a matter of a few years, while land value is perpetual and perpetually increasing in value. One study indicates that 75% or more of coastal land has been purchased by foreigners, at prices that far exceed what most Belizeans could pay. This could be considered a form of “gentrification”. This paper will show evidence of coastal land values using GIS analysis, and a plan to recover land rent following Ricardo’s principle of economic rent. Both oil and land value are common assets that could finance a trust fund for public services, and pay pro-rata dividends to citizens of Belize, following the example of the Alaska Permanent Fund. This could enhance development of the country, and reduce economic disparity.

### **Black Gold in Belize**

Oil companies have been drilling in Belize for 50 years without finding “commercial” quantities of oil. The announcement of the surprise oil discovery in Spanish Lookout by Belize Natural

Energy, Ltd. (BNE) has been met with joy akin to the second coming of Christ, as if the savior had returned to redeem the people of Belize from economic tribulation. Let's look at the reality of the situation.

Belize Natural Energy, Ltd. (BNE) has recently announced a total reserve quantity of 10 million barrels (Daniel Gutierrez, Lecture at Galen University, Jan 17, 2007). Earlier company estimates were in the 40-50 million barrel range, and others speculate a recoverable reserve of 100-140 million barrels (James Cavanaugh, Lecture at Galen University, March, 14, 2007). Cavanaugh bases this estimate on permeability, porosity of the rocks, specific gravity of the oil, thickness and acreage of the reservoir, and other technical features. Currently, BNE is pumping 3500 barrels a day (Cavanaugh, 2007), which could rise to 5000 per day according to company director, Sheila McCaffery in public statements. According to Cavanaugh, in less than one year, BNE has extracted 850,000 barrels of oil. Assuming a continuous rate of 3500 barrels a day for 365 days a year yields an annual production rate of 1,277,500 barrels per year. At a recent world oil price of US\$60 barrel this yields total annual revenue of US\$76.65 million or BZ\$153.3 million.

The current government royalty rate of 7.5% at the wellhead on BZ\$153.3 million yields annual royalties of BZ\$11.5 million. Compare this with annual government expenditures of BZ\$703 million predicted for 2007/2008 (Musa, 2007). This amounts to only 1.6% of the Belize national budget. Another way to look at the annual 7.5% royalty revenue of BZ\$11.5 million is on a per capita basis. With 2006 population of 301,000 people (Encyclopedia Britannica), oil revenues yield a per capita annual royalty of only BZ\$38.19 per year, hardly enough to take to the bank.

The “Income And Business Tax (Amendment) Bill Of 2006” implemented a new tax regime for the oil industry. BNE royalties are to be 7.5%, income tax on profits to be 40%, 10% government ownership of the company, and 1.5% to 5% for the first 10,000 to 25,000 barrels per day extraction. Other oil companies will pay 12.5% royalties. For example, if the new tax regime recovered 50% of the BZ\$153.3 million revenue this is still only BZ\$76.65 million or 10.9% of the 2007/2008 budget. The US Energy Information Administration (EIA) puts Belize oil consumption at 8,800 bbl/d. (EIA 2005). So at the current extraction rate of 3500 barrels per day, Belize is not even extracting half of its own consumption, and consumption is rising.

If the BNE wells actually were capable of providing 100 million barrels of oil, at US\$60/barrel this would provide a total of US\$6 billion. According to Cavanaugh (2007), the typical life of an oil field is 25-40 years. Oil prices are expected to rise in the near future, but if so the cost of everything else will rise with it. Let’s assume 4 million barrels a year was possible over 25 years (for convenience only, oil depletion follows a bell curve). At US\$60/barrel this would be US\$240 million per year or BZ\$480 million. Estimated 50% government share from all taxes and royalties could amount to BZ\$240 or 34% of 2007/2008 government budget. This is a substantial sum, but highly speculative at this point. Now we turn our attention to “White Gold”, in comparison with “Black Gold”.

### **White Gold In Belize**

A more valuable resource than oil is being mined in Belize, namely coastal land value or “white gold”. Let’s see how the value of “white gold” compares to “black gold”. A calculation was

done to determine the value of privately owned beachfront land for the coastline of Belize including Corozal, Cerros/Sartajena Peninsula, Ambergris Caye, Placencia, Hopkins/Sittee River, Belize, and Toledo Districts (Table 1). A detailed GIS analysis was conducted in order to determine the extent of privately owned lands on the coastline (Figure 1). GIS data was taken from the Belize Tenure map created for the National Protected Areas Policy and System Plan 2005. Protected areas and national lands were removed from the list of parcels. National lands were removed from the analysis since it was difficult to separate lands that were being leased by Belizean nationals from lands that were being held by the government for future lease or sale. In addition, national lands cannot be owned by foreigners until they are converted to freehold property, and foreign ownership is the focus of this article. All eastern facing coastal land was counted including the west side of Placencia Lagoon, and the east coast of Ambergris Caye (Figure 2). The total length of privately owned coastal parcels in Belize summed to 364.5 km. This was broken down by district (Table 1).

