

CONCEPT NOTE

**THE CONDITIONS AND PERFORMANCE OF THE
TOURIST INDUSTRY IN THE CARIBBEAN**

Final Report

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SYNONYMS AND OTHER TERMS EXPLAINED

BBD	Barbados Dollar
BCCI	Barbados Chamber of Commerce and Industry
BHA	Bahamas Hotel and Tourism Association
BHTA	Barbados Hotel and Tourism Association
bn	billion
BRIC	Brazil, Russia, India, China
CCTV	Closed Circuit Television
CLICO	Colonial Life Insurance Company Ltd
CSR	Corporate Social Responsibility
CTO	Caribbean Tourism Organization
DFIs	Development Finance Institutions
DNP	Downtown Nassau Partnership
ECLAC	Economic Commission for Latin America
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HACCP	Hazard Analysis Critical Control Points
IMF	International Monetary Fund
IPO	Initial Public Offer
ISO	International Organization for Standards
JHTA	Jamaica Hotel and Tourism Association
LOC	Lines of Credit
mn	million
OECS	Organization of Eastern Caribbean States
OTAs	On line Tour Operator
PM	Prime Minister
PPA	Purchasing Power Agreement
PPP	Public Private Partnership
SHIF	Small Hotel Investment Fund
STR	Smith Travel Research
TLF	Tourism Loan Fund
TLGF	Tourism Loan Guarantee Fund
TPDCo	Tourism Product Development Company
UK	United Kingdom
UNWTO	United Nations World Tourism Organization
USA	United States of America
VAT	Value Added Tax

THE CONDITIONS AND PERFORMANCE OF THE TOURIST INDUSTRY IN THE CARIBBEAN

(Dollars refer to US dollars unless otherwise indicated)

EXECUTIVE SUMMARY

Performance Trends and Competitiveness Issues

1 This report looks at the performance of the tourism sector and the main issues related to its competitiveness in five Caribbean countries, namely Antigua and Barbuda, the Bahamas, Barbados, Jamaica and St. Lucia (hereafter referred to as the subject countries). Each of these countries is experiencing increasing and varied vulnerability threats that potentially could threaten its economic soundness and social stability. At the level of the economy, the primary threat relates to increasing fiscal deficits, public debt and unemployment. At the time of the preparation of this report, Jamaica and Antigua and Barbuda were each in an IMF program with little or no ability to provide assistance to the tourism and hospitality sector, while the Bahamas, Barbados and St. Lucia with high debt to GDP ratios were focused on consolidating state expenditure and increasing revenue.

2 At the tourism and hospitality sector level, the major threats are the continuing loss of market share in the face of increasing global competition; continued high reliance on the USA and United Kingdom (UK) for the generation of visitors; declining product quality and service standards and failure to develop and create new products across all segments of the industry that will allow the destinations to raise their market appeal and increase visitor spending. At the destination level, the threats relate to climate change and its potential environmental impacts and the increasing incidence of crime and violence, from which visitors have not been immune. Political, tourism and hospitality leaders appear not to be fully aware of the seriousness of these threats that confront the Region's tourism industry.

3 The Bahamas and Jamaica have been diversifying into new non-traditional travel markets in Latin America, Europe and the Far East. They are also innovating and expanding the range of accommodation product through the introduction of new hotel brands using non-traditional hotel financing. For example, the \$2.5 billion (bn) Baha Mar mixed-use resort complex in the Bahamas has been substantially financed by Chinese investors. Also recent major guest room expansion in Jamaica has involved two Spanish hotel chains that are new to the island and the wider English-speaking Caribbean but with hotel operations in the Americas. These initiatives in product development and the associated marketing of the properties should assist both destinations in maintaining competitiveness against newer tourism destinations, especially in the Asia Pacific region and the Middle East. On the other hand, Antigua and Barbuda and Barbados as mature destinations, with a significant proportion of accommodation inventory in need of upgrading and redevelopment, will continue to face competitive challenges.

4 Factors favoring tourism resurgence in the subject countries include the Caribbean's high name recognition, its close proximity to some of the main gateways of the USA, a major tourist generating market and the emergence of new source markets for travel.

5 In the cruise sub-sector, given the economics of cruise operations, the sub-region will likely continue to see a decline in ship calls in the future. Also, average cruise passenger expenditure in each

destination is relatively low at less than one hundred dollars, primarily because of the lack of a wide range of amenities and attractions on which tourist can spend money.

Finance and Investment

6 The decline in foreign exchange earning capacity of the agriculture and manufacturing sectors has made it even more necessary for the Governments of the subject countries to focus on attracting foreign direct investment. However, increasingly, investors are encountering a facilitation environment that appears unfriendly, slow in decision making and un-necessarily bureaucratic. As a result, the facilitation aspects of the investment regime have become as important as the incentives offered. It is recommended that staff of agencies involved in the facilitation of incentives and concessions should undergo periodic training. Also, best practices of other countries should be adopted with a view to improving the experience of investors.

Policy and Other Developments Conducive to Investment

7 Consideration should be given to the grant of incentives being linked to the purchase of local goods and services, once these are available to required quality and specifications. This would assist in building linkages between tourism and other productive sectors while distributing the benefits of tourism more widely in the economy.

8 Given concerns about the offer of value for money, the competitiveness of the industry and the high proportion of wage cost to total cost, the hospitality industry needs to consider developing and embracing the concept of linking pay to productivity.

Expansion of Tourism Through Public Private Partnerships

9 There are several examples of effective Public Private Partnerships (PPPs) involving Government and the hospitality sector that are achieving positive and sustainable results for the community and economy in each country. National hotel and tourism associations have also occasionally joined with Government in the implementation of special marketing programs and carrying out infrastructural, environmental and beautification projects. The example of the Downtown Nassau Partnership, where PPP have been used for the completion of a major infrastructural project, offers a model that warrants documentation in regard to lessons learnt and best practices, for possible adoption by other countries.

Availability of Information

10 The last comprehensive competitive analysis of the Caribbean hospitality industry was undertaken almost twenty (20) years ago. Among tourism policy makers and planners, there is awareness of the need for more and better quality data which can be used to measure performance and competitiveness of the Region's hospitality industry. However, the dearth of quality empirical data compromises the ability to adequately assess the industry's operational problems; limits the nature and timeliness of the Region's responses to competitive opportunities and threats; and compromises scientific planning of the industry. Given these challenges, the time is opportune for an in-depth diagnostic examination of the Caribbean hospitality industry.

COMPETITIVENESS OF THE CARIBBEAN TOURISM INDUSTRY

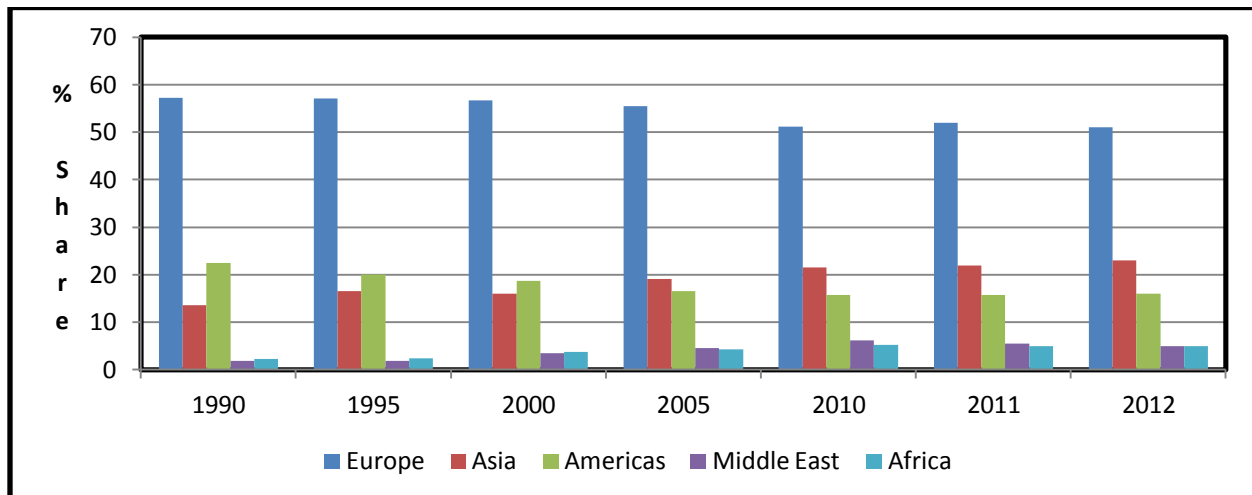
Performance Trends and Economic Performance

1.01 Global tourist arrivals (overnight visitors) exceeded 1 billion (bn) for the first time in 2012, with total arrivals of 1,035 million exceeding the number of arrivals in 2011 by 39 million (mn). This growth trend is expected to continue at a projected annual average rate of 3.8% for the rest of the period 2010 to 2020¹.

1.02 Market share is a common measure of competitiveness. During the period 1990 to 2012, the Americas, including the Caribbean², lost market share at the expense of most other tourism regions. Over the period, the Americas region's share of the global tourism market declined from 23% in 1990 to 16% in 2010 through 2012. The only region to experience decline in market share over the period was Europe, with a decrease in market share from 57% in 1990 to 51% in 2012. However, even with the decline in market share, Europe is still the destination for more than half of all international visitors.

1.03 Over the 22-year review period, major gains in market share were achieved by Asia and the Pacific region, which grew market share by 9%; the Middle East, which increased its share by 4% and Africa which increased its market share from 2% in 1990 to 5% over the period 2010 to 2012. A summary of the comparative performance of the major tourism regions, as measured by share of the international tourism market, is depicted at Graph 1.

Graph 1 Percentage Market Share of Major Tourism Regions 1990 – 2012



Source: UN World Tourism Organization

1.04 Over the period 1990 to 2012, in each of the subject countries share of global tourism arrivals remained very small. In 2012, the relative shares ranged from approximately two hundredths of 1% in the case of Antigua and Barbuda to nineteen hundredths of 1% in the case of Jamaica. Even as members of the Americas region, the subject countries have attracted relatively small shares of the total visitors to the Americas.

¹ UNWTO World Tourism Barometer, January 2008 and January 2013

² See Appendix for countries included as Caribbean by CTO, ECLAC and UNWTO

1.05 Of the subject countries, Jamaica in 2012 had the largest share of visitors to the Americas with 1.2%, while the Bahamas had 0.84 of one percent. None of the other three countries came close to attracting one half of one percent of visitors to the Americas region. A cause for even greater concern for the subject countries is the trend in loss of market share of both the global market and of visitors to the Americas over the period (See Table 1). Of the five countries, over the 22-year period, only St. Lucia was able to increase its share of total visitors to the Americas. An assessment will be made later of product development and marketing plans of each country and their potential to reverse the loss of market share experienced over the period.

Table 1 Subject Countries Percentage Share of Global and Americas Tourism Markets

Countries	1990		1995		2000		2005		2010		2011		2012	
	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)	Global Market Share (%)	Americas Market Share (%)
Antigua	0.04	0.19	0.04	0.18	0.03	0.16	0.03	0.18	0.02	0.15	0.02	0.15	0.02	0.15
Bahamas	0.35	1.57	0.30	1.48	0.22	1.16	0.19	1.14	0.13	0.83	0.13	0.81	0.13	0.84
Barbados	0.10	0.44	0.08	0.41	0.08	0.42	0.07	0.41	0.06	0.35	0.06	0.36	0.05	0.33
Jamaica	0.28	1.24	0.21	1.06	0.19	0.99	0.18	1.11	0.20	1.28	0.20	1.25	0.19	1.23
St. Lucia	0.03	0.14	0.04	0.21	0.04	0.20	0.04	0.24	0.03	0.20	0.03	0.20	0.03	0.19

Source: UNWTO

1.06 Increasing competition from newer tourism destinations, especially in the Asia Pacific region and the Middle East will further challenge the Caribbean, at a minimum, to prevent further loss of market share. These destinations offer visitors the same climatic conditions as the Caribbean. They are rapidly increasing the supply of new, high quality products, especially accommodation and are able to enter the market at price points considerably lower than prices quoted for Caribbean properties of lesser quality, thus providing travelers with perceptions of greater value for money.

