



SUBMISSION OF THE CARIBBEAN HOTEL ASSOCIATION TO THE UNITED STATES INTERNATIONAL TRADE COMMISSION

PUBLIC HEARING: *Caribbean Region: Review of Economic Growth and Development*, Investigation No. 332-496

Outline of Submission

- Overview of Caribbean tourism and contribution to the economic growth and development of the region
- The significance of the US market to Caribbean Tourism
- Targets for aid to the Caribbean tourism sector with a view to improving the industry's continued contribution to economic growth and development
- CHA's involvement in trade liberalization negotiations
- CHA research and reports
- CHA position on climate change

Overview of Caribbean tourism and contribution to the economic growth and development of the region

The 2007 World Travel and Tourism Council (WTTC) Travel and Tourism Economic Research study on the Caribbean **ranked the Caribbean first in the world (out of 13 regions) for relative contribution of travel and tourism to the regional economy**. On a global scale the Caribbean was also ranked first for capital investment and government expenditure on tourism. The 2007 WTTC report, based on tourism satellite accounting¹, also presented the following remarkable findings:

DEMAND - In the Caribbean, in 2007, Travel & Tourism is expected to post US\$56.1 bn of economic activity (Total Demand), growing to US\$107.3 bn by 2017.

¹ The Travel & Tourism Satellite Account is based on a 'demand-side' concept of economic activity, because the industry does not produce or supply a homogeneous product or service like traditional industries. Instead, Travel & Tourism is an industrial activity defined by the diverse collection of products (durables and non-durables) and services (transportation, accommodation, food and beverage, entertainment, government services, etc) that are delivered to visitors. There are two basic aggregates of demand (Travel & Tourism Consumption and Total Demand) and by employing input/output modeling separately to these two aggregates the Satellite Account is able to produce two different and complementary aggregates of Travel & Tourism Supply: the Travel & Tourism Industry and the Travel & Tourism Economy. The first captures the explicitly defined production-side 'industry' contribution (i.e. direct impact only), for comparison with all other industries, while the second captures the broader 'economy-wide' impact, direct and indirect, of Travel & Tourism.

GDP - The Caribbean's T&T Industry is expected to contribute 5.1% to Gross Domestic Product (GDP) in 2007 (US\$12.5 bn), rising in nominal terms to US\$24.7 bn (5.5% of total) by 2017. The T&T Economy contribution (percent of total) should rise from 16.5% (US\$40.3 bn) to 17.3% (US\$77.2 bn) in this same period.

GROWTH - For the Caribbean, Travel & Tourism activity is expected to grow by 3.3% per annum in real terms between 2008 and 2017.

EMPLOYMENT - Travel & Tourism is human resource intensive, creating quality jobs across the full employment spectrum. Caribbean T&T Economy's employment is estimated at 2,447,000 jobs in 2007, 14.8% of total employment, or 1 in every 6.7 jobs. By 2017, this should total 3,074,000 jobs, 16.0% of total employment or 1 in every 6.3 jobs. The 806,000 T&T Industry jobs account for 4.9% of total employment in 2007 and are forecast to total 1,042,000 jobs or 5.4% of the total by 2017.

VISITOR EXPORTS - Travel & Tourism is a major exporter, with inbound visitors injecting foreign exchange directly into the economy. In the Caribbean, exports make up a very important share of Travel & Tourism's contribution to GDP. Of total Caribbean exports, Travel & Tourism is expected to generate 21.2% (US\$30.9 bn) in 2007, increasing to US\$60 bn (22% of total), in 2017.

CAPITAL INVESTMENT - Travel & Tourism is a catalyst for construction and manufacturing. Caribbean Travel & Tourism Capital Investment is estimated at US\$9.4 bn or 19.9% of total investment in year 2007. By 2017, this should reach US\$17.5 bn or 19.7% of total.

GOVERNMENT - Travel & Tourism is both a generator and receiver of government funds. Government Travel & Tourism operating expenditures in the Caribbean in 2007 are expected to total US\$2.8 bn or 9.4% of total government spending. In 2017, this spending is forecast to total US\$5.4 bn, or 10% of total government spending.