## Coastal and National Freehold Tenure

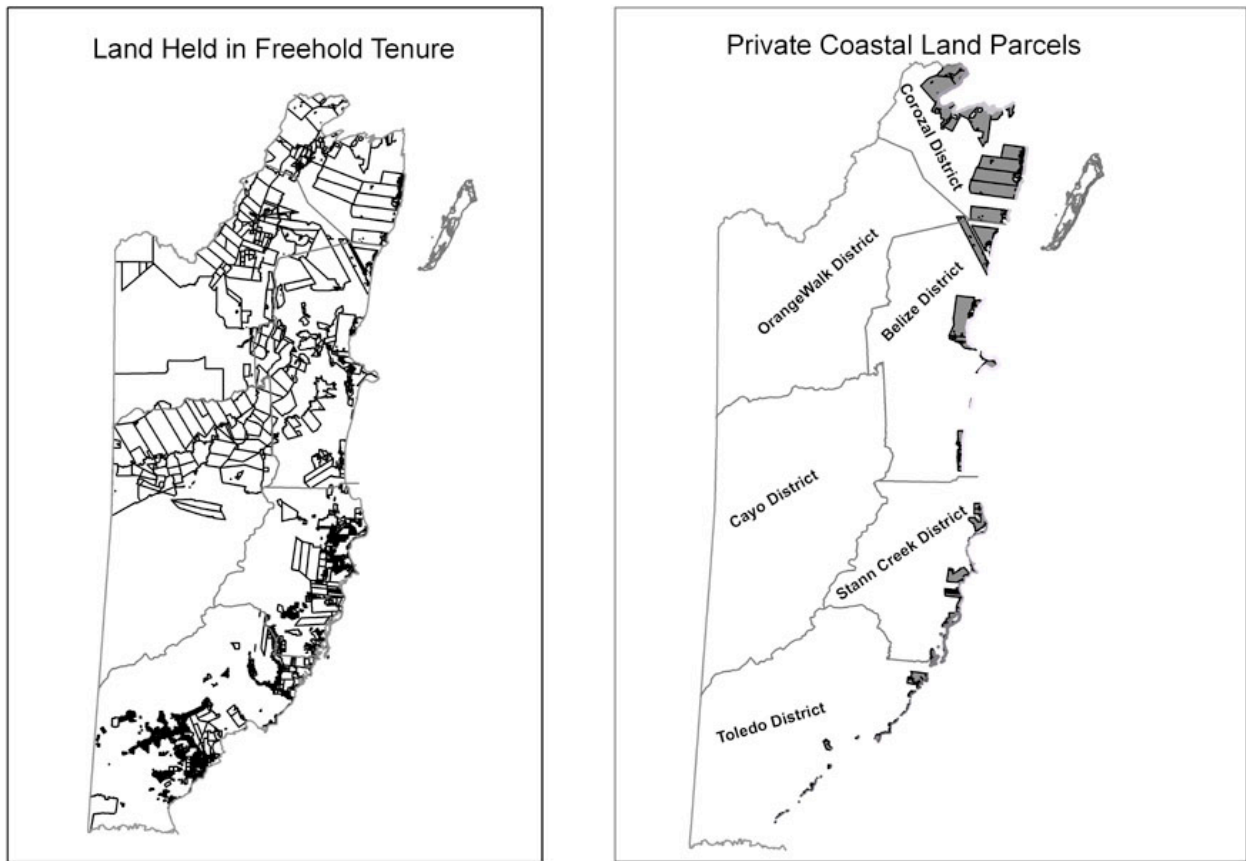


Figure 1: Coastal and National Freehold Tenure

Estimated beachfront land costs for each district were taken from Lan Sluder's book Living Abroad in Belize (p.310), published in 2005. Belize District values were taken as an average of the others on a per foot basis for convenience, and were approximately confirmed by comparison with values on various real estate websites. Sluder's figures are from 2004, so are somewhat dated at this point, but they will serve as a conservative estimate, since land values have been appreciating in the intervening period.

Table 1: Value of the Privately Owned Coastline

Area	Private owned Length in km	Private owned Length in ft	Average value per ft US\$	Value of private coast US\$
Ambergris Caye	40.1	131562	\$2,500	\$328,905,000
Belize District	73.6	241470	\$1,101	\$265,858,470
Corozal Town	29.6	97113	\$575	\$55,839,975
Sartenejo	60.2	197507	\$425	\$83,940,475
Placencia				
Peninsula	46.5	152559	\$1,725	\$263,164,275
Stann Creek	54.2	177822	\$1,125	\$200,049,750
Toledo District	<u>60.3</u>	197835	\$600	<u>\$118,701,000</u>
TOTAL	364.5			\$1,316,458,945
TOTAL BZ\$				Bz\$2,632,917,890

Adding up front foot costs for each area and applying them to private land in these regions, resulted in a total value of US\$1,316,458,945 or BZ\$2.63 billion for the private coastline.