1.07 The Bahamas has been most perceptive, strategic and proactive in undertaking the kind of investment in significant new quality product needed to maintain the island's competitiveness (Atlantis Hotel and its subsequent expansions and the Baha Mar resort complex are examples). The Government is also undertaking complementary road and infrastructure work that will result in the creation of new public roadway from the airport, six acres of natural wetlands, lakes, parks, walking trails, gazebos and boardwalks for public enjoyment.

The of \$3.5 billion Baha Mar resort complex in the Bahamas will consist of 2,200 guest rooms in 6 hotels, condominiums and timeshare villas operated under world renowned hotel brands. Other features include a Las Vegas style casino, 18-hole golf course, restaurants, retail village, convention center, spa and other amenities. The complex, which is scheduled to open by the end of 2014, will provide an estimated 7,000 new jobs and millions in tax revenues.

1.08 Even so, it is understood that the island is now in the process of developing a master plan for the sector. However, it is critical that the value of investments being undertaken not be compromised or benefits constrained by deficiencies in other areas. Attention to issues such as human resource development and training, industrial relations practices, immigration policies, inter-sectoral linkages, addressing crime and violence and ensuring locals benefit from the sector will be critical in maintaining the industry's sustainability and the Bahamas' competitiveness in the global tourism marketplace.

1.09 Cognizant of the competitive threat, Jamaica has been strategically diversifying and expanding its accommodation product through new investments in accommodation by established hotel brands which are new to the Caribbean but familiar with hotel operations in the Americas. The island has already attracted two of these brands and it is understood that a third will shortly be commencing operations. Other new operators including Sagicor have invested in purchasing and upgrading existing hotel properties. Jamaica has also expanded the range of attractions for visitors even during the period of recession.

1.10 Additions and improvements to Antigua’s accommodation inventory have been slow with less than 1,000 new guest rooms added since 2000. As a mature destination, a significant proportion of the accommodation inventory is in need of upgrading and redevelopment.

1.11 Like Antigua, Barbados is a mature destination with a significant proportion of accommodation inventory in need of renewal and upgrading. Developers have been unable to re-start several accommodation projects planned for implementation before the recession. The last major new hotel established in Barbados was the 118 guest room Marriott Courtyard Hotel which was opened in February 2011. At the time of the preparation of this report, the Port Ferdinand marina/accommodation development with over 80 luxury residences and more than 100 berths was under construction. It is estimated that the island lost over 1300 guest rooms between 2001 and 2012. In addition there has been conversion of some hotels into condominiums. The most significant development in the industry has been the rapid expansion in the villa segment of the accommodation product.

1.12 In St. Lucia, the onset of the 2007/2008 financial crisis brought to a halt between 8 to 10 luxury accommodation projects that were at various stages of planning for implementation. However, since 2008, new hotels have started operations in Soufriere and Rodney Bay. There has also been expansion and upgrading of some hotels, expansion of duty free shopping at the new Bay Walk Mall and the addition of a casino and attractions focused on activities, including zip lines, hiking trails and new dive sites.

1.13 While there has been only modest development of new accommodation products in the subject countries, the opposite has been the case in competing regions. The development pipeline of hotel rooms under construction in selected competing regions at March 2013, as reported by Smith Travel Research (STR Global), is given at Table 2.

Table 2 Hotel Rooms Under Construction in Selected Regions/Countries at February 2013

Region	No Hotels Under Development	No. Rooms Under Construction
Europe	818	135,115
Middle East/Africa	483	118,713
Asia/Pacific	1,788	385,043
Central& South America	235	36,349
Caribbean/Mexico	118	20,015
Bahamas		2,526
Jamaica		⁽¹⁾ 2,000
Dominican Republic		2,475
Turks & Caicos Islands		747

Source: STR Global Construction Pipeline Report /<http://www.hotelnewsnow.com/Pipeline.aspx>

(1) Quote from Minister of Tourism, Jamaica reported in the Gleaner Newspaper of April 2, 2013

Factors Driving Hotel Costs

1.14 The Caribbean is a high cost destination. High costs in the Region are borne by locals and visitors alike and are related to the relatively high living standards of countries in the Region, the high cost of energy, most of which is imported and therefore reflective of world market prices and the high transaction cost of doing business.

1.15 In the tourism sector, the high labor content of operations means that for most hotels, wage costs, including the hotel's portion of national insurance and related contributions are the biggest expense item in the Income Statement.

1.16 The location and exposure of a significant proportion of the sector's most expensive assets - its hotels - to a saline/sandy environment conducive to continuous rust and high wear and tear, adds high recurrent costs to hotel operations. As hotels age, maintenance costs increase as items reach the end of their useful life. Many managers are unable to afford more than necessary maintenance. As a result, preventative maintenance and upgrading is deferred and further deterioration of the hotel continues. As a consequence, mature destinations like Antigua and Barbuda and Barbados have a large number of old hotels that are in need of upgrading, redevelopment and in some instances complete replacement.

1.17 The issue of product quality is a problem not only for Antigua and Barbuda and Barbados. The quality of some product elements is declining in all five of the subject countries. In each country, there is therefore a need for standards that are monitored and enforced if the Region is to address the issue of deteriorating market share discussed at 1.05. In addition, if destinations like Antigua and Barbuda, Barbados and St. Lucia, that are relatively small in size, are to be successfully marketed as high-end destinations, then the country must be perceived as high-end in terms of its roads, transport, air and sea ports, public amenities and facilities and service standards.

1.18 With the decline in agricultural exports and difficulties competing in industry, tourism is expected to be the sector that provides the catalyst for growth of the economies of the subject countries. However, rather than increasing its revenue to Government, there is a perception that there are segments of the hospitality sub-sector that cannot survive without Government support.

1.19 On each island, complaints were made regarding taxation and its impact on cost of inputs used especially in the hospitality industry. Examples given included the following:

Antigua: A tax reform committee is reviewing the tax structure of the industry and is expected to submit its report to Government by September 2013.

Barbados: High bound rates of between 150% and 184% are imposed on some items not produced in the country. This has created issues of viability for businesses using these items as inputs of the operation.

The Bahamas: There are concerns regarding the expected impact of Value Added Tax (VAT) which is scheduled to be introduced in the island.

Jamaica: There are concerns that duty rates on food and alcohol are too high.

St. Lucia: The major concern has been the impact of the VAT since its introduction in October 2012. Industry leaders claim that reductions in prices resulting from the reduction in tariffs on certain items used by the industry have not been passed on to the industry, hence inflating costs. An earlier postponement in the timing of the introduction of VAT and calls for further discussion with Government before its

introduction, appeared to have created an expectation of a further deferral. As a result, the introduction of VAT in October 2012 has prompted claims that the industry was not given sufficient notice of its introduction.

Governments need to give hotels at least 12-18 months notice before VAT rates take effect because hotels negotiate rates with overseas tour operators ahead of each season. Since any changes in tax cannot be passed on to the consumer in the short-term, any increase in the tax structure will force hoteliers to bear the entire cost of the tax increase until the next negotiations with tour operators take place.

Airline Taxes

1.20 Hoteliers indicate that visitor arrivals have been negatively impacted by the increased cost of tickets for travel from the UK, consequent upon changes to the Air Passenger Duty³ (APD), especially after the increase that went into effect in 2010. First introduced in 1994 at a rate of £5 for the UK and European Union (EU) and £10 for elsewhere, the APD was changed to four bands in 2009 based on the distance from London to the capital city of the destination country. As a result, UK passengers to each of the subject countries pay the higher rates of Band C than passengers travelling to California, which is considerably further away but is in Band B, because of the closer proximity of Washington DC (the capital city of the USA) to the UK (See Table 3).

Table 3 APD Destination Bands and Applicable Rates

Destination Bands and distance from London (miles)	Reduced rate	Standard rate	Reduced rate from: (for travel in the lowest class available on the aircraft)		Standard rate from:(for travel in any other class of travel)		Higher rate (for aircraft of 20 tonnes or more carrying less than 19 passengers)
	Nov 2009	Nov 2010	Apr 2012	Apr 2013	Apr 2012	Apr 2013	Apr 2013
Band A (0 – 2000 miles)	£11	£12	£13	£13	£26	£26	£52
Band B (2001 – 4000 miles)	£45	£60	£65	£67	£130	£134	£268
Band C (4001 – 6000 miles)	£50	£75	£81	£83	£162	£166	£332
Band D (over 6000 miles)	£55	£85	£92	£94	£184	£188	£376

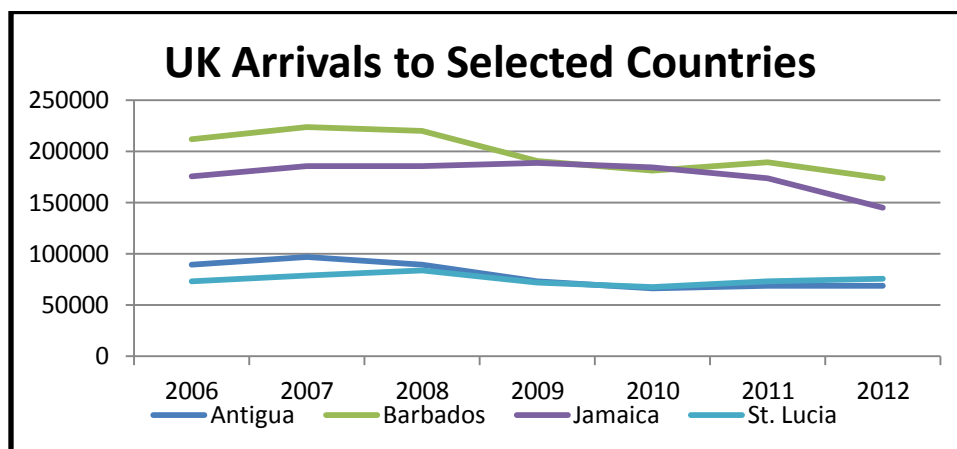
Source: Notice 550 Air Passenger Duty (APD), March 2013

1.21 The UK is the main visitor market for Barbados and an important market for visitors to St. Lucia, Jamaica and to a much lesser extent, the Bahamas. A review of UK arrivals to the first three countries since the introduction of the higher APD rates in 2009 shows that in Antigua, UK arrivals declined in 2010 and 2012 compared with the previous years. UK arrivals to Barbados declined in 2010 compared with 2009, increased in 2011 over 2010 but again declined in 2012 compared with 2011. Jamaica has

³ The APD is an excise duty which is due on chargeable passengers being carried from a UK airport on chargeable aircraft.

experienced three consecutive years of decline in UK arrivals since 2009. After a decline in 2010 compared with 2009, UK arrivals to St. St. Lucia increased in 2011 and 2012 (See Graph 2).

Graph 2 UK Arrivals to Selected Countries 2006 – 2012



Source: Data supplied by the national tourism offices of subject countries

1.22 Further research would be necessary to determine the extent to which decreases in UK arrivals to Barbados and Jamaica are due entirely to increases in the APD and the extent to which they are the result of the continuing slow recovery of the British economy. What is certain is that further increases in the APD and the continued unfavorable banding of the Caribbean vis-à-vis USA tourism destinations, will do little to improve Barbados' competitiveness in the British tourist market.

1.23 Despite the competitive challenges that confront Caribbean tourism, the Region continues to have high name recognition in the international tourism marketplace. Geographically, the region is also in close proximity to some of the main gateways of the USA, a major tourist generating market. Destinations such as the Bahamas and Jamaica, at less than 45 minutes and just over 1 hour respectively from Miami, are especially well positioned to grow market share. The emergence of new originating travel markets and airline technology allowing non-stop passenger travel in greater numbers over longer distances, creates the potential for those Caribbean destinations that successfully confront and address their competitive challenges to secure a sustainable level of business.

1.24 A necessary response to the competitive challenges confronting the Caribbean must include the following:

- (a) equal focus on product development and destination marketing;
- (b) a concerted effort to upgrade and refurbish existing and add new accommodation;
- (c) intensification of efforts to attract investment in accommodation from non-traditional sources and business from new markets;
- (d) encouragement of international hotel chains as part of the plan to improve marketing and to raise service standards in the industry to international levels;
- (e) implementation of on-going programs to raise public awareness about the importance of tourism to the economy.