The above statistics clearly demonstrate that Caribbean tourism is a prime example of an industry that has to date managed to compete successfully on a global scale despite country-level constraints created by being small in size, geographically distanced from major markets, and often limited in human, financial and in many cases physical resources. Despite these obstacles tourism is acknowledged as a major contributor to employment, foreign investment, and economic development, and has helped to raise the standard of living of the people of the majority of Caribbean countries.

The significance of the US market

The latest available statistics for Caribbean tourism arrivals in 2007² indicate that **arrivals from the United States amounted to nearly seven million people (6,991,473) accounting for 44.8% of total arrivals** of just over fifteen and a half million people (15,589,682). These numbers immediately demonstrate the immense significance of the US market to Caribbean tourism. (If

² January 29th, 2008 report from the Caribbean Tourism Organization using data supplied by member countries and available as at January 29th, 2008.

arrival numbers for CARICOM countries only are extracted the US accounts for more like 47% of arrivals.)

To give some idea of the dollar value significance of the US market's contribution to Caribbean economies through tourism, reference is drawn to the 2005 World Travel and Tourism Council's (WTTC) study on the *Economic Impact of USA Passport Changes to Caribbean Travel & Tourism* which found that the **total value of Caribbean tourism exports to US visitors to be US\$20.7 Billion.**

For some countries in the region the tourism industry has grown up dependant largely on a UK or European market. However, for all countries in the region the US market is still the closest major source market geographically and hence the major importance of the United States to the future of Caribbean tourism, not just in terms of US citizens visiting our islands, but also in terms of the effects US policies have on the competitiveness of our tourism product.

To site one example of the impact of US policies on Caribbean tourism, reference is made again to the 2005 WTTC passport study which predicted the impact on Caribbean territories of the United State's decision to require all US citizens returning from the Caribbean to hold a valid passport (which took effect January 23rd, 2007 for citizens returning by air).

It was anticipated in that report that destinations such as Jamaica, Antigua and Barbuda, Aruba, Bahamas and Curaçao would be most affected by the Western Hemisphere Travel Initiative (WHTI) due to their heavy dependence on US arrivals. Notwithstanding the 90 day temporary lifting of this regulation in mid-2007 this prediction may already be demonstrated by the **2007 CTO preliminary arrival statistics that show a fall off in Caribbean arrivals from the US**, including for the Bahamas (-11.8%), Curaçao (-2.3%) and Jamaica (-5.8%), in addition to the Dominican Republic (-1.1%), Montserrat (-3.3%), St. Lucia (-3.4%), St. Vincent & the Grenadines (-3.5%) and Trinidad & Tobago (-2.3%).

It is noted that aside from the logistical and financial burden the passport initiative placed on potential Caribbean visitors from the US, a certain level of poor publicity was generated for the region as it began to be seen as more difficult and more expensive to travel to than ever before. And in fact even islands that had previously required US visitors to hold a passport have been impacted by the negativity surrounding the passport initiative. Additionally, another menacing impact of the passport requirement is that once US citizens obtain a passport the options for travel become immense and as such the competition facing the region has become even greater.

The Caribbean expects the impacts of this US policy to continue to grow in light of the last factor as well as the fact that land based tourism is being treated differently to cruise tourism. US citizens returning from cruises through the region will not be required to obtain passports until some later date still to be determined, but in the meantime may apply for a cheaper and more portable passport card. The more lenient treatment of the cruise sector immediately confers a competitive advantage whereby a cruise vacation to the Caribbean becomes significantly cheaper than a land based vacation especially for the very important family market in which one family avoids the cost of purchasing multiple passports to travel to the Caribbean.