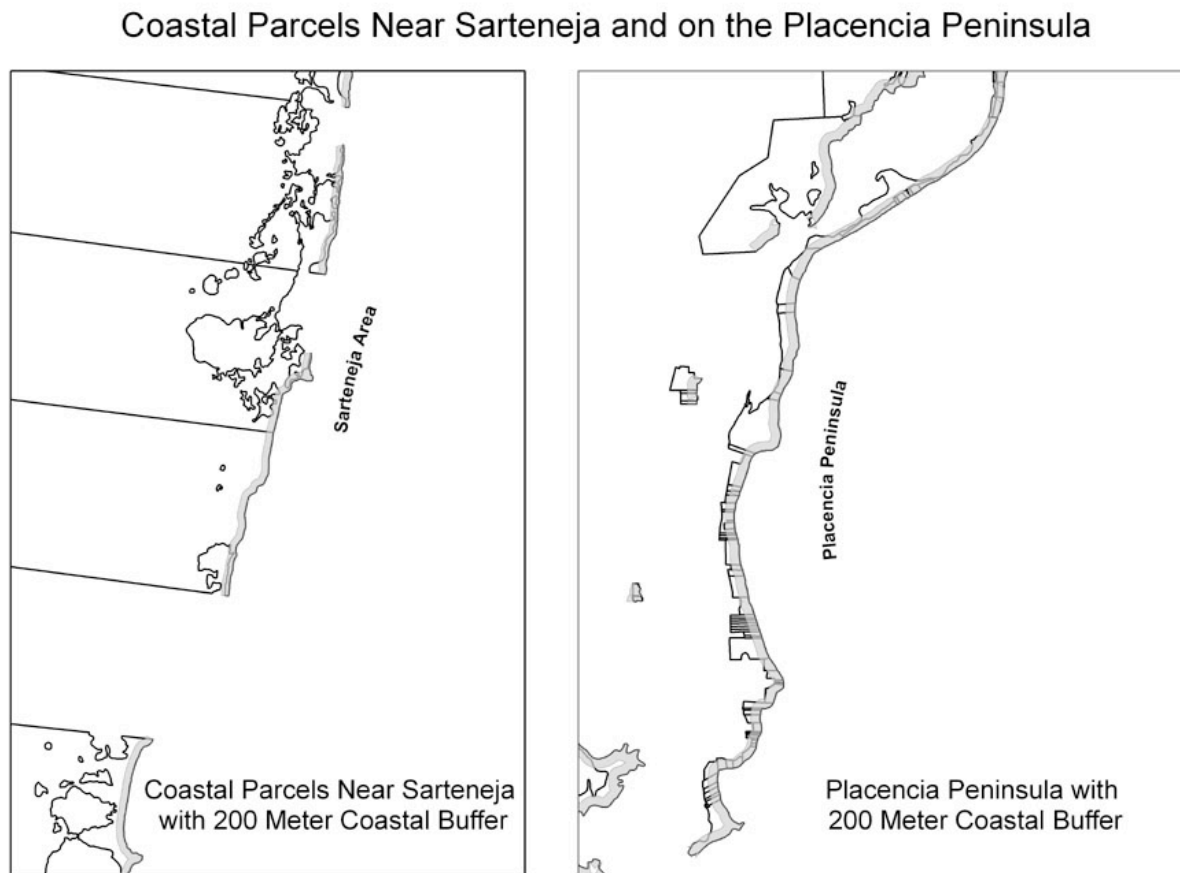
### **A Comparison to Total Private land in Belize**

A calculation of the area of coastal parcels was made and compared to total private lands in Belize. Once again protected and national lands were removed from the analysis, except in Ambergris where the one remaining national land parcel is soon to be converted to private land in a \$30 million transaction with Belize Bank. Many coastal properties are large parcels extending far inland (Figure 1). All parcels were counted which had any part touching the coastline. Counting the entire area of these parcels including Ambergris results in a total area of 1133 square km. The total area of freehold lands in the entire country was determined to be 8026 square km, resulting in a ratio of 14.1% coastal properties. However, since many of these coastal parcels will likely be subdivided and the coastal lots will be much narrower, another approach was taken. A buffer zone was drawn on the parcel map from the coastline extending 200meters (656ft) inland (Figure 2). This overlapped the width of many of the coastal lots.

Using the entire 364.5 km private coastline with a 200meter buffer zone resulted in a total area of 70 square km. This is only .87% of the total 8026 square km private land area of Belize.

Extending the buffer to 400 meters only increases the figure to 1.7% of the total Belize private land area.

Figure 2 Coastal Parcels Near Sarteneja and Placencia



***Gentrification: “the buying and renovation of houses and stores in deteriorated urban neighborhoods by upper- or middle-income families or individuals, thus improving property values but often displacing low-income families and small businesses.”***

### **The Gentrification of Belize**

A recent study by Lala (2006) for the San Pedro Chamber of Commerce on existing and under construction/planned hotels and condos on Ambergris Caye found that about 75% of the

approximately 2,200 hotel rooms (open and under construction) on the island are owned by Americans, 15% are owned by Belizeans and the balance by Canadians and others. Lan Sluder stated, “anecdotally I would conclude that the numbers are similar on residential property, with perhaps a little higher rate for Belizean ownership” (personal email, 19 Feb, 2007).

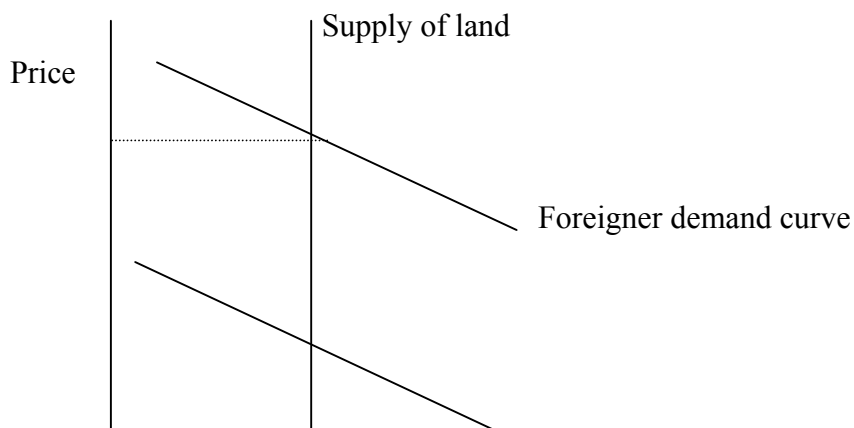
If foreigners own 80% of the private coastline, the value is 80% of the estimated private coastal value of BZ\$ 2.632 billion or BZ\$ 2.1 billion. Belize land bought and sold by foreigners adds to the leakage of money from the country. The ownership of 75-85% of the coastline by foreigners seems very similar to gentrification in urban neighborhoods. Citizens of the US, Canada, or other developed countries have a per capita income eight or more times that of Belize (Table 2), and therefore much greater disposable income and ability to pay. Those countries have been independent of Mother England for hundreds of years, and had more time to develop. Belizeans who move to those countries most likely earn similar incomes to other residents. Since land value is determined by the supply and demand curve for land, and foreigners have a much greater ability to pay, foreigners drive up prices of Belize land to levels far above what most Belizeans can afford (Figure 3).

**Table 2: Gross national income per capita (World Bank 2006)**

2005 Belize = US\$ 3500

2006 US = US \$ 41,440

2006 Canada = US\$ 28,310





.....  
Belizean demand curve

Quantity

**Figure 3: Supply and demand curve for Belize land**

Is it right or fair that foreigners should scoop up coastal land at prices beyond the reach of Belizeans? What should be done about it? It is not without precedent to make foreigners pay for the Belize experience. Visitors pay a departure tax of \$3.75 that goes into the PACT Trust Fund. A differential stamp tax of 5% was previously applied to foreigners' real estate purchases, above the 10% rate. Other countries such as Mexico have banned foreigners entirely from directly owning land in the past. But this would be self-defeating. It would be much better to take advantage of foreigners' greater ability to pay, and collect rent for the privilege of occupying Belizean land, and displacing Belizean owners. To understand what that land "rent" should be, a discussion of Ricardo's principle of economic rent is essential.

**Ricardo's Principles- Comparative Advantage**

Classical economist David Ricardo (1772-1823) is best known for the "Theory of Comparative Advantage" which provides the bedrock on which the proponents of unrestricted free trade and globalization rest their case. "This theory states that it will be beneficial for a country to specialize in production of the good in which it has a comparative advantage and to trade for the good in which it has a comparative disadvantage. Such specialization and trade make both countries potentially better off by expanding their consumption opportunity sets" (Yarbrough and Yarbrough, 2003, p 28). This principle is one of the most widely accepted principles of classical economics, and advocated by proponents of globalization.

## **Ricardo's Principles-Economic Rent**

Ricardo's lesser-known principle of "economic rent" is just as important as comparative advantage, but less universally applied, although equally well known by economists. This presents an intriguing quandary that we will not delve into here (Refer to Gaffney and Harrison's book, "**The Corruption of Economics**"). The principle of economic rent was formulated during an agrarian period in the context of labor, capital, and land as factors of production on agricultural land. Ricardo realized that if equal capital and labor was applied to two different pieces of land, the difference in productivity between them was explained by the inherent difference in fertility between them. The increased financial return to the more fertile land was due entirely to the land itself, and therefore this difference was defined as "economic rent" or "Ricardian rent." Another way to look at it is that economic rent is the return over and above the cost of labor, capital, and reasonable profit in a competitive market. Ricardo also realized another factor determining economic rent was proximity to market, usually the town center, which reflected transportation costs. In Ricardo's view, landlords are an entire class of unproductive people, who merely absorb the surplus of others who do the work. He felt that a tax on economic rent was entirely justified and would have no distortionary effects on the economy, since it had to be paid entirely by landlords and doesn't reduce the amount of land available, which is basically fixed. This is unlike a tax on produced items, which increases their cost and therefore reduces their supply.

In a modern context, land value depends greatly on what use it is put to and is determined by demand rather than by fertility. Economic rent arises on all land whether agricultural, residential, commercial, industrial, or mining land. If the center of Antarctica could be

considered to have economic rent of zero (except to penguins), than any more desirable location will have a rental value above zero. Economic rent is generally considered to be what a bare piece of ground in an undeveloped condition (with no buildings or other improvements) would rent for annually in a given location. When economic rent is allowed to accrue to landowners, another feature that arises on land is the annual appreciation or inflation in land value. Ricardo called this the “unearned increment” because it is entirely due to nature and society, and not to any effort on the part of landowners. Recently perusing the Internet for land prices in Belize, a realtor noted the 30% annual increase in property values as a selling feature. Since population and income are generally increasing in most countries, land values continue on an upward trend due to increasing demand and ability to pay.

***“Landlords grow richer in their sleep without working, risking, or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title.” -- John Stuart Mill (Principles of Political Economy, bk.5, ch.2, sec.5.)***

### **Economic Rent on Oil**

Economic rent on sub-surface minerals is more straightforward. Whatever is left over after accounting for all costs of bringing it to the surface and market, including risk and reasonable profit, is economic rent. If it costs an oil company US\$10/barrel to pump oil (not an uncommon figure) and oil is selling for US\$60/barrel, then US\$50 is economic rent, due to the value of oil in the ground. At a constant oil price, oil rent tends to decrease due to increasing costs of drilling. This is sometimes factored into oil royalty agreements as it was in Alaska. However, in a rapidly inflating oil market, oil rent may also increase rapidly. Recent windfall profits of oil companies are evidence of their retention of economic rents. This suggests that perhaps royalty agreements should be revised to account for future increases or decreases in the price of oil, and adjusting the

royalty percentage accordingly.

A tax on economic rents has the added advantage of inducing no distortionary or disincentive effects on the economy, because they have no impact on production, and produce no deadweight losses. Compare this with Belize's current onerous tax regime relying on 10% GST, Business tax of 1-15%, Corporate profit tax of 25%, personal income tax of 25-40% on income over \$25,000, and import duties of 19-65% on motor vehicles and other items. For those who are concerned that a tax on economic rent may have an adverse effect on growth economics, consider the following quote from no less than the dean of the Chicago school of libertarians, Milton Friedman, "In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago" (The Times Herald, 1976). Henry George popularized Ricardo's concept of taxing land rent in the late 1800's (George, 1879).

Another factor missed by the globalization crowd is the negative effect of high domestic interest rates on development in Belize. Along with high taxes on the productive sector, the cost of money is another big impediment to Belize's development. IMF structural adjustment regimes normally impose high domestic interest rates on countries under their guidance, presumably to stimulate foreign investment, and acquire hard currency. A recent Belize Bank report on banks in Belize reported typical interest rates of 14-15% (Belize Bank, 2006). Using the rule of 72 ([investopedia.com](http://investopedia.com)), a 14% interest rate means that the interest paid equals the original loan in 5.1 years (72/14 yrs). That means that a borrower of \$100,000 would have to pay back \$100,000 in interest in five years, not including any principle payments. How many businesses can pay back double their investment in the first five years, unless they are dealing cocaine or engaging in

other illegal activities? In the US or other developed countries the prescription for promoting growth is exactly the opposite. When the US Federal Reserve wants to stimulate the economy they **lower** interest rates in order to promote borrowing to invest in domestic enterprises. The current Wall Street Journal prime rate in the US is 8.25%, but was as low as 4% in June of 2003 (bankrate.com, 2007). Here is another reason foreign investors can afford to buy so much Belize land, since their cost of borrowing money is so much lower.

### **Economic Rent on White Gold and other Land**

Charging economic rent to foreign landowners is merely a user fee for the use of a valuable Belizean resource. The proper tax on economic rent is debatable, but let's assume a rate equal to the royalty rate on oil of 7.5%. Applying this to the foreign owned share of BZ\$2.1billion results in BZ\$157.97 million. Compare this to the total expected royalty from oil in 2007 of BZ\$11.5 million, and we see that coastal land is worth nearly 14 times as much as oil. In addition, consider that the coastal strip is only .87% of the private land area of Belize. Only coastal land values were calculated in order to keep the project manageable, but land value for the entire country could be easily extrapolated. The amount of economic rent available from private lands is probably substantially greater than the national budget of BZ\$703 Million. Also, consider that oil is a non-renewable resource that will be depleted in a matter of years, while land values are perpetual, and perpetually increasing. Obviously "white gold" is far more valuable than "black gold". In the next sections we will take a look at best practices for using economic rent from oil and land values.

### **Best Practices for Economic Rent- Oil a blessing or a curse?**

As a precaution for Belize, it is worth noting that having oil is no guarantee of benefit to a country. John Bacher explains in *Petrotyranny* how oil sustains dictatorships: “Oil is critical to the support of dictatorships since it provides the most abundant form of wealth for repressive governments - income that does not have to be obtained through taxation. The collection of taxes generally compels a higher degree of consent from citizens than the misappropriation of oil revenues” (2003). 12 of the 16 countries ranked lowest by the human rights group Freedom House in 2005, are oil exporters or receive a large portion of their funding from oil: United Arab Emirates, Iran, Iraq, Saudi Arabia, Equatorial Guinea, China, Turkmenistan, Sudan, Egypt, Syria, Libya and Myanmar. There are currently 57 states rated “Free or Semi-free”. Only two of the free states are oil exporters, Norway and Trinidad and Tobago, and two semi-free, Venezuela, and Nigeria. On a scale of 1-7, with 7 being the worst, Venezuela rated 3.5 and Nigeria 4. Oil did contribute to the development of the democracies of US, Canada, and UK, and Norway, but it was never a major portion of their respective government revenue.

### **Best Practices for Economic Rent-Oil**

What are the best practices that could be brought to bear with respect to oil revenues in Belize? S. El Serafi of the World Bank has supported the concept of “weak sustainability”; that natural and man-made capital must remain constant. Therefore some revenue from non-renewable resources should be invested in renewable replacements, so when the resource is depleted, there will be substitutes in place. There has been little if any discussion of this principle in Belize.

A survey of oil producing countries demonstrates varying degrees of success, from semi-free countries like Nigeria to democracies such as Norway, the Shetland Islands of Britain, the

Canadian province of Alberta, and US state of Alaska. Let's compare their management of oil revenues in order to draw some lessons for Belize. The following sections draw heavily from Alanna Hartzok's article, *Citizen Dividends And Oil Resource Rents, A Focus on Alaska, Norway and Nigeria*, and Allan A Warrack and Russell R Keddie's article, *Alberta Heritage Fund vs. Alaska Permanent Fund: A Comparative Analysis*.