1.25 A SWOT analysis of the Caribbean as a tourism destination is given in Table 4

Table 4 SWOT ANALYSIS – Destination Caribbean

Strengths	Weaknesses
<ul style="list-style-type: none"> - Great diversity of product - High “Caribbean” brand recognition in the marketplace - Proximity to some of the main USA markets - Good airlift to most countries, especially from markets on east coast USA - Political and social stability - Safe investment reputation and environment - Trained and easily trained English-speaking labor force - General acceptance of tourism by congenial population -High level of repeat visitors 	<ul style="list-style-type: none"> - High cost of operations, especially energy - Lack of leadership and visionary planning for the sector within the public and private sector - Need to improve transparency and ease of access to incentives provided for investment - Weak business facilitation and slow decision making - Increasing crime and violence - Undeveloped capital market - Under-developed (tourism) linkages with other sectors - Reliance on baby boomer generation which is on its way out
Opportunities	Threats
<ul style="list-style-type: none"> - BRIC countries and other emerging markets - Development of new products for emerging niche markets - Encouragement of local ownership and participation in the industry - Use of green technology to reduce cost and improve product and destination brand. - Greater multi-destination marketing - Social instability and religious and ethnic intolerance in competing Middle East and Far East destinations 	<ul style="list-style-type: none"> - Expansion in Asia, Pacific and the Middle East - Increasing absence of a correlation between Price and Value for Money in some destinations - Declining product quality and service standards - Increasing crime and violence against visitors - High price and exclusivity not as important a marketing asset as before - Potential environmental costs resulting from failure to mitigate risks when developing projects - Millennial Generation have no destination loyalty, they are informed and want to explore

The Economic Contribution of Tourism to Caribbean Economies

1.26 The Americas' (including the Caribbean) share of global tourism receipts have declined from 21% in the year 2000 to 19.5% in 2010 and 19.4% in 2011, the latest year for which data is available. What should be of great concern to tourism planners and Governments is that the Americas was the only region to have continuous erosion in its share of global receipts over the review period. In contrast to the Caribbean, over the same period the Asia and Pacific region increased its share of global tourism receipts from 21.7% in 2000 to 27.5% ten years later and 28.1% in 2011. A summary of the distribution of global tourism receipts among the 5 major destination regions is given at Table 5.

Table 5 Tourism Expenditure by Share and Region in 2012

Region	2000	2005	2010	2011
	\$bn	\$bn	\$bn	\$bn
Global	479	682	928	1030
Europe	209.5	347.4	409.3	463.4
Asia & the Pacific	103.9	138.9	255.3	289.0
Americas	100.6	145.3	181.0	199.5
Middle East	16.4	28.6	51.7	45.9
Africa	6.7	21.3	30.4	32.6

Source: UNWTO

1NOTE: Americas includes the Caribbean

1.27 The contribution of tourism to Gross Domestic Product (GDP), employment and investment in the five subject countries in 2012 is given in Table 6.

Table 6 Tourism Contribution to Economies of Subject Countries in 2012

Tourism Contribution to Economies of Subject Countries in 2012					
Economic Indicator	Antigua	Bahamas	Barbados	Jamaica	St. Lucia
Direct Contribution to GDP (US\$bn)	0.2	1.7	0.6	1.3	0.2
% Share of GDP	18.5	22	11.9	8.4	13.3
Total Contribution to GDP (US\$bn)	0.9	3.8	1.8	4.1	0.5
% Share of Total GDP	77.4	48.4	39.4	27.4	39.0
Direct Contribution to Employment ('000 jobs)	5.2	51.8	15.2	89.5	13.6
% Share of Employment	18.8	57.4	12.1	7.8	18.6
Total Contribution to Employment ('000 jobs)	19.8	97.1	48.8	291.9	30.9
% Share of Total Employment	71.5	57.4	38.8	25.4	42.3
Contribution to Capital Investment (US\$bn)	0.2	0.4	0.2	0.3	0.1
% Share of Total Capital Investment	26.5	16.9	21.1	10.3	16.2

Source: World Travel and Tourism Council

NOTE: Total contribution to GDP – GDP generated directly by the travel and tourism industry plus its indirect and induced impacts, including employment and spending by those who are directly or indirectly employed in Travel & Tourism.

Competitive Analysis of the Hospitality Industry

1.28 The last comprehensive competitive analysis of the Caribbean hospitality industry was undertaken almost twenty (20) years ago. The study report⁴ established base year (1994) operating performance benchmarks for the hospitality industry of the region. It also provided a comparative measurement of performance of individual countries and the Caribbean region vis-à-vis the performance of the hospitality sector in Asia/Pacific, Middle East, Europe, Africa, the USA, Canada and Mexico. A summary of the comparative performance metrics measured in the study is given at Table 7.

Table 7 Comparative International, Regional and Country Performance Metrics, 1994

International Performance Metrics	Regional Group Performance Metrics	Individual Country Performance Metrics
Percentage occupancy	Percentage occupancy (%)	Percentage occupancy
Average daily rate(\$)	Average daily rate (\$)	Average daily rate(\$)
		Average daily room revenue(\$)
Income before fixed charges (\$)	Income before fixed charges by rooms type and size (\$ per room)	Income before fixed charges (\$)
Distribution of revenue by department (%)	Distribution of departmental costs and expenses (%)	Distribution of departmental costs and expenses (%)
Room and food and beverage ratios to departmental revenue (%)	Ratio of costs and expenses to revenue by department (%)	Ratio of costs and expenses to revenue by department (%)
	Sources of Revenue by department (%)	Sources of Revenue by department (%)
	Distribution of hotels and rooms by size of plant	Age of hotel plant by percentage of hotel inventory
		Number of hotels and rooms
		Distribution of guest rooms by size of hotel
		Distribution of hotels by number of guest rooms

Source: Caribbean Hotel Trends, PKF Consulting/CTO, 1994

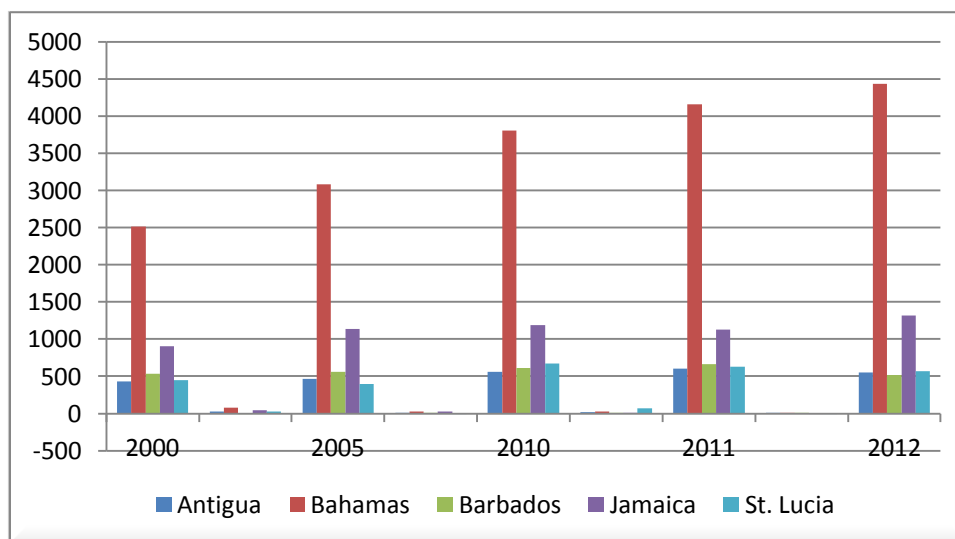
1.29 Since 1994, when the study was completed, the operating environment for Caribbean hotels has been marked by rapid expansion of hotel and tourism plant and increased competition, especially from operators in Asia/Pacific, Middle East, Africa and Latin America. At the same time, individual countries in the Region have been slow to add new quality hotel plant. In addition, inadequate maintenance, refurbishment and upgrading have resulted in a decline in product quality of many older hotel properties in mature destinations like Antigua and Barbuda and Barbados. Given these challenges, the time is opportune for another in-depth diagnostic study of the Caribbean hospitality industry.

⁴ Caribbean Hotel Trends, PKF Consulting/CTO, 1994

Cruise Tourism Performance

1.30 Each of the subject countries recorded good to modest growth in cruise passenger arrivals over the 2000 to 2012 period. Considerable gains were made by the Bahamas which grew its passenger arrivals by almost 76% in 2012 over the passenger arrivals for 2000. Jamaica also increased its passenger arrivals over 45% in 2012 compared with passenger arrivals for the year 2000. On the other hand, Antigua and Barbuda and St. Lucia increased passenger arrivals by approximately 28% and 29% respectively in 2012 over the 2000 arrivals. Barbados was the only country where passenger arrivals in 2012 were lower (by 3%) than in the year 2000. This outturn was largely the result of a 22.2% decline in passenger arrivals in 2012 compared with the previous year. An overview of cruise passenger arrivals for the subject countries over the period 2000 to 2012 is given in Graph 3.

Graph 3 Cruise Passenger Arrivals for Subject Countries 2000 – 2012 (000)



Source: CTO Annual Reports

1.31 The better performance of the Bahamas and Jamaica is related to their proximity to the USA originating ports for cruises i.e. Miami and Fort Lauderdale. Antigua's passenger numbers are limited by its 900 foot cruise ship dock, which accommodates up to 4 cruise ships per day. The capacity at Port Castries, St. Lucia is also limited to five (5) ships per day. Barbados has sought to mitigate any disadvantage of its position in the southern Caribbean by developing home porting as part of its cruise tourism product.

1.32 Cruise companies have also invested in port infrastructure assets closer to Miami including Jamaica and Belize and have even purchased islands – Labadee (Haiti), Castaway Cay, Coco Cay, Great Stirrup Cay and half Moon Cay in the Bahamas. They are therefore committed to the use of these islands in preference to island in the southern Caribbean, where they have no tangible investments.

1.33 Cruise operators have also continued to diversify their range of operations by repositioning ships away from traditional cruise destinations like Alaska and the Caribbean to new cruise regions including the Far East, Middle East, Australia and New Zealand.

1.34 In each of the subject countries, the average cruise passenger expenditure is relatively low and less than one hundred dollars. A high level cruise official has observed that some Caribbean countries are

not doing enough to create and offer new products, attractions, events and activities for passengers. Details of the impact of cruise tourism in each country as measured by average passenger expenditure, total expenditure and employment are given at Table 8.

Table 8 Total Economic Contribution of Cruise Tourism by Destination for Selected Years

Destination	Average Passenger Expenditure				Total Expenditures				Total Employment			
	2001	2006	2009	2012	2001	2006	2009	2012	2001	2006	2009	2012
	US\$				US\$m				Persons			
Antigua & Barbuda	86.81	84.00	87.65	65.30	12.3	41.0	48.3	45.0	1,600	1,215	1,315	1,246
Bahamas	77.90	60.54	83.93	64.80	40.6	144.4	246.1	393.8	5,600	3,965	6,219	8,668
Barbados	81.12	45.3	69.10	65.60	11.9	57.3	53.6	53.7	1,500	1,635	1,665	1,794
Jamaica	73.15	NR	92.72	NR	22.4	NR	101.5	NR	2,900	NR	3,865	NR
St. Lucia	NR	82.62	68.53	NR	NR	34.8	45.7	NR	NR	1,035	1,203	NR

Source: Economic Contribution of Cruise Tourism to the Destination Economies, Business Research and Economic Advisors, May 2001, Oct 2006, Oct 2009, Sept 2012

NR- No Report

1.34 The cost of fuel and the economics of cruise operations favor the quicker turnaround of vessels on 3-7 day cruises rather than 14 day cruises from Miami to the southern Caribbean. As a consequence, the sub-region will likely continue to see a decline in ship calls in the future. Although the trend towards larger ships visiting the island will continue, their size will not compensate for the number of berths lost as result of the reduction in the absolute number of ships arriving.

FINANCING AND INVESTMENT

Tourism and Hospitality Financing

2.01 The development of the tourism and hospitality industries of the subject countries has been financed by local and foreign investment. Over time, local commercial banks have provided both capital and operational financing to the sector. Given the size of capital required, large hotels have traditionally involved Foreign Direct Investment (FDI) which is provided by wealthy investors and extra-regional financial institutions.

2.02 During the 1970's to 1990's, financing provided by local Government-owned development finance institutions (DFI's), [development banks] made possible increased involvement of nationals in the ownership and operation of hotels, restaurants and related tourism ancillary services. However, hotel projects financed through DFI's often were highly leveraged, not properly constructed, limited in size without physical space for expansion and lacked professional management. Few of these early hotels have been sustainable and able to expand over time. In each of the subject countries, the DFI's have also undergone amalgamation with other financial institutions or have closed.

Regional Tourism Financing

2.03 During the 1980s and 1990s, the Barbados-based Caribbean Development Bank (CDB) provided partial financing for public and private sector tourism projects in the Caribbean. It also provided Lines of Credit (LOCs) to DFIs under Government guarantee for on-lending for projects, including those in the tourism sector. Since 2000, CDB has generally retreated from participating in private sector tourism projects, given the liquidity in the commercial banking sector and its ability to finance such projects.

2.04 Another Barbados-based entity, the Caribbean Financial Services Corporation (CFSC) provides project finance to English speaking CARICOM countries in the form of medium and long term loans and, where appropriate, equity investments for start-ups and expansions. CFSC also serves as a financial intermediary for access to funding from other institutions, by attracting funding from these institutions through LOCs and co-financing arrangements.

New Business Model for the Development of Tourism Projects

2.05 The business model for the establishment of hotel projects has undergone significant change since the start of the Century, especially in terms of ownership, financing, types of accommodation and the accompanying components that constitute the entire development project. Up to the 1990's most new hotels in the Caribbean were stand alone operations with limited ancillary services, primarily for guests, usually restaurant(s), gym and shop concessions. A few resorts with spas and golf courses targeted specialized segments of the market.

2.06 Hotels were usually owned and partially financed by companies, limited number of investors, families or wealthy individuals. The remaining financing (syndicated) was provided by commercial banks and other financial intermediaries. The debt to equity structure of financing ranged between 70/30 to 50/50 with 5 to 7 year repayment terms, which often necessitated debt roll over. Some development finance institutions offered repayment terms between 10 to 15 years but this was usually for small locally owned projects. Under this financing model, investors had to wait an extended period and only after the

debt had been fully repaid, before they could recover their investment. Consequently, invested funds were exposed to risk over a considerable period of time. The concept of shared ownership was therefore introduced as one of the strategies to reduce the quantum of owner equity required for project financing and to mitigate the time risk of exposure.

2.07 The shared ownership business model has as its main feature the pre-selling of units of accommodation under several forms of foreign and local ownership to raise equity funds. Raising financing by pre-selling units not only reduces the amount of owners equity required for the project but spreads the financial risk from undertaking the project thereby mitigating any potential loss for the developer. Developers then use the infusion of cash raised through pre-sales for the start the project and to leverage additional financing to complete the entire project.

2.08 Ownership is usually offered in the form of condominium units, timeshares, fractionals or private residences. Guests and owners have access to common areas and supporting services which remain the responsibility of management. Most purchasers of accommodation units provide funding as an investment and, therefore, allow their units to be placed in a rental pool for let to guests for reward when they are not being used by the owners.

2.09 A variation on the business model is mixed-use lifestyle centers. These usually consist of a mix of complementary components including accommodation, residential, retail, entertainment, recreation, sports and food and beverage, to list a few. Mixed-use complexes have increasingly been used in the USA and Europe as the model for the redevelopment of urban city centers, including the redevelopment of downtown areas. Even when it is not the most profitable component of the complex, the branding of the hotel component is used to establish the image and profile for the complex. As a result, there is a general tendency for developers to use up-market hotel brands for the accommodation component of the complex. This often translates into prices paid for everything from accommodation to goods and services offered to patrons of other businesses in the complex.

2.10 In the Middle East, mixed-use developments have become a widely used model of property development particularly in Dubai and Abu Dhabi. Over time mixed-use complexes have expanded from the initial lodging and residential components to include office, retail and leisure components as part of the product mix.

2.11 Of the main tourism regions, Australia and Africa have experienced the slowest growth of mixed-use developments as a model for the expansion of guest accommodation.

2.12 In Latin America the rapid expansion of mixed-use developments has been driven partially by the need to mitigate financial, political, currency and even climate (weather) risks.

2.13 In the Caribbean and Latin America, the mixed-use business model has allowed costly luxury resorts to be undertaken by spreading the development risks across a variety of assets. It also allows for the generation of multiple revenue streams from these assets, thus improving the potential financial viability of the venture. Financing, therefore, is more easily obtained for a mix-use development than for stand alone hotels.

2.14 The mixed-use model has quickly become one of the most preferred strategies for hotel development in the Region. In the Caribbean, complexes are invariably anchored by a luxury brand hotel as the vehicle to deliver world class standards and experience. The model also involves pre-sales of residential products such as condominiums, villas, luxury town homes and hybrids products such as condominium-hotels units purchased and then placed in a rental pool, fractionals and timeshare vacation ownerships. In operation, users of the residential component contribute to the success of the

accommodation component through their use of the hotel's revenue producing amenities such as restaurant(s), spa, gym and golf and retail shops.

2.15 The scale of mixed-use complexes could invariably result in Government's having to forego larger amounts of revenue as a result of the developers increasing requests for incentives and concessions on items that have potential use in areas other than the hotel. Consequently, there is a need for Governments to critically review and determine whether current incentive legislation for the development of visitor accommodation is the appropriate legislation for the provision of incentives and assistance for the development of non-accommodation components of mixed-use complexes.

Barbados' Special Financing Arrangements for the Small Hotel Sub-Sector

2.16 The case of Barbados warrants special mention. Following the winding up of operations of the heavily indebted Barbados Development Bank, a new development finance institution, the **Enterprise Growth Fund Limited** (EGFL) was established as a private sector led institution in which Government would play a catalytic role through tax concessions and the provision of start-up capital and the private sector would provide the capital and manage the enterprise. EGFL's current lending rates of 5% to 7.5% per annum are among the lowest available to the sub-sector. Funding for small hotels is disbursed through the following two funds.

2.17 The **Small Hotels Investment Fund** (SHIF) assists small hotels with marketing, management, procurement of services and refurbishment. The SHIF finances projects that will improve the financial viability and operational performance of small hotels. Funded upgrades must comply with the minimum standards established by the European Travel Trade. The maximum funding per application is BBD\$2.625 million. The minimum loan size for hotels is BBD\$25,000. Loan repayment is over 10 years or less, inclusive of a maximum 5 year moratorium on the repayment of interest and principal. Security on loans generally takes the form of a first mortgage but the SHIF is prepared to take second mortgages in instances where 80% of the market realization value of the underlying security is adequate to liquidate all prior charges and the Fund's exposure.

2.18 The **Tourism Loan Fund** (TLF) provides loans for the refurbishing and upgrading of hotels with seventy-five (75) guest rooms or less. The TLF also provides financing for attractions and/or the construction of facilities to be used for the purpose of carrying on business in the areas of historical cultural and natural heritage attractions. The maximum loan size is the higher of BBD\$2.225 million or 15% of the total capitalization of the Fund. The minimum loan size is BBD\$25,000. Security on loans generally takes the form of a first mortgage but the TLF is prepared to take second mortgages in instances where 80% of the market realization value of the underlying security is adequate to liquidate all prior charges and the Fund's exposure.

2.19 Greater efficiency could be achieved from the amalgamation of these two separate funds, which are currently individually managed and separate reports prepared.

2.20 The Central Bank of Barbados operates a **Tourism Loan Guarantee Facility** (TLGF) which provides guarantee support for new loans and debt service payments in respect of financing approved by financial intermediaries for hotels and enterprises in the tourism sector. For amounts up to BBD\$225,000, the guarantee facility attracts a premium of up to 1.5%, while for amounts above \$225,000; the guarantee facility attracts 1.5% on the first BBD\$225,000 and up to 0.75% on the remainder. This facility has not

been widely used by hotels. One hotelier cited the requirement to provide the financial intermediary with additional security to that offered by the TLGF as limiting its usefulness.

St. Lucia also has established a Venture Capital Fund but it has also not been widely used.

Foreign Direct Investment

2.21 The decline in foreign exchange earning capacity of the agriculture and manufacturing sectors has made it even more necessary for Governments of the subject countries to focus on attracting foreign direct investment. The continued attraction of FDI is critical to the maintenance of the standard of living of each country. Also, some developers of large hotel projects are able to attract financing from external sources on better terms and conditions than are obtainable from local financial institutions.

2.22 Since the provision of FDI in equity or debt is based on an analysis of expected returns, whether dividends or interest, FDI invariably is used to build productive capacity in the recipient country. The highlighting of the importance and role of FDI must therefore be part of the continuous tourism awareness program of each country.

2.23 The largest single contribution of FDI in the region is Chinese investment of an estimated \$2.5 billion in the form of loan financing for the construction of the Baha Mar resort complex in the Bahamas, the largest ever built in the Caribbean. The first phase of the complex is expected to be completed in 2014.

2.24 The Economic Commission for Latin America (ECLAC) has indicated the FDI flows to the Caribbean declined 40% in 2009 owing to the global financial crisis, but increased in 2010 and 2011. The increase over the last two reported years has been largely attributable to higher flows to the Dominican Republic (US\$ 2.371 billion i.e. 25% more than in 2010). Other factors contributing to the increase were the relative return of confidence to the international financial markets and the stability of the region. However, ECLAC has concluded that “the economies of the Caribbean as a whole have been the hardest hit by the economic crisis since 2008. Also investment in the tourism sector - which is especially important for members of the Organization of Eastern Caribbean States (OECS) - and in financial services, in the Bahamas, has borne the brunt over the past three years”⁵.

2.25 One feature of FDI flows since 2009 is that the Dominican Republic has been the recipient of significantly higher annual FDI inflows than the five subject countries combined, despite increased inflows associated with the financing of the Baha Mar project from 2009. Inflows of FDI to the Bahamas and Jamaica have also been considerably in excess of that received by Antigua and Barbuda, Barbados and St. Lucia. However, one development that needs careful monitoring is the reduced FDI flows to Jamaica in 2010 (see Table 9). (Data on FDI flows to Jamaica for 2011 were not available at the time of the preparation of this paper).

⁵ Foreign Direct Investment in the Latin America and the Caribbean 2011, ECLAC

Table 9 FDI INFLOWS BY RECEIVING COUNTRY 2000-2011
(\$mn)

Country	2000-2005	2006	2007	2008	2009	2010	2011
Antigua	127	361	341	176	85	101	64
Bahamas	383	843	887	1032	753	960	840
Barbados	118	298	394	470	303	344	-
Jamaica	595	797	752	1,361	480	170	-
St. Lucia	76	238	277	166	152	115	81
Dominican Republic	932	1,085	1,667	2,870	2,165	1,896	2,371

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of preliminary figures and official estimates.

Investment and Ease of Doing Business

2.26 A useful benchmark of the ease of doing business in each of the subject countries is the “**Ease of Doing Business Index**” produced by the International Finance Corporation/World Bank. Extracts from the latest index as at June 2012, shows the rankings of each country out of a total of 185 countries (see Table 10). The position of the subject countries in the top half of the index rankings, though commendable, suggests the need for further improvement in the area of business facilitation.

