BUREAU OF ECONOMIC RESEARCH SUPPORTING STATEMENT OF ECONOMIC FACTORS TO OBJECTION TO EUROPEAN UNION BLACKLISTING (2021)

We consider any assertion by the Council of the European Union (E.U.) that labels the U.S. Virgin Islands (USVI) a "tax haven" entirely groundless. This action by the E.U. fails to account for factors of economic and investment development beyond mere reporting and compliance:

- The USVI is not an independent foreign country and does not report its financial or economic data independently. Rather, all reporting of economic and financial data is done through the governing country—the United States of America (US).

The U.S. Census Bureau recently provided decennial census data for the USVI and the other Territories of the US. That data show- a sharp decline in the USVI population from 2010 to 2020 going from 106,405 to 87,146, a reduction of 18.1%. (*SOURCE:* U.S. Census Bureau, 2021)

- This figure is all the more dramatic when compared to the other Territories: Guam: 3.5% decrease at 153,836; Commonwealth of Northern Marianas: 12% decrease at 47,329; American Samoa: 10% decrease at 49,710; Puerto Rico: 11.8% decrease at 3,285,874 (*SOURCE: U.S. Census Bureau, 2021).*
- The causes of this dramatic decline are clear:
  - Closure of HOVENSA Oil Refinery on St. Croix in 2012 which employed >1,000 skilled workers and contributed to the USVI GDP in the amount of ~$1 billion. (SOURCE: Virgin Islands Bureau of Economic Research, 2013). Many refinery workers and their families relocated to US mainland.
  - In September 2017, two Category 5 Hurricanes, Irma and Maria, struck the USVI back-to-back wreaking over $10B in damages from which the USVI is still recovering. The effect of these damages caused more families to leave the Territory.
  - Then in March 2020 the COVID Pandemic struck and the ensuing economic impact to the hospitality and tourism-based economy, including the loss of all cruise ship traffic and severe reduction of retail business, forced more residents to leave. This of course has resulted in a shrinking labor force.
  - And in May of 2021, the recently reopened oil refinery was again shuttered for environmental violations. This resulted in:
    - 800 jobs in the USVI were supported by the oil refinery;
    - $112 million were paid in wages and salaries to all workers supported by the oil industry;
    - $1.8 billion in total economic output was added to the economy;
    - $633 million annually were contributed to Gross Domestic Product;
    - $25 million were contributed in local tax revenue

- This substantial reduction in population has had the effects of greater challenges to restoring fiscal responsibility, adapting and diversifying the economy, and securing basic economic life expectancy.
  For years in the early history of the territory under the US ownership, the territory's budget and residents' quality of life was based on federal assistance. In an effort to foster a sustainable and self-sufficient economy, the territory has sought to attract private sector foreign direct investment (FDI) and promote economic growth and development through federally approved local tax incentive programs similar to other states of the US. In a place that has no natural resources other than its tropical atmosphere, these programs have sought to develop job creation, diversification of the economy, and revenue enhancement.

- On top of these calamities, the immediate negative impact of EU Blacklisting is the reputational damage that may impede the flow of investment from public and private investors. Any loss of investments due to blacklisting could negatively impact the economic growth and development of the listed country (The European Centre for Development Policy Management [ECDPM], 2021). The issue of blacklisting is even more sensitive in the face of the global COVID-19 pandemic that has imposed economic and financial hardships, creating a need for more investments to address these challenges. The resulting shutdown in travel and tourism caused by the pandemic has dealt a significant blow to the economy, which was already buffeted by economic headwinds from multiple quarters before the crisis: the Hovensa oil refinery closure, Hurricanes Irma and Maria, dwindling government revenues, and mounting debt. The closing of the Limetree Bay refinery more recently, which caused over $1.8 billion of lost economic activity and loss of 800 jobs, makes these challenges the economy face more daunting.

Against the backdrop of an increasingly challenging external environment, the short-term growth outlook for the USVI has weakened. In 2019, Gross Domestic Product (GDP) growth increased to 2.1 percent from 1.9 percent the previous year. Much of this progress is being undone as the USVI economy falters due to the pandemic, and the final extent of its footprint in terms of damage to the economy is still being assessed. Early estimates foresee a drop of 14 percent of (GDP) in 2020 (USVIBER, 2020). Beyond these immediate concerns, the economy faces a series of fundamental macroeconomic and structural changes that stand in the way of future growth. A concerning aspect for the outlook is the impact the decline of population and the aging of the workforce will have on the economy. Slowing population growth—the effect of reductions in fertility and mortality, and migration—can negatively impact the economy's performance because the potential labor force grows more slowly in the future. In the face of this disquieting outlook, and concerns over the effects of global economic shocks, there is a growing need for sustained and proven support for attracting investors to the USVI to strengthen economic resilience and boost long-term development prospects. Key priorities include resilience adaption strategies, hospitality industry expansion and diversification, funding to accelerate the renewable energy transition, investments in infrastructure and Made-in-America manufacturing, and measures to promote economic diversification.

References

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