## **Nigeria**

“Nigeria is potentially Africa's richest country. Shell and other western oil companies extract oil worth an estimated \$150 billion a year from the area. A rough estimate is that Nigeria earns some \$10 billion every year from oil (6.7%), and a total of \$340 billion since oil drilling began in the 1950's. As the world's sixth largest producer of crude oil, it should be enjoying some of the highest global living standards, but it has some of the lowest living standards in Africa. Surveys conducted by Nigeria's Federal Office of Statistics show that in a 16-year period between 1980 and 1996, Nigeria's poverty level rose from 28 to 66 percent. GDP per person in 1982 was \$860, in 1996 it as \$280, and now reported to be \$290. Numerically, while 17.7 million people lived in poverty in 1980, the population living on less than US \$1.40 a day, rose to 67.1 million by 1996.” (Hartzok, 2004)

Home to 15 million impoverished people, the Niger Delta region produces 90 percent of Nigeria's wealth. After 40 years of production, there are rutted roads, decrepit schools, few health clinics, no conduits for running water, and polluted creeks and farmlands. There have been dozens of oil spills and gas flares spew carbon dioxide 24 hours a day. The Niger Delta is one of this country's poorest regions, despite its oil wealth. Away from the main towns there is

no real development, no roads, no electricity, no running water and no telephones.” (Hartzok, 2004) Nigeria is where the phrase “oil curse” can easily be applied.

On the positive side, recent Nigerian President Obasanjo said that whatever resources the country gets from extractive industries should be invested in 'renewable and non-depleting aspects of the national economy, recognizing the principle of weak sustainability. He also said on a number of occasions, “what God has put in the soil for Nigerians are put in the soil for past, present and future Nigerians... therefore, those of us who are managing it must manage it for all Nigerians - past, present and future. And we cannot do that unless we are transparent...” This recognizes the principle of common property rights to underground resources.

## **Shetland**

The Shetland Islands were blessed with the discovery of North Sea oil near their shores in 1972. The first oil came ashore in Shetland in 1978 to the Sullom Voe Terminal. Shetland’s Government owns and operates the port of Sullom Voe, and an annual rental is paid to Shetland by the Oil industry for the land on which the oil terminal is situated. An amount is paid to the Shetland Government per barrel landed onshore at Sullom Voe, and a Shetland ‘Government’ company provides all tug services in the port - Shetland Towage. Shetland created several trusts with oil revenues, with the intention of keeping a capital fund and only spending investment interest. These funds are:

- **Harbour Fund:** Used for the development of Shetlands Ports & Harbours
- **Capital Fund:** Used for investment in capital infrastructure: schools, roads, ferries etc.



- **Reserve Fund:** Used for general purposes including colleges, R&D, marketing, economic development, etc.
- **Charitable Trust:** Used for benefits to Shetland and its inhabitants mainly leisure and welfare purposes – both capital and revenue.

Thirty years after the initial oil discovery the Shetlands Oil Funds totalled approximately £700 million, or US\$1,352 million (\$1.352 Billion). Keep in mind the population of the Shetland Islands is only 23,000. Even so, consider the following quote from the Scotland Sunday Herald, Nov 24, 2002 by Alan Crawford. In an article entitled, *The cash is gone. What now for Shetland?* Crofter Drew Ratter, Highlands and Islands Enterprise board member and Shetland councilor is critical of his fellow councilors for spending "wildly beyond" the income obtained from the council's investments from oil revenue. "This council has acted to have the last party and it seems to me the hangover is coming," he said.

## **Norway**

Norway is a model of prudent economic management of resource wealth, according to the IMF 2000 Article IV consultation with Norway. The most recent U.N. Human Development Report (2006) ranks Norway the number one place in the world to live. Norway is the world's third-largest exporter of oil, and pumps about 3.2 million barrels per day, providing up to 25% of the country's gross domestic product. Norwegian academic Ole Gunnar Austvik, a specialist on oil leasing, explained that government should take most of oil's economic 'rent' (the profit above 'normal' profit, risk adjusted). On top of Norway's corporate tax of 28%, the government levies upon the companies leasing oil off Norway's coast a 50% special tax, making oil companies pay

78% of total profit. “Seventy-eight percent of profit sounds perhaps like too much, but companies have been queuing up in each licensing round for years.” (Weekly Vue, 2006).

A substantial amount is invested in foreign stocks and bonds. The state-owned fund guards against spending too freely on public sector services in boom years so as not to lay off droves of state workers when the economy goes bust or suppress private sector growth. Norway's State Petroleum Fund is now worth about \$60 billion. Norway's crude output is worth about US\$7,000 a year for each citizen, about one fourth of per capita GDP of US\$28,433. If the \$60 billion was invested at a rate of 10%, then each Norwegian citizen could receive \$1333 as an annual Citizen's Dividend. Instead the state conserves and builds the Fund and channels revenue into social benefits. Norway has generous benefits for both men and women of eight weeks' vacation, liberal sick leave, day care that is reliable and inexpensive, three-year maternity leaves, broad part-time opportunities and creative application of telecommuting. Generous benefits to single mothers means that there is no need for a father's income, giving women a greater measure of freedom.

## **Alberta**

Next let's take a look at the Canadian province of Alberta. The Alberta Heritage Savings Trust Fund Act was passed in 1976 with an initial installment of \$1.5 billion. The four objectives of the fund were to create a savings account that would offset declining resource revenue in the future, reduce the government's future debt load, improve the quality of life for Albertans, and help facilitate stability in the economy by providing a fund that could help diversify the economic activity in the province. The Alberta Heritage Trust Fund until 1997 consisted of five

separate funds:

- **The Alberta Investment Division (AID)**-The AID was created to make debt or equity investments to strengthen and diversify Alberta's economy. AID at times was used as a political tool to cover shortfalls in government revenues from failing provincial corporations.
- **The Canada Investments Division (CID)**-The CID loaned funds totaling \$1.9 billion to other provincial governments or government agencies at concession-level interest rates until 1982.
- **The Capital Projects Division (CPD)**-The CPD invested in projects to provide long-term social or economic benefits to Albertans, without expecting a financial return. Investments were primarily medical research facilities, education facilities, agriculture, transportation and telecommunication projects.
- **Commercial Investment Division (CMID)**-The CMID was established by legislative amendment in 1980 and was intended to yield a commercial return on its investments in Canadian stocks and money market securities. Only a small portion of the Heritage Fund was invested on a basis of seeking a reasonable rate of return, but in 1997, the Heritage Fund was restructured to focus on optimizing returns, including a renewed focus on market securities and secured debt.

- **The Energy Investment Division (EID)**-The EID, established in 1980, was designed to invest in the development of Canada's energy sector. This division was also quite small.

Revenues were deposited into the fund until 1987 and it grew to a peak of \$12.7 billion. Since then, *all* income, including income from capital gains, was transferred to General Revenues to pay for ongoing government programs. No inflation proofing took place, so the purchasing power of the Fund eroded. The absolute value of the Heritage Fund declined because of continued spending on Capital Projects such as irrigation works, parks, hospitals, and research funding. This spending stopped in 1995, and the Fund has been valued at approximately \$12 billion ever since.

### **Alaska Permanent Fund**

Proceeds from drilling rights auctioned in 1969 to Alaska's Prudhoe Bay amounted to US\$900 million. Initially, the consensus was to spend the money to provide basic services for all communities. Water systems, schools, roads, airports, *etc* were constructed to improve the quality of life for the State's citizens. These infrastructure investments were quite similar to those of the Capital Projects Division of the Alberta Heritage Fund. Due to the large expanse of Alaska, the money was exhausted quickly. The public soon felt that a significant portion of the money had been wasted, and did not seem to have achieved the goals and expectations of Alaskans. As a result of this experience, the idea for a Permanent Fund gained support. It took four years of debate until a clear objective of the fund was determined. Those who wanted to establish the APF as a "trust" won over those who wanted a development bank concept.

The Alaska state constitution claims property rights of ownership of oil and other minerals for the people of the state as a whole. Oil and natural gas royalties range from 12-15% depending on the age of the well. 75% of these royalties go to state government, and 25% into the Permanent Fund. As a result, Alaska has no state sales or income tax. Additional amounts are added to the fund regularly to account for inflation. As of March 8, 2007 the value of the fund was US\$37.2 Billion (<http://apfc.org>). The Alaska Permanent Fund is unique in paying direct cash dividends to citizens. None of the capital is spent; only the interest is distributed as an annual dividend. Interest income from the Fund is paid out as an annual check to every resident of Alaska over the age of one. Amounts have ranged from \$331 up to \$1900. In 2006 the amount was US\$1107. Due to public oversight and independent management, evidence indicates that Alaska's Permanent Fund is the one of the best-managed funds. Most likely because of its oil dividend, the state of Alaska has the lowest disparity in wealth of any US state, and had the lowest increase in disparity as measured by the gini coefficient in the last 20 years (US Census Bureau 2000).

“The difference between the two funds was apparent from the beginning. In Alberta, the Heritage Fund belonged to the government. In Alaska, the Permanent Fund belonged to the people...In Alaska's case, the establishment of an “arm's-length” corporation allowed the fund to operate relatively independent of government. In effect, once the funds were transferred into the APF, they were severed from the state government. In Alberta, however, various divisions of the Fund (especially AID and CPD) often provided funds to projects or corporations to replace monies that would have normally come from government budgeting of General Revenues.” (Warrack and Keddie, p 10-13)

## Lessons Learned?

What can we learn from these various examples of best and worst practices? All of these places considered oil to belong to the people of the state, not to the oil companies. Most of them believed in saving some funds for the future when oil is no longer available. Alaska and Norway appear to be the only ones that have met the criteria of weak sustainability. When the flow of crude oil is gone, the flow of hard cash will continue, due to the substantial level of the funds in those states, US\$37 billion and US\$60 billion respectively.

What accounts for the different results between Nigeria and the other countries surveyed? A look at the Transparency International Corruption Perception Index is revealing. Norway, UK, Canada, and US are all in the top 20, while Nigeria was rated one of the worst countries in the world for government corruption in 2006 (Table 3).

**Table 3: Transparency International Corruption Perception Index (CPI) 2006**

Rank of 163 countries	country	score out of 10
8	Norway	8.8
11	UK	8.6
14	Canada	8.5
20	USA	7.3
66	Belize	3.5
142	Nigeria	2.2

While Belize was rated 66<sup>th</sup> best out of 163, its score of 3.5 was far closer to Nigeria's 2.2 than to the top 20 of 7.3 or better. In addition the TI CPI for Belize has been getting steadily worse for the last 4 years (Table 4).

**Table 4: Belize Transparency International Corruption Perception Index (CPI)**

Year	rank	score
2006	66	3.5
2005	62	3.7

2004	60	3.8
2003	46	4.5

“Out of 30 countries in the Americas in this year’s CPI, the great majority (25 countries) score below 5, which indicates serious perceived levels of domestic corruption. More than a third (11 countries) score below 3, which indicates a perception of rampant corruption. These include Argentina, Bolivia, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay and Venezuela. Clientelism and the abuse of discretionary power by leadership in these countries is prevalent, making public resources there subject to private interests” (CPI 2006 Regional Results: Americas). At a current ranking of 3.5, is Belize that far from “rampant corruption”?