Table 10 Ease of Doing Business, Ranking for Subject Countries at June 2012

Country	<u>Doing Business Rank out of 185</u>	<u>Starting a Business</u>	<u>Dealing with Construction Permits</u>	<u>Getting Electricity</u>	<u>Registering Property</u>	<u>Getting Credit</u>	<u>Protecting Investors</u>	<u>Paying Taxes</u>	<u>Trading Across Borders</u>	<u>Enforcing Contracts</u>	<u>Resolving Insolvency</u>
Antigua	63	85	24	18	125	104	32	142	110	72	85
Bahamas	77	82	68	43	179	83	117	51	58	123	35
Barbados	88	70	53	81	154	83	169	121	31	105	28
Jamaica	90	21	50	123	105	104	82	163	106	129	32
St. Lucia	53	51	11	12	117	104	32	43	109	168	61

Source: Ease of Doing Business Index, IFC/World Bank Group (<http://doingbusiness.org/rankings>)

2.27 As a region dependent on FDI for the development of capital projects, Governments need to exercise care in the signals sent to the investment community and market. In recent years the Governments of the Bahamas and Barbados have signaled intent to re-purchase previously divested assets; apparently in response to perceptions of growing nationalism fervor among certain sections of the local population. Few Government actions create as much nervousness among investors as concerns about expropriation or the compulsory acquisition of private property. Caribbean Governments can therefore ill afford to be sending to investors, negative signals regarding the rights of ownership and security of the investments.

2.28 Not all FDI investment has had a positive impact on the development of local communities. Over the years, the limited capital required for the establishment of food and beverage business (as compared with a hotel) allowed nationals to become involved in this segment of the tourism and hospitality industry. Locally owned and managed food service operations provide linkages with local suppliers through their purchase of products, especially from farmers. They also have allowed the subject countries to market culinary tourism as a product segment as evidenced by the various food festivals that form part of the annual tourism events calendar of each country. However, within recent years, there has been rapid expansion of North American fast food chains as part of the tourism ancillary services sub-sector.

Local Participation and Entrepreneurship in Tourism

2.29 Wealthy local residents over time have participated as investors in the financing of hotel developments in each of the subject countries. The sale of shares in the 306 guest room Almond Beach Resort, Barbados represents one of the few instances where the general public was able to purchase shares in a hotel. The shares were also listed on the stock exchange of Barbados. In November, 2012, the Caribbean Information and Credit Rating Services Limited (CariCRIS), issued a press release indicating Millennium Investments Limited, owner and operator of the 252 room Crane Residential Resort in Barbados, planned to incorporate as a limited liability company by the end of 2012 and issue an Initial Public Offering (IPO) for up to \$20 million ordinary shares and \$40 million in preference shares. In preparation for the issue the company would also be listed on the Trinidad and Tobago and Barbados Stock Exchanges

2.30 Over the years, there have been calls for greater use of insurance reserves, pension funds and national insurance funds for purposes of building out productive capital investments, including those in the tourism and hospitality sector. Within recent years this has started to happen. For example, the Barbados National Insurance Scheme participated in the financing of the Barbados Hilton. Also, Sagicor, a regional life insurance company has diversified into banking and hotel ownership in Jamaica.

2.31 It is recognized that green field (new) hotel projects have the highest degree of risk, while expansions and upgrading are often less risky. With little debt remaining on the Barbados Hilton Hotel, the time appears opportune for the divestment of this property to local, regional and international investors.

2.32 There is need for further development of the Caribbean capital market. The time is opportune for the establishment of a special purpose investment entity/fund that can provide venture capital financing to viable tourism projects. In the short-term, local experiences with Colonial Life Insurance Company (CLICO) and Almond Resorts Inc. will probably dampened wider population interest in shares as an alternative to keeping money in banks at low savings rates.

2.33 Governments also need to establish the policy framework, including incentives, to encourage the development of more sophisticated financial arrangements that will provide opportunities for locals to invest in hotels and related projects.

2.34 The Internet has revolutionized the distribution of hotel and tourism products. On-line travel agents (OTA's) such as Expedia, Booking.com, hotelbeds.com, Roommaster.net, etc have become important for product distribution and booking business and are rapidly replacing the traditional tour operator. Unlike traditional tour operators, OTA's do not demand high commissions. They also do not require exclusive control over rooms allocated to them, thus giving hoteliers greater control over their room inventory. Most importantly, working with OTA's allows hoteliers to effect changes in room rates based on supply and demand, thus maximizing revenue potential.

2.35 When asked to rank the sources for the booking of business, the Internet was ranked as No 1 by eight of 13 managers of small hotels in Barbados. Three hotel managers listed the traditional tour operators as the major source of bookings, clearly indicating that this group is still playing an important role in the marketing of hotels. The other two hoteliers identified returning guests and word of mouth recommendations as their main sources of bookings.

2.36 Special mention must be made of the small hotel sub-sector which can be found in each of the subject countries. These hotels built in the 1970's to 1990's are usually family-owned and managed by

staff with little or no formal hospitality or business training. Most of them are marginal financial operations that provide little opportunity for career advancement of staff, focus only on necessary maintenance rather than preventative maintenance and periodic upgrading and undertake little or no marketing

2.37 Small hotels face increasing competition from larger hotels which, through skillful revenue management, can maximize revenue while pricing some rooms at levels comparable to those of small hotels. Small hotels traditionally have been dependent on tour operators to generate bookings. However, consolidation of tour operators, especially in the UK, has resulted in a considerable reduction the number of hotels marketed by tour operators. In addition, those hotels with which tour operators have retained a relationship have been pressured to accept rates that some managers regard as uneconomic.

2.38 The increased use of the Internet as a marketing tool has mitigated the impact of the termination of marketing arrangements with traditional tour operators for the distribution of hotel product and booking of business. This reduced dependency on traditional tour operators should allow hotels to improve yields by reducing the amounts paid on commissions. However, most hotel managers are unable to undertaking necessary tasks such as periodic updating of product information and the dynamic updating of pricing based on demand. They are therefore not in a position to use digital technology as an effective marketing and revenue management tool to maximize revenue.

2.39 To encourage greater local participation in tourism and related ancillary businesses, there is a need to foster and support micro, small and medium-sized tourism-related enterprises, including facilitating easier access to capital, including micro financing and marketing programs. Government and the private sector should also take action to develop human resources for positions at all levels of the industry.

THE CONDITIONS AND ENVIRONMENT FOR CARIBBEAN TOURISM

Labor Market Features and Conditions

3.01 Hotel and tourism associations in each country described the industrial relations climate between the hospitality sub-sector and unions as harmonious. In particular, unions appear to appreciate the challenging and competitive environment in which the sub-sector is operating. Therefore, they have been prepared to moderate wage demands and to be flexible regarding workers carrying out tasks in related areas, e.g. receptionists taking reservations and wait staff assisting in kitchens.

3.02 It must be noted that industry/labor arrangements vary in each country as indicated below.

Antigua. The Antigua Hotels and Tourism Association (AHA) negotiates only for its members.

Barbados: Barbados Hotel and Tourism Association negotiates with the union on behalf of the industry.

The Bahamas: The Bahamas Hotel Employers Association negotiates with the union for hotels on Paradise Island. Most other workers in the major hotels in Nassau are non-unionized.

Jamaica: Hotels negotiate individually with unions.

St. Lucia: Hotels negotiate on a one-on-one basis with unions.

3.03 A major concern in each country is the inability of university graduates to find work in the industry. This situation has its roots partly in the family ownership structure of a substantial portion of hotels. Governments cannot ignore these skills training and employment issues and need to address them as part of an overall plan for the sector.

3.04 Concerns were also expressed regarding the suitability of graduates from some tertiary institutions for immediate work in the industry. The view was expressed that interns who had participated in Disney, Atlantis and Sandals internship programs were better adjusted and suited for employment. This issue suggests a need for a review of the program for the preparation of industry workers including a review of the curricula being used by hospitality training institutions. There is also a need to review the craft elements of training compared with theory; internship arrangements for students and mentoring. This is one area where PPP's can be useful in ensuring the human resource needs of the industry and personal goals and ambitions of staff are mutually satisfied.

3.05 There is need for a comprehensive study of the competitiveness of Caribbean tourism. The hospitality industry also needs to develop and embrace the principal of linking payment to productivity. Initial steps have been taken in this direction by the BHTA in Barbados but, after several years, it remains a work in progress.

Policy Initiatives That Could Make Investments in the Sector More Attractive

3.06 The cost of energy is one of the major costs in the operation of a hotel. It is clear part of the medium to long-term solution to this problem is the use of alternative energy, including solar power for hot water. However, the initial investment cost of transitioning to renewable energy is still prohibitive for most hotels. Governments of the subject countries need to encourage and facilitate the adoption of renewable energy in the tourism and hospitality sector by putting in place a legislative and investment

regime conducive to facilitating this transformation. Among policy actions that need to be taken by each country are the following:

- (a) Government to conclude a power purchase agreement (PPA) with the local power company i.e. finalize the price that the power company will purchase power generated by the consumer;
- (b) remove or negotiate limits on the amount of energy that a customer can sell to the local power company;
- (c) regulate through the Fair Trading Commission or similar body payment arrangements by the local power company for energy sold by customers to the power company;
- (d) promote greater PPPs initiatives in the area of renewable energy, particularly with Government's input being investment concessions and efficient facilitation of business processes involved in establishing demonstration "green energy" pilot projects;
- (e) establish a "green Energy Revolving Fund" to facilitate consumer access to financing at concessionary rates for the installation of renewable energy technology;
- (f) include renewal energy equipment and supplies to the schedule of items allowed duty free importation into the island; and
- (g) allow the write off of the cost of installing renewable energy systems against income tax over a defined period.

3.07 The implementation of the above initiatives should have an impact at the sector level and for the wider economy by contributing to a reduction in hotels' and the islands' high fuel import bill.

Policy Environment for Product Development in the Tourist Industry

3.08 The incentives framework consists of two components i.e. the legislative component and the business facilitation component. Each of these will be examined in the following section.

The Legislative Component

3.09 Each of the subject countries has specific legislation to encourage foreign direct investment in the tourism sector. However, in practice the package of incentives and concessions associated with large investment deals are usually not limited to what is prescribed by legislation but what can be obtained through negotiation with Government. The incentives and concessions stipulated in legislation are therefore usually applicable only to smaller investments but used as a guide or starting point for a larger package of concessions and special incentives, where large projects are concerned. Examples of additional items that may be negotiated include - requests for work permits; relaxation of certain physical planning restrictions; importation of additional items free of duty; Government contribution of land; Government security of loans - the list is limited only by the imagination of the developer and Government's eagerness to secure the investment. Ultimately, the approval of the Cabinet is required for any incentives and concessions other than those prescribed by legislation. This practice has prompted accusations of discriminatory or preferential treatment by some local investors. However, the political justification given is that the packages are necessary given the size of investment and the associated risk involved in very large projects.

3.10 Details of the incentives offered under the incentive legislation in each country is given at Appendix. A summary of as follows:

Antigua

3.11 The Hotel Aids Act provides for exemption from customs duties on building materials and hotel equipment for the construction of new hotels and the expansion of existing hotels. In addition, the Income Tax provides for the exemption from income tax in respect of income generated by the hotel in each of the five years of assessment following after the year of assessment in which the erection or extension of the hotel. The Act also provides for exemption from income tax in respect of income distributed as dividends to shareholders for five years.

3.12 Barbuda presents an interesting situation. The island's accommodation product is in need of considerable investment for redevelopment and upgrading. However, the 2007 Barbuda Land Law Act, "confirmed that all land in Barbuda is owned in common by the people of Barbuda". The Act therefore fully recognizes communal ownership of all lands on the island, and their rights to determine how land is to be used, developed and tenured in the future. Under the Act land cannot be sold, however, there is provision for land to be leased for major developments (in excess of XCD 5.4mn) for a maximum of fifty years, or longer, if approved by the Barbuda Council (the local legislative body). Land leased may also be used as security for loans.

3.13 The legislation may be well intended; however, it is expected to have the impact of limiting investor interest in Barbuda. Investors and financial institutions also regard leased land held as security for loans, as less marketable than land under exclusive rights of ownership.

The Bahamas

3.14 The Hotel Encouragement Act 2012 provides incentives for new hotels as well as for the renovation of hotels not constructed under the Act. The Act also provides incentives for restaurants and shops that operate within the precincts of hotels.

3.15 Incentives provided for hotels are as follows:

- Exemption from payment of customs duties in respect of materials required for the construction, equipping and furnishing of a new hotel.
- The right to import the construction plant, including heavy duty machinery, free of duty on a Customs bond, with the obligation to re-export it by a given date.
- A ten-year exemption from Real Property Tax with a minimum taxation per bedroom of \$20.00 beginning in the eleventh year until a twenty year period occurs from the date that the hotel opened.
- A twenty year exemption from direct taxation on hotel earnings.

Barbados

3.16 The primary legislation providing benefits and incentives to investors in the tourism and hospitality sector is the Tourism Development Act. Other incentives are provided under the Special Development Areas Act.

3.17 The Tourism Development Act 2002 provides incentives for the construction of new and the renovation of existing hotels, villas and timeshare properties; restaurants, recreational facilities and services; attractions emphasizing the island's natural, historic and cultural heritage; and for the construction of in-land guest accommodation. The Act makes provision for investors in tourism projects to benefit from write off of capital expenditure and 150% of interest. It also provides for exemption from import duty, value added tax and environmental levy in respect of furniture, fixtures and equipment, building materials and supplies.

3.18 The Special Development Areas Act 2001 provides concessions to approved developers for carrying out specific activities in defined geographical areas within Barbados. Tourism enterprises eligible for receipt of concessions under the Act include hotels with conference facilities; residential complexes; facilities that improve or expand services to the tourism sector; water-based activities; tourism projects highlighting the heritage and natural environment of Barbados and arts and cultural investments. Under the Act, approved developers and certain investors may be granted exemption from income tax on interest earned; a reduced rate on the payment of income taxes; exemption from import duties and value added tax on inputs for the construction of new or refurbishment of buildings; exemption from charges on the repatriation of interest or capital for a period of ten years; exemption from land tax on the improved value of the land; and exemption from property transfer tax payable by vendors on the initial purchase of the property.

Jamaica

3.19 The Hotels (Incentives) Act provides income tax relief and import duty concessions for up to ten years for approved hotel enterprises and 15 years for convention-type hotels having an aggregate number of not less than 350 guest rooms and facilities for the holding of conferences. To be eligible for relief hotels must have ten or more guest rooms and facilities for meals.

3.20 The Resort Cottages (Incentives) Act 1971 provides import duty concessions on imported building materials and furnishings and income tax relief up to seven years for recognized resort cottages with ten or more guest rooms; up to ten years for regular hotels and up to 15 years for convention-type hotels with at least 350 guest rooms. The minimum eligible size for receipt of the concessions is ten guest rooms.

Attractions Incentive Regulation

3.21 The Government of Jamaica has established an attractions incentive regime to stimulate growth in the attractions industry. Benefits under the regulation include the importation of specific items free of general consumption tax and customs duty for five years and a five-year exemption from corporate taxes for investors.

St. Lucia

3.22 The Tourism Incentives Act of 1996 gives exemption from income tax for an approved tourism project for a maximum period of 15 years. It also allows limited liability companies to distribute profits to shareholders or debenture holders free of tax for a period of 2 years after the end of the income tax holiday. In addition, it provides for the waiver of customs duties and consumption tax on imported building materials and equipment.

3.23 Projects eligible for receipt of incentives under the Act include the development of new and renovation of existing hotels; the provision of tourist recreational facilities and services; the provision of equipment and facilities to be used for the transport of tourists in St. Lucia; the construction and

equipping of a new or refurbishing and re-equipping of existing restaurants; the establishment of visitors' booths and interpretation centers; and the restoration and preservation of monuments, museums and things of outstanding historical and architectural merit

The Business Facilitation Component

3.24 The offer of incentives is just one factor potential investors consider when making investment decisions. What appears to be in need of greater attention is the business facilitation process that is part of any investment incentive regime.

3.25 The activities to be completed in the usually long and complex approvals process that confronts potential investors can include some or all the following activities. The list is not necessarily in chronological order as presented, neither is it exhaustive:

Applications and Documentation Supporting Investment Proposal

- request for permission to buy or lease land
- application to reside on the island
- application for investment incentives
- submission of business plan
- submission of building plans
- submission of environmental impact study, social impact study and geotechnical site study as required
- permission to build
- submission of marketing plan
- submission of financing plan
- request for work permits for key operational officials,

3.26 With competing regional and extra-regional destinations also offering fiscal and in-kind incentives, the offer of tax holidays and duty free concessions is rapidly becoming less important a factor in investors and developers decisions on where to invest and develop. Also, the ultimate long-term focus of the investment offer should be not only attracting the initial investment but retaining and allowing the businesses to expand and create additional jobs and wealth in the economy over time.

3.27 Of increasingly greater importance therefore, is the efficiency of the business facilitation processes and transparency in the review and approvals process. An examination of some of the facilitation issues confronting the average investor is instructive as outlined in the following section.

Perceptions of the Government's Attitude Toward Investment

3.28 Some views of the business facilitation process as expressed by investors, hotel associations and senior public officers were as follows.

- *Governments of the Region are not serious about tourism otherwise the Caribbean Hotel and Tourism Association (CHTA) and CTO would not have to convene a meeting with Prime Ministers to discuss its importance.*
- *There is a need for greater transparency in the process for the review and grant of incentives.*
- *Some politicians and public officers are anti-investment.*
- *In a small country where everyone knows everybody, it is often that felt certain people already have too much money and local investors are especially singled out to have their investment plans frustrated.*
- *There is a need to educate some political and public officers about the role and importance of foreign direct investment in the economy.*
- *The schedules to the legislation containing items allowed duty free importation need to be frequently updated in response to the dynamics of the industry.*
- *There is need for an overall planning framework so that everyone knows Government's plans and goals for the industry.*

3.29 The incentive legislation of each country gives the Minister considerable authority in the administrative process involved in facilitating investor access to incentives and concessions. This adds to the bureaucracy, creates delays and perceptions of lack of transparency. Customs officers also appear to exercise considerable discretion in facilitating investor access to approved concessions. During interviews, the following anecdotal experiences were provided by investors:

- (a) having to seek Ministerial consent for items already granted duty free access by legislation;
- (b) having Customs Officers dispute the intended use of material imported and whether it therefore qualified for duty free exemption;
- (c) requirement to pay considerable sums in duty on items which are on the approved schedule for duty free importation and being told to seek a refund (which usually takes several months for reimbursement). In this case, the investor was told that unless the duty demanded was paid, the items would attract a substantial daily port storage charge; and
- (d) inordinate delays in allowing investor access to critical items imported duty free for use in business.

3.30 The process involved in Government's consideration of an application for a capital investment project can be quite extensive. It is not unusual (and perhaps desirable) for investors to have one or more town hall meeting(s) with residents of nearby communities to discuss the social and environmental impact of the proposed project and to receive input and feedback on issues that require mitigation and attention as part of the project design. Developers may invite relevant Government officials to these meetings.

Following these preliminary meetings, depending on the nature and details of the tourism project, it is possible for an application to receive the attention of some or all of the government agencies given in Table 11:

Table 11 Government Agencies With Potential Interest in a Tourism Project Application

Ministry of Government	Special Interest in Tourism Projects
Prime Minister's Office	expression of interest and introduction of the project
Ministry of Tourism	fit of the project into Government's tourism plans
Ministry of Finance	approval of incentives
Ministry of Health	rodent control, sanitation
Ministry of Trade and Industry	use of local products
Ministry of Transport and Works	access to property and impact on nearby communities
Ministry of Agriculture	potential for linkages with agriculture sector
Ministry of Education	placement of graduates and interns
Tourism Investment Agency	processing of investment application and facilitation
Physical Planning Department	building conformity with Department's requirements
Fire Department	adequacy of fire protection systems
Water and Sewage Authority	adequacy of water supply
Environmental Engineering Department	waste disposal systems
Electrical Engineering Department	adequacy of electricity supply
Immigration Department	work permits for sponsors and key officials
Customs Department	access to duty free concessions

3.31 With this many entities having a potential interest in a single tourism project application; the often expressed goal of achieving a one-stop shop is neither realistic nor practical. Not only are public officers protective of their "turf" but, often graduate level trained officers bring a higher level of analysis to their area of discipline as it relates to the project application. This specialized knowledge, which cannot be substituted, improves the capacity of the entity and redounds to the benefit of the nation in terms of the quality of decision making.

3.32 Delays in decision making and apparent inconsistency in the treatment of individual applications for investment incentives are aspects of the investment process that are most in need of attention. The lack of institutional integration among the entities which have a role in the approval process clearly is partially responsible for delays in the processing of applications for investment incentives.

3.33 A possible solution to delays inherent in the step-by-step review process by all of these agencies is the use of technology that allows the digital simultaneous sharing of files rather than the physical passing of a single file folder from department to department for its input on the application, as is presently the case. Also, a single entity such as the national Investment Agency or the Ministry of Tourism (in the case of tourism projects) should be "case manager" with responsibility for ensuring expeditious follow-up on applications for the portfolio area and for assisting in resolving any issues with the investor/developer.

Other Issues Related to Investment

3.34 Governments must have the ability to identify opportunists posing as investors whose sole aim is speculation rather than investment. These usually seek to obtain an asset, usually land, (through purchase or leasehold) or letter of commitment or similar instrument from Government which has increased tradable value over time. Where land is leased by Government, the activity of such persons can be

deterred by including a condition in the lease requiring the commencement of activity for which the lease was given by a certain date after which the leasehold would revert to the state or the letter of commitment becomes null and void.

3.35 The capacity of entities responsible for attracting investment must also be strengthened to allow greater and more expeditious due diligence to be carried out on applicants for investment. The incentive framework also needs to be strengthened to allow follow-up and the provision of business support to encourage additional investment in the expansion of existing businesses.

3.36 A concern expressed by some businessmen is in regard to the emergence of expected inducements as a motivator to quick decision making and action by certain public officials with whom private sector officials must interact when conducting business.

3.37 The hotel incentive legislation of the subject countries are all dated and do not take into consideration the industrial production range and capacity of the individual country and the Region. As a result investors' attempts to import duty free items which are produced locally can lead to administrative disputes and project delays. Only the Bahamas provides a written supplement to the Hotel Encouragement Act which outlines the benefits, conditions, procedure and requirements for application and, a list of locally produced items for which no duty free concessions are granted for similar imports. The list includes paint, mattresses, draperies, bedspreads, cement blocks, artwork, pottery, uniforms and plants, to list a few.

3.38 The operations of the hospitality sector are particularly conducive to facilitating higher levels of leakage from the national economy than most other enterprises. This exists because hotel operators traditionally retain US dollar accounts offshore into which payments for bookings are made. Anecdotal feedback suggests that greater use of technology, especially booking engines and the use of credit cards, has made this process easier and more commonplace. Except for currency speculation, there is little incentive for some hotel operators to remit any more funds than are necessary to meet operating requirements and statutory obligations of the hotel.

3.39 The operation of all-inclusive hotels, which also benefit from incentives and duty free concessions in each of the subject countries, has resulted in the closure of some locally owned businesses, especially restaurants which depended on the patronage of guests of the hotel. This has happened because the operating model of all-inclusive hotels is based on the hotel supplying all the requirements of the guest including accommodation, food and beverage, recreation activities and in some instances even airport transfers. The cost of the entire package is pre-paid by the guest before arrival. Once on holiday, the guest therefore has little incentive to spend additional money patronizing other locally owned businesses including restaurants. As a result, affected locally owned businesses suffer loss of patronage and revenue. Also, the distribution of guest spending in the rest of the economy is minimized.

3.40 There is concern regarding the grant of duty free concessions to projects that include a residential component, where the residences are not part of a rental pool. The grant of concessions allows wealthy individuals access to benefits for the construction of second homes for exclusive use by the owner or friends on terms not available to local residents for home construction.

3.41 Existing incentive regimes focus solely on Government's offer to potential businesses with little or no thought given to reciprocity as part of the investment arrangements. Consideration should be given to the grant of incentives being linked to the purchase of local goods and services, once these are available in sufficient quantities over time and to required quality and specifications. This would assist in building linkages between tourism and other productive sectors while distributing the benefits of tourism more widely in the economy. However, given suppliers (especially farmers) difficulty working within the

hospitality industry's practice of paying on a 30-day credit schedule, it may be necessary to establish factoring arrangements to facilitate business transactions between some suppliers and the industry. The grant of incentives should also be linked to the training of local staff and the provision of internships for students in local hospitality training institutions.

Institutional Best Practice

3.42 In the Bahamas responsibility for tourism investment is situated in the Prime Minister's (PM) office to reflect its level of priority and importance to the Government. This placement provides investor confidence in the knowledge that investment issues are being taken care of at the highest level of Government; investors contact with the PM can be facilitated as necessary with greater ease; and the PM is in a position to receive reports and to be kept informed regarding investment issues and the progress of individual applications and projects.

PUBLIC PRIVATE PARTNERSHIPS

4.01 The nature of Caribbean tourism requires effective collaboration between the public and private sectors in order to maintain a successful industry. Government usually provides components necessary for the operation of businesses, including legislative and regulatory environment, destination marketing and infrastructure e.g. ports, roads, parks and recreational amenities. On the other hand, the private sector undertakes investment in accommodation, ancillary services and other revenue generating products and services. In some instances, the private sector has collaborated with Governments in PPP arrangements to provide port facilities e.g. Royal Caribbean International investment in the port facilities at Falmouth, Jamaica and Carnival Corporation investment in cruise facilities in Belize and Turks and Caicos.

4.02 Successful PPPs have been used in the subject countries in a number of instances, including the following:

- (a) to facilitate the development of capital projects. Government's contribution to the partnership is usually in the form of land and or limited capital investment;
- (b) to allow private sector inputs in the planning of capital works, especially where the private sector has a role in the management, maintenance and upkeep of the completed works;
- (c) to allow the private sector projects that are part of the corporate social responsibility (CSR) initiative of companies to be integrated within the framework of Government's overall program;
- (d) to channel private sector CSR initiatives towards specific Government environmental and community programs suitable for joint implementation. Among the most common is the "adoption" of specific beaches, tourism sites or schools. The first two usually involve environmental improvements such as clean-up activities and or the beautification of the "adopted" beaches, sites, roadways and roundabouts. The last involve a range of activities from the orientation of students to the operations of hotels to the donation of needed furniture and equipment to the "adopted" schools by hotels.

The Bahamas

4.03 The Downtown Nassau Partnership (DNP) represents one of the best examples of public/private partnerships, especially as it relates to the conceptualization, implementation and management of an urban renewal project. The DNP was formed in 2009 as a joint venture between the public and private sectors to undertake and manage the progressive redevelopment of the city of Nassau. Since then, the DNP has acted as the interim manager for the city's revitalization efforts until a framework is legislated and the Downtown Improvement District is incorporated. Interim funding for the DNP is provided by the private sector and government. One of the DNP's main tasks is the development of a framework for government to legislate a self-financing Business Improvement District that will manage and promote the city of Nassau going forward.

4.04 The institutional framework and program of the DNP has been facilitated by the City of Nassau Revitalization Act which allows raw materials and equipment needed to restore and upgrade downtown Nassau properties to be imported duty-free. [The Act is sunset legislation with an expiry date of June 30, 2013. However, efforts are in train to have it extended beyond this deadline].

4.05 Under the PPP, Government has created the enabling environment and property owners, businesses and investors have provided a substantial portion of the necessary investment capital.

Considerable progress has been made in the redevelopment of downtown Nassau. Among the projects completed have been the following:

- (a) restoration of the 355 guest room British Colonial Hotel;
- (b) relocation of the city's container port and other commercial-shipping activities to Arawak Cay, a few miles west at the western opening of Nassau Harbor, thus improving the ambiance of the downtown area for visitors;
- (c) improvement of the road network in downtown Nassau, alleviating the congestion on Bay Street, the city's main street;
- (d) installation and improvement of street lighting, sidewalks, landscaping and benches;
- (e) development of 1,000 feet of harbor boardwalk just west of the Paradise Island bridge;
- (f) development of a 100-slip marina and supporting facilities;
- (g) the freeing up of an estimated 40 acres of waterfront east of the Cruise Port for redevelopment;
- (h) construction of a new downtown straw market; and
- (i) redevelopment of some commercial buildings and the Pompey Museum and Square.

4.06 Government has also partnered with the Bahamas Hotel and Tourism Association (BHA) to implement an Air Credit Program - an initiative that offers visitors a rebate on the cost of travel to the Bahamas, based on the number of nights spent at BHA member hotels. This initiative is an attempt to increase travel to the island and is a response to slower than expected travel from the USA.

Barbados

4.07 The Barbados Hotel Association (BHTA) has established a Tourism Fund to complement and support Government's efforts in the implementation of tourism marketing and product development projects. Contributions to the Fund are made primarily by hotel guests through a voluntary contribution of between US\$0.25 – US\$2.00 per night. Resources from the Tourism Fund have been used to undertake the beautification of selected areas, beach rejuvenation, improvement of road signage and the development of an official booking engine for Barbados. The BHTA in March 2013 indicated that its next project would be the installation of CCTV cameras in selected tourism areas on the south and west coast of the island to improve the safety of tourists and locals using those areas. A Board of Trustees comprising the BHTA, Barbados Tourism Authority and the Tourism Development Corporation manages the fund.

4.08 Government's medium for effecting PPPs is the Barbados Tourism Investment Inc. BTI has responsibility for Government's physical tourism (land) assets and a mandate to develop them alone or in partnership with the private sector. Its pipeline of projects for potential development using PPPs include the establishment of a marina at the Pierhead in Bridgetown and the development of approximately 85 acres of land at Harrison's Point, in the parish of St. Lucy, for tourism purposes.

4.08 The Barbados Chamber of Commerce and Industry (BCCI) in partnership with other private sector agencies and Government has undertaken renewal projects within Bridgetown and the Garrison Historic Area (a UNESCO World Heritage Site). These include improvements to lighting, signage,

restoration of the Dolphin Fountain⁶ and beautification of the surrounding gardens. The BCCI-led partnership between Government and the private sector has also involved cultural activities and events designed to attract locals and visitors to the city.

Jamaica

4.09 Jamaica has a decentralized arrangement in which Resort Boards under the guidance of the Tourism Product Development Company (TPDCo) undertake infrastructure work in resort town areas. The Jamaica Hotel and Tourism Association (JHTA) is represented on the Board of Directors of TPDCo and hotels often contribute towards specific projects, including maintenance of parks, beautification of roundabouts and related infrastructure projects. The Jamaica Tourism Enhancement Fund, which is financed through a fee of US\$10 in respect of travel by air and US\$2 in respect of travel by sea, is used to finance the implementation of projects and programs carried out by the Resort Boards.

St. Lucia

4.10 The St. Lucia Heritage Tourism Program is a collaborative enterprise between the Ministry of Tourism and local communities, to highlight the culture, history and heritage of the island. The program allows participating host communities to participate in and benefit from tourism. The product offered includes events, activities and visits to sites island-wide, heritage tours to small fishing villages, plantations, waterfalls, centuries-old estates, historic gardens and walking tours to learn about the island and its indigenous Kweyol (Creole) people, their history and traditions. There are over a dozen Heritage Tourism Sites in St. Lucia

4.11 The Soufriere Regional Development Foundation is a non-profit company established by the community of Soufriere to promote, encourage, support, facilitate and coordinate local development initiatives in the Soufriere region. The Foundation serves as an executing agency for certain Government programs/projects. Its achievements in the area of tourism include promotion of a coordinated socio-economic development plan for the Soufriere region; the development of socially acceptable, environmentally friendly and economically beneficial tourism-related infrastructure and amenities; development of the Sulphur Springs Park; construction of the Soufriere jetties and waterfront; development of an inventory of the community's heritage assets; and initiation of an anti-harassment program.

Airlift and Aviation Policy

4.12 The success of Caribbean tourism is dependent on adequate airlift. The termination of services by American Airlines from Puerto Rico to the English-speaking Caribbean has impacted some countries more than others. At the same time, the commencement of services by Canadian operator WestJet, has assisted in diversifying the market base for visitors. Each country described airlift as adequate although Antigua did have concerns about the potential impact of the termination of American Eagle service to the island on March 31, 2013.

4.13 Regionally, the impact of REDjet in boosting regional travel clearly demonstrated not only pent up travel demand but the desire for more affordable travel in the Region. However, given the high cost of operating and the relatively small size of the intra-regional travel market and therefore total travel demand, the challenge of delivering affordable travel remains a conundrum for airline operators, the solution to which remains elusive.

⁶ The Dolphin Fountain was opened in 1865 to commemorate the introduction of piped water to Bridgetown, in March 1861.

4.14 Experience has shown that airlift usually accompanies any substantial investment in accommodation. Also, there appears to be a correlation between the source of investment and diversification in visitor source markets. Jamaican tourism authorities indicated that initially, there was an increase in visitors from Europe including Spain after the Spanish owned hotels began operations there. However, Europe's financial difficulties has forced these hotels to target traditional markets for business. Tourism planners in the Bahamas are also optimistic that Chinese investment in the Baha Mar Resort Complex will lead to an increase in arrivals from China and the Far East.

4.15 Ultimately, the resolution of aviation policy and airlift issues must be through discussion at the Regional level. In this regard, given the dependence of the tourism industry on reliable airlift, Governments need to pursue an air transport policy that facilitates the growth and development of international and regional air services by way of liberal agreements that serve the wider regional interests. The policy should focus on creating the environment and opportunities to build an effective and competitive route network with emphasis on safety and security, liberal fare pricing and capacity available to maximize tourism, trade and economic benefits, from opening up new and emerging markets over the medium and long term.

4.16 Accordingly, at the CARICOM level, there is need to undertake the following:

- initiate discussions for the review of the CARICOM Multilateral Air Services Agreement to encourage the growth of air services in the region and a more competitive airline industry;
- monitor and evaluate airline capacity and performance to ensure that opportunities in key and new emerging markets are taken up and that planned capacity stays ahead of demand; and
- implement an air services development strategy and a blueprint for the opening and development of new routes from existing and emerging markets.

Tourism and Integration Issues

4.17 Tourism has the potential to be a catalyst for further integration of regional economies at the national and regional levels. At the national level, further integration and opportunities for local involvement in the industry can be achieved by the expansion of niche tourism and the creation of products for niche market segments. Areas with opportunity include education, health and wellness, heritage, culture and community tourism.

4.18 The hosting of the 2007 Cricket World Cup stimulated expansion in home accommodation as a tourism product offer. However, the absence of a coordinated effort to organize and promote this segment has resulted in most of the accommodation product being rented on long-term contract to tenants, rather than being available for short-term use by visitors.

4.19 Anecdotal experiences suggest that there are several opportunities to strengthen linkages between the tourism sector and the rest of the economy. However, leadership, organization and management will be critical in making the transition required to maximize these opportunities. National discussion regarding the use of local products in hotels, oversupply of milk, imposition of high bound rates on products imported for fast food restaurants and conditions for the storage, transportation and sale of meat and fish highlight the need for local food producers to transition from the supply of primary products to the supply of semi-processed and processed products that meet the needs of the tourism and hospitality sector in terms of convenience of use, food safety and hygiene, product specification, quality and

assuredness of supply. This transition invariably, will involve technology, training and the implantation of certification processes such as HACCP and ISO standards. However, the successful transition to the production of products to international standards will allow producers more readily to target export markets.

4.20 Regional manufacturers do not have the capacity or production processes to meet occasional demands for large orders of items such as furniture that are generated with the construction of new hotels. Consequently, most of these large orders are filled through imported items. A solution to this problem could be the subcontracting of production of items among several manufacturers. To ensure consistent product output and quality each manufacture would be required to produce to the same specifications. The main supplier and coordinator of the order would be responsible for ensuring quality control.

4.21 The CTO and CHTA serve the collective tourism interests of the region's public and private sectors respectively. These two organizations have jointly developed a Caribbean tourism marketing logo, marketing program built around the theme – "Life Needs the Caribbean" and a website - Caribbeantravel.com - for the marketing of tourism products (including accommodation) of the thirty-three CTO member states. However, after the initial launch, plans for a sustained marketing drive for the Region have been stalled for some time, because of the inability to identify a sustainable financing model for the initiative.

