

OXFORD ECONOMICS

Travel & Tourism as a Driver of Economic Development in Jamaica

March 2012



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1 Introduction

Tourism is widely considered to be a key driver of the Jamaican economy. The sector plays a strong role in generating taxes, employment, income and foreign exchange inflows. Given its linkages with other production sectors, it impacts a wide cross-section of the economy.

Since the advent of tourism in Jamaica, the sector has received incentives to attract local and foreign direct investment. The Hotel Incentives Act of 1968, the Resort Cottages Incentive Act of 1971 and the Attractions Incentive Regulation have all played a major role in the development of the sector, with the addition of almost 5,000 rooms and employment growth of 19% in the accommodation sector between 2000 and 2010. Visitor arrivals also increased by 45% over the last decade, allowing tourism to contribute between US\$1.3 and US\$2 billion annually to the local economy.

However, the sector is currently under scrutiny in terms of the value of its contribution to the local economy. This is in reference to the tax relief it receives through incentive packages compared to other sectors, which are currently under review by policy makers. The disparities across target incentives to investments in particular economic sectors are undergoing imminent reform as part of the overall economic development strategy for Jamaica and to help meet the revenue demands of the country's budget.

In light of this, the Jamaican Hotel & Tourist Association (JHTA) commissioned this study to explore how tourism compares with other sectors in terms of its potential to drive economic development. Whilst the JHTA recognizes the need for tax reform, it wishes to show the appropriateness of supporting tourism as a driver of economic progress.

The research includes two main parts. The first is a statistical, quantitative analysis of the economic role of the tourism. The second is more qualitative set of viewpoints gleaned from consultations with stakeholders within and outside the tourism sector to identify the key strengths and weaknesses of the tourism sector. From these research bases, we conclude with a summary of findings and their implications on how public policy and private sector strategy can best capitalize on the economic opportunities presented by tourism in Jamaica.

2 Background

The Jamaican economy relies heavily on tourism and commodity exports such as minerals and agriculture. Although the island's mostly mountainous terrain hampers agro-production, the tropical weather allows the production of bananas and sugarcane, with exports of sugar and rum, citrus and coffee. Main mineral exports include bauxite, alumina and chemicals as well as some mineral fuels. The US is the main trading partner, accounting for approximately a third of exports of goods and almost half of imports. The other key trading partners are Canada, the Eurozone and the UK, while regional Caribbean trade accounts for less than 5% of total exports.

Tourism has increasingly become the primary supplier of foreign exchange to the Jamaican economy as remittance inflows and bauxite earnings experienced a major set back as a result of the global economic crisis. It has developed into a major industry on the island through government granting various tax incentives and implementing measures to promote the services provided by the tourism sector.

In 2010 there were almost 2 million stopover visitor arrivals and 910,000 cruise visitors, contributing an estimated US\$2 billion of foreign exchange earnings to the local economy. This is expected to be higher in 2011 with almost 1.52 million stopover visitors between January and September, an increase of 2% compared to the same period in 2010. The tourism sector is also the main source of employment in Jamaica, directly employing approximately 106,024 people, with over 74,000 employed in the accommodation and restaurant sector alone. The benefits of the sector have spread through to other local industries, generating income primarily in agriculture, manufacturing, retail and finance, accounting for 21%, 20%, 17% and 9% respectively of each sector's total GDP in 2010.

However, with GDP per head estimated by the IMF at US\$9,004 in 2011 in PPP terms, Jamaica is one of the least advanced economies of the Caribbean countries. Most food and consumer goods have to be imported, together with energy products, making the cost of 'doing business' expensive and creating a large structural trade deficit. Raw materials, including fuels, are the main imports which weigh heavily on the trade balance in times of high volume imports.

As a result of slow economic development and a poor resource endowment, the country is highly indebted and has long been limited by anemic growth. The fiscal situation has always been precarious but was further exacerbated by the global recession. Public debt is estimated to have risen to over 130% of GDP, further extending the total budget deficit. Despite workers' remittances and tourism receipts making a positive contribution towards financing a major part of the deficit since the end of the global recession, the economy faces serious long-term problems in high interest rates, increased foreign competition, exchange rate instability, a large trade deficit, high unemployment and a high debt burden.

It is now in the hands of the new government who face the difficult prospect of having to achieve fiscal discipline in order to maintain debt repayments. The IMF has categorically stated that it will not draw down its current loan agreement with Jamaica until a tax reform package has been signed-off.

The next section presents the economic role of tourism in Jamaica, showing the growth and competitiveness of the sector and its impact on the local economy in terms of GDP and employment.