It seems that only Norway, one of the least corrupt governments in the world has been able to escape government mismanagement of their oil funds. The best managed fund may be the Alaska Permanent Fund, which is held by independent trustees, and not by state officials. The Shetland Islands of the UK and the Canadian province of Alberta, despite being in the top 14 least corrupt governments in the world, have still suffered mismanagement to some degree. In those countries, some government spending of oil funds has been seen as ineffective and misdirected, as was some Alaska revenue prior to the Permanent Fund.

What does this tell us about the disposition of oil royalties for Belize? Can the government of Belize be trusted to manage oil revenues, when even in the least corrupt countries government can not be entirely trusted to manage oil royalties on a sustainable basis? If the oil revenue in Belize goes directly to government coffers, it will have a small impact on government revenue, but most of it will disappear into the black hole of debt payments. Any spending that does make its way into government programs will have the same effectiveness or ineffectiveness of other

government spending, while subject to the near “rampant corruption” level of the current Belize government with its Transparency International rating of 3.5 out of 10. Belizeans want oil royalties to benefit the people of Belize. **Therefore the Alaska model of a trust managed by independent trustees, and paying direct dividends, is the method most likely to bring the maximum benefits to Belize.** However, as previously calculated the 7.5% royalty currently only amounts to BZ\$39.96 per year per person. If oil extraction ramps up, it could develop into a significant sum. In any case the entire 7.5% royalty should be placed into a trust fund, while letting government retain the taxes. This is justifiable on the basis of weak sustainability, public property rights, and equity.

### **Economic Rent-land**

Economic rent from land has rarely been considered as public property in the same way as economic rent on oil, except as a component of property taxation. The main point is that economic rent from coastal land alone, without even counting other foreign owned land in Belize is potentially worth fourteen times the current royalty revenue from oil. Government’s 2007/2008 budget lists revenue from taxes on property of only BZ\$5.6 million. GOB could easily increase this by a factor of 10 or more using economic rent instead of property taxation (taxing land and improvements), and still have revenue left over to create a trust fund for the future of Belize. Note that the city of Belmopan has implemented this system to a small degree by charging property tax on land value only and not on improvements. Using economic rent for government revenue and lowering taxes will certainly improve the economy of Belize, but there is no guarantee that the distribution of benefits will be universal. The only guarantee of universal benefits is to pay everyone in the country a dividend in cash. If the most valuable



common asset of Belize is land value, and if Belizeans own their own country then shouldn't they collect some of the rent? Directing at least 25% of the land rent into a trust fund paying cash dividends is most likely to reduce economic inequality and guarantee that public revenue benefits the people of Belize. Instead of a Robin Hood scheme of transfer payments, it rests on the equal right of Belizeans to their common assets including oil and land value. In this sense, it is a property right and not a charity. Next we look at the precedent for trusts in Belize.

### **Precedent for Trusts in Belize**

Trust funds are not new to Belize. In fact, two promising trust fund initiatives, Protected Areas Conservation Trust (PACT) and Baron Bliss Trust Fund, may serve as models for a trust fund set up for economic rent from black and white gold. These funds are quasi-independent of government and have provided grants and programs for Belize in accordance with their missions, and are generally well regarded.

### **PACT**

PACT currently has an endowment of BZ\$2,222,591. 2005/2006 grants programme expenditures amounted to \$4,164,265. Grants exceed the endowment because distributions are not limited to interest on the endowment principle. PACT has a sustainable source of funding from a BZ\$7.50 departure tax per visitor, 20% commission on cruise ship passenger taxes, 20% commission on recreation-related license fees in conjunction with public protected areas, and interest on the endowment fund (PACT, 2006). PACT grants include small grants, short-term training, Planning, Support, Donations, MARFund, National Protected Areas and System Plan, Medium and Large grants, PACT partnerships, Research grants, and PACT Scholarships (PACT, 2006).

## **Baron Bliss Trust Fund**

Upon his death on 9 March, 1926, Baron Bliss of England bequeathed BZ\$1.8 million to a trust fund for Belize. The Baron Bliss Trust Fund consists mostly of British stocks, securities & term deposits. Interest income only was directed to be used for the permanent benefit of Belize and all its citizens. Funds are available for limited infrastructure projects, such as canal construction or the establishment of street lighting. Money was not to be used for churches, dance halls or schools (except agricultural or vocational). No money was to be spent on maintenance for any trust-funded property. The value of the Baron Bliss Trust stood at about \$1.5 million Belizean as of 1986. Over the years, the Baron Bliss Trust has spent over \$2 million Belizean on capital projects across Belize that include: The Bliss Institute Library & Museum; The Bliss School of Nursing in Belize City; health centers & libraries around Belize; and the Baron Bliss Regatta & Fishing Tournament.

## **Conclusion**

Collection of substantial economic rent on land could have a significant impact on the development of Belize by reducing some of the burdensome Federal taxes on productive activities. Since the source of revenue is mostly outside the country it would have minimal impact on the Belize economy, and would help to repatriate some of the financial leakage leaving Belize. A trust fund combining economic rent from land and oil could create an endowment for the future, when oil runs dry, in accordance with weak sustainability. Paying dividends from this fund to all Belizeans would reduce inequality and provide an income supplement. This trust fund should be created following the best practice of the Alaska Permanent Fund having a board of trustees and fund administered independent of government.



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