4.22 The impetus for regional integration has always been private sector driven. Private investment flows among countries have facilitated the operation of several tourism businesses, including hotels. Caribbean hotel brands such as Sandals, Couples and SuperClubs have established operations in more than one country. Also, the regional business sector appears to have recognized that with tourism as one of main foreign exchange generating activities of the Region, it is in their interest to be involved in the industry. Consequently, a few traditional retail business companies have ventured into tourism as hotel owners, some with greater success than others. The purchase of two hotels in Jamaica by Sagicor, a Barbados based regional insurance company is an example of the continuing interests by retail and other service sector businesses to become involved in developing and maintaining tourism assets in the Region.

4.23 As a Region, the next logical goal will be to unlock the considerable savings surpluses now held by individuals in commercial banks for use as investment capital. This will require improvements in the functioning of the national stock exchanges to allow easier investment by nationals across countries. This will have to be complemented by a sustained public education and awareness campaign. Most important, must be the strengthening of the regulatory oversight of public companies in order to avoid a repeat of business failures and to build investor confidence.

4.24 Increased intra-regional travel by Caribbean people has been one of the practical manifestations of regional integration. Several hotels in most islands offer special rates for Caricom nationals. However, this is not widely publicized. An initiative should be undertaken by CHTA to coordinate the branding, packaging and promotion of the special offers to Caricom nationals by hotels in each member state as Regional Staycation Packages. Greater ease of travel in terms of flight schedules and attractive pricing will be critical to the success of the initiative.

Tourism Linkages with Other Productive Sectors

4.25 The potential of tourism as a catalyst for the development of other productive sectors in the economy is being limited by several factors including the absence of information exchange regarding hospitality industry demand and availability of producer supplies; lack of planning, organization and coordination of a supply chain; Governments' inability to tackle the intractable problem of praedial

larceny; and limitations to the free movement of labor which provide a farming workforce in certain countries.

4.26 Some individual hotels have established purchasing arrangements with farmers (e.g. Sandals, St. Lucia) guaranteeing farmers a market and prices for produce. Some farmers have even been encouraged and incentivized to produce specific items for hotels, e.g. cherry tomatoes. Large supermarkets already provide a market for fresh vegetables. Therefore, efforts to improve information exchange and supply chain arrangements will probably not only involve direct producer to hotel arrangements but also supermarkets as intermediaries in the exchange.

4.27 There is increasing production of local condiments; however investment opportunities exist for the preparation of food in a semi processed/ finished and packaged to meet the specifications of the hotels and the expanding restaurant sub-sector.

CONCLUSION AND RECOMMENDATIONS

5.01 The most critical need of the tourism and hospitality industry is leadership. The vulnerability of Caribbean economies is increasing as the continued decline in export agriculture, limited and uncompetitive manufacturing, resurgent attempts to close offshore financial business activity and an anemic and increasingly uncompetitive tourism and hospitality sector, threaten to leave most of the Region with few options for development and sustainability.

5.02 The last comprehensive competitive analysis of the Caribbean tourism was undertaken in 1994 i.e. twenty (20) years ago. That study established operating performance benchmarks for the region. It also compared the performance of the Caribbean with other regions and the performance of individual countries of the region. Given the rapid expansion in the global hospitality industry over the last decade and challenges of Caribbean in maintaining competitiveness in the increasingly dynamic and competitive tourism marketplace, the time is opportune for another in-depth comparative study of the industry. Such a study would provide well researched data for decision making and forward planning of the industry. As such the results of the study would be of use to governments, policy makers, tourism planners, hoteliers, investors and developers, among other stakeholders.

5.03 There is also an urgent need to improve on an on-going basis, the quantity, quality and consistency in output of research data on the Caribbean tourism and hospitality industry. Improvements are needed not only in monitoring industry operating performance but also measuring the impacts of tourism and policy. In this regard, increased emphasis needs to be given to the continuous conduct of psychographic and expenditure studies, forecasting, computer modeling and the adoption and use of Tourism Satellite Accounting as the standard for measuring the contribution of tourism in National Income Accounting.

5.04 Among the actions that need to be taken to revive, grow and expand the sector are the following:

- there needs to be genuine commitment by public and private sector leaders to improving the state of the industry;
- there is an urgent need to define and communicate to stakeholders a long-term vision for each country, economy and the sector and their expected roles in the realization of stated objectives;
- establish and enforce product standards through regulations, licensing and monitoring;
- encourage and facilitate strategic investment in product development, especially accommodation, attractions and ancillary services;
- undertake a comprehensive study of the competitiveness of Caribbean tourism;
- develop a policy for the grant of incentives and concessions based on transparency, equity fairness;
- re-orient the focus of the investment incentives regime to place emphasis on facilitation, efficiency and flexibility;
- implement a tax regime that allows tourism and hospitality businesses to attract customers, operate profitably, sustainably and pay their obligations to government in a timely manner;

- assist improvements in raising service to world standards by attracting international brand hotels;
- revise hospitality training curriculum to make it more relevant to industry needs and, where practical, arrange internships to provide students with the best international exposure and working experiences;
- adopt immigration policies that allow nationals to benefit from industry training and experience abroad and the industry workers to benefit from the expertise of the best trainers and role models in the industry;
- plan for the reduction in high level of repeat visitors as the Baby Boomer generation moves on and is replaced by the Millennial Generation which is more informed, better educated, wants to explore and is therefore unlikely to have the high repeat travel habits of their parents;
- encourage discrete investment of domestic resources in building out tourism and hospitality capacity. In this regard the Government of Barbados should consider the divestment of the shares in the Barbados Hilton hotel;
- develop new emerging markets, especially BRIC countries and non-traditional market niches in existing markets;
- give priority to addressing the problem of drugs, crime and violence.

METHODOLOGICAL PROPOSALS FOR A COMPREHENSIVE DIAGNOSTIC STUDY OF THE INDUSTRY

6.01 Further diagnostic work should involve the completion of a benchmarking study on the performance and competitiveness of the tourism industry in the subject countries. The study will complete the following:

- benchmark key tourism operational performance indices such Average Occupancy, Average Daily Rate (ADR) Revenue per Available Room (RevPar) against international comparators, especially from the Asia Pacific Region and the Middle East;
- examine the cost structure of the industry and especially an elasticity analysis of changes in taxes and the impact on revenue and bookings;
- make recommendations for improving the profitability and competitiveness of the sector to a level where it can attract increased levels of investment necessary for the sustainability of the sector and economy;
- examine the business processes involved in processing investment applications with a view making the application, review and decision making processes more efficient and transparent and increasing the flow of FDI to the industry;
- use the balanced scorecard approach or such other tools as may be appropriate in carrying out the analysis.

Definition of the Caribbean by Institution

Caribbean Countries	CTO Caribbean Members	ECLAC Caribbean Members	UNWTO Caribbean Members
Anguilla	✓	✓	✓
Antigua and Barbuda	✓	✓	✓
Aruba	✓	✓	✓
Bahamas	✓	✓	✓
Barbados	✓	✓	✓
Belize	✓	✓	
Bermuda	✓		✓
Bonaire	✓		
British Virgin Islands	✓	✓	✓
Cayman Islands	✓	✓	✓
Cuba	✓	✓	✓
Curacao	✓		✓
Dominica	✓	✓	✓
Dominican Republic	✓	✓	✓
Grenada	✓	✓	✓
Guadeloupe	✓		✓
Guyana	✓	✓	
Haiti	✓	✓	✓
Jamaica	✓	✓	✓
Martinique	✓		✓
Montserrat	✓	✓	
Puerto Rico	✓	✓	✓
Saba	✓		✓
St Barthelemy	✓		
St Eustatius	✓		✓
St Kitts and Nevis	✓	✓	✓
St Lucia	✓	✓	✓
St Maarten	✓		✓
St Martin	✓		
St Vincent and the Grenadines	✓	✓	✓
Suriname	✓	✓	
Trinidad and Tobago	✓	✓	✓
Turks and Caicos Islands	✓	✓	✓
United States Virgin Islands	✓	✓	✓
Venezuela	✓		

Appendix 2

Comparison of Hotel and Tourism Incentives Provided by Subject Countries

Incentive Legislation	Sub-Sector	Summary
Antigua and Barbuda		
Incentive Legislation	Sub-Sector	Summary
Hotel Aids Act	New construction Extension of existing hotels	Exemption from customs duties on building materials and hotel equipment
Income Tax Act		<p>exempt from income tax in respect of the income arising from the hotel in each of the five years of assessment next after the year of assessment in which the erection or extension of the hotel.</p> <p>exempt from income tax in respect of income is distributed as dividends to shareholders for five years.</p>
Bahamas		
Incentive Legislation	Sub-Sector	Summary
Hotel Encouragement Act	<p>. New hotels as well as for the renovation of hotels not constructed under the Act</p> <p>. Restaurants and shops that operate within the precincts of hotels</p>	<p>. Exemption from payment of customs duties in respect of all materials necessary for the construction, equipping and furnishing of a new hotel in order to allow the facility to open for business.</p> <p>. The right to import the construction plant, including heavy duty machinery, free of duty on a Customs bond, with the obligation to re-export it by a given date.</p> <p>. A ten-year exemption from Real Property Tax with a minimum taxation per bedroom of \$20.00 beginning in the eleventh year until a twenty year period occurs from the date that the hotel opened.</p> <p>. A twenty year exemption from direct taxation on hotel earnings</p>
Barbados		
Incentive Legislation	Sub-Sector	Summary
Tourism Development Act	Hotels, villas and timeshare properties; restaurants, recreational facilities and services; attractions emphasizing the island's natural, historic and cultural heritage; and for the construction of in-land guest accommodation	<p>. Write off of capital expenditure and 150% of interest.</p> <p>. Exemption from import duty, value added tax and environmental levy in respect of furniture, fixtures and equipment, building materials and supplies.</p>
Special Development Areas Act	<p>. Hotels with conference facilities.</p> <p>. Residential complexes.</p>	<p>. Exemption from income tax on interest earned.</p> <p>. A reduced rate on the payment of income taxes.</p> <p>. Exemption from import duties and value added</p>

	<ul style="list-style-type: none"> . Facilities that improve or expand services to the tourism sector. . Water-based activities. . Tourism projects highlighting the heritage and natural environment of Barbados and arts and cultural investments. 	<ul style="list-style-type: none"> tax on inputs for the construction of new or refurbishment of buildings. . Exemption from charges on the repatriation of interest or capital for a period of ten years. . Exemption from land tax on the improved value of the land. . Exemption from property transfer tax payable by vendors on the initial purchase of the property.
Jamaica		
Incentive Legislation	Sub-Sector	Summary
Hotels (Incentives) Act	Hotel	<ul style="list-style-type: none"> . income tax relief and import duty concessions for up to ten years for approved hotel enterprises .
Attractions incentive regime	Attractions	<ul style="list-style-type: none"> . importation of specific items free of general consumption tax and customs duty for five years. . five-year exemption from corporate taxes for investors
Resort Cottages (Incentives) Act 1971	Resort Cottages	<ul style="list-style-type: none"> . provides import duty concessions on imported building materials and furnishings. . income tax relief up to seven years for recognized resort cottages with ten or more guest rooms. . up to ten years for regular hotels and up to 15 years for convention-type hotels with at least 350 guest rooms. The minimum eligible size for receipt of the concessions is ten guest rooms.
Income Tax Ordinance		<ul style="list-style-type: none"> . special tax relief benefits for a hotel proprietors granted licenses under the Hotel Aids Ordinance:
St. Lucia		
Incentive Legislation	Sub-Sector/ Eligible	Summary
Tourism Incentives Act of 1996	<ul style="list-style-type: none"> Tourism . new and renovation of existing hotels. . tourist recreational facilities and services. . equipment and facilities to be used for the transport of tourists in St. Lucia. . construction and equipping of a new or refurbishing and re-equipping of existing restaurants; . the establishment of visitors' 	<ul style="list-style-type: none"> . exemption from income tax for an approved tourism project for a maximum period of 15 years. . waiver of customs duties and consumption tax on imported building materials and equipment. . limited liability companies allowed to distribute profits to shareholders or debenture holders free of tax for a period of 2 years after the end of the income tax holiday

	booths and interpretation centers. . the restoration and preservation of monuments, museums and things of outstanding historical and architectural merit	
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