The 2005 WTTC report projected that in the first year the potential impact of the WHTI passport requirement could be:

VISITOR EXPORTS IN JEOPARDY US\$2.6 BILLION

JOB IN JEOPARDY 188,300 JOBS

This equates to **12.6% of visitor exports to the Caribbean being in jeopardy** as a result of the WHTI passport requirement. The largest impact is projected to be felt by Jamaica where 58.4% of its visitor exports might be hurt. Next are the Cayman Islands at 40.5%, the British Virgin Islands at 32.2% and the Bahamas at 21.7%. When these numbers are translated into direct and indirect employment as shown above, **more than 188,000 jobs are in jeopardy in the region:** 114,000 jobs in Jamaica alone, 48,100 jobs in the Dominican Republic and 13,300 jobs in the Bahamas.

Potential targets for aid to the Caribbean tourism sector to improve the industry's contribution to economic growth and development

Despite successes to date there are many significant challenges facing the Caribbean tourism sector, as demonstrated perhaps by the static growth of visitor arrivals by air in 2007 (January – August), only 0.1% (based on CTO statistics) compared to the same period in 2006 and against a global increase of 7%.

The economic impact of the rising price of oil (increasing 53% in one year) is a major challenge for Caribbean countries in terms of the consequent impact of energy costs on tourism input goods and services. Other external challenges include geo-political events, climate change action and consumer opinion and natural disasters, while internal challenges include intra-regional air travel, human resource development and service standards, taxation and environmental sustainability.

Competition in tourism is a global situation with individual Caribbean islands and the region in general competing against all tourism destinations including major emerging ones which are rich in resources and capital to invest in a modern and attractive tourism plant and learn by the mistakes that more established or traditional tourism destinations have made.

The following initiatives, programmes, and projects are suggested as target areas for assistance with a view to enabling the Caribbean tourism industry to further contribute to regional growth and development:

1. Initiatives to lower the cost of tourism related inputs sourced extra regionally;
2. Human resource development programmes and hospitality service training initiatives;
3. Employee job attachments and training and apprenticeship arrangements, if necessary including Mutual Recognition Agreements for tourism related qualifications and credentials;
4. Technical and financial assistance for regional and local level projects such as:

- a. Capacity building for adaptation to and mitigating the effects of climate change;
 - b. Capacity building for environmental management within the tourism sector;
 - c. Internet marketing strategies for micro, small and medium sized tourism enterprises, including accommodation, tour and entertainment entities;
5. Regular dialogue, information sharing and consultation between US and Caribbean delegations to amongst other things, exchange best practice information and to consult on issues of concern pertaining to tourism between the US and Caribbean

CHA's involvement in trade liberalization negotiations and discussions

The CHA was deeply involved in the negotiation and evolution of the recently initialed Economic Partnership Agreement (EPA) between the European Union (EU) and CARIFORUM with particular regard to the liberalization of tourism related services. CHA made input on and defended its positions on the various aspects of the business of tourism including the following which were ultimately reflected in the final agreement:

- a. Competitive safeguards and a prevention of anticompetitive practices
- b. Mutual recognition of tourism professionals
- c. Sustainable tourism development
- d. Technical assistance

The fact that the EPA covers tourism services is itself a noteworthy accomplishment. Although the industry is now the largest contributor to Caribbean economic development, in all previous regional trade agreements tourism has either been ignored or referred to only in passing. However, throughout the EPA there are references to the industry, a chapter on tourism and much detail elsewhere in the accompanying schedules.

As such, the EPA agreement provides a framework for the conduct of the business of tourism between Europe and CARIFORUM territories and identifies some of the industry's development needs.

While it remains to be seen what the effects of the various levels of tariff liberalization and other agreements within the EPA will be, what has certainly been demonstrated is that the region is keen to be a global player and keen to be engaged in negotiations and discussions with trading partners that will affirm the grounds on which we will trade fairly and competitively into the future. The CHA anticipates that it will be intimately involved in the defence and development of tourism related services within all future trade arrangements that the region is involved in.

CHA commissioned studies and research

In the last several years the CHA has commissioned various research initiatives in order to gather firm and accurate information on the status of the Caribbean tourism industry. The information contained in these reports may be of interest to the Commission in its investigation:

1. *The Caribbean: The Impact of Travel and Tourism on Jobs and the Economy* – Prepared for the CHA by the World Travel and Tourism Council with the support of American Express, Air Jamaica, American Airlines and Sandals, 2004
2. *Taxation and Operating Costs for the Caribbean Hotel Sector* – Prepared for the CHA by PA Consulting Group with the support of the European Union, 2006.
3. *The Caribbean Accommodation Sector as a Consumer of Locally Produced Goods and Services and Contributor to Government Revenues* – prepared by Tourism Global Inc. for the CHA under a technical support grant by the ProInvest Management Unit (PRIMS) – CDE (Centre for the Development of Enterprise), a joint agency of the European Union and ACP States, 2006.

The findings of study #3 above demonstrate the extensive linkages between the tourism sector and other sectors (services and non-services) of host economies in the region and the resulting far-reaching economic benefits of the tourism industry. The study defines and quantifies what Caribbean accommodation establishments spend yearly supporting the economic well being of workers, local entrepreneurs, professionals, service providers, other economic sectors and even government's revenues that finance the running of the country. In conducting this research, CHA sought to reveal the possible opportunities for further accelerating our social and economic development. Some of the results that stand out include:

- **84% of services** required by the hotel sector being purchased locally.
- The hotel sector contributes to **investment** in the local economy first through the initial investment in plant and equipment: **63%** of hotels surveyed invested **\$1 to \$10 million initially** in their property. Secondly, the continuing refurbishment, upgrade and expansion of facilities is characteristic of the industry with **96.2%** of respondents indicated they spent between **\$1 and \$10 million** in this area in 2005.
- Overall the hotel sector creates employment at the rate of **2.3 employees per room, spending \$61.1 per room per day in payroll and related costs** in 2005.
- The hotel sector in addition to its direct and indirect expenditures in the local economy actually provides **direct entrepreneurial opportunities in at least 14 areas** identified in the survey e.g. taxi concessions, water sports, spas and beauty salon, gift and craft shops and restaurants.
- Hotels in the sample purchased **93% of their utilities** in the local economy.
- **74% of vegetable** used by the hotel sector are produced locally, **67% of dairy products** are sourced locally, and **63% of meats** are sourced locally.
- **20% of fish is purchased locally; fresh fruit, 16%; and eggs, 10% sourced locally.**

- Overall the hotel sector is sourcing just under one-half (47%) of its requirements for light manufacturing locally.
- Hotels paid an overall 18.83% of their annual turnover in taxes of one kind or other during 2005. This works out at \$15.1 per room per day.

CHA Position on Climate Change

In March 2007 the CHA and the Caribbean Tourism Organisation (CTO) released a position paper on the issues of global climate change and proposed carbon emission trading schemes. The paper highlighted the extensive action already undertaken and currently underway by individual tourism stakeholders and regional governments to prepare for and combat the recognised negative environmental, social and economic impacts of climate change. The CHA and CTO also confirmed their commitment to ensuring that the Caribbean tourism industry is not jeopardized by emerging carbon emissions trading schemes.

The Caribbean tourism industry is overall a low carbon emitting industry that contributes actively to combating the negative effects of climate change. Therefore it should not be penalised by the world's major economic powers as they move towards curtailing their past, present and future impacts on the global climate. As such, it is proposed that every effort must be made to ensure that future consumer movements and government action in industrialized nations to address climate change, including carbon emission schemes and consumer movements, do not deter potential travellers from taking vacations in the Caribbean, but rather recognize the ongoing efforts of the region in this regard and ensure that programmes are established to demonstrate to consumers that they can balance the impacts of their travel to the Caribbean region.

In closing

The CHA expresses its appreciation to the United States International Trade Commission for the opportunity to have participated in and contributed to its investigation on the *Caribbean Region: Review of Economic Growth and Development* (No. 332-496). Please be assured that the CHA stands ready to provide any further information or input that may be of value.

Sincerely,

Alec Sanguinetti
Director General & CEO

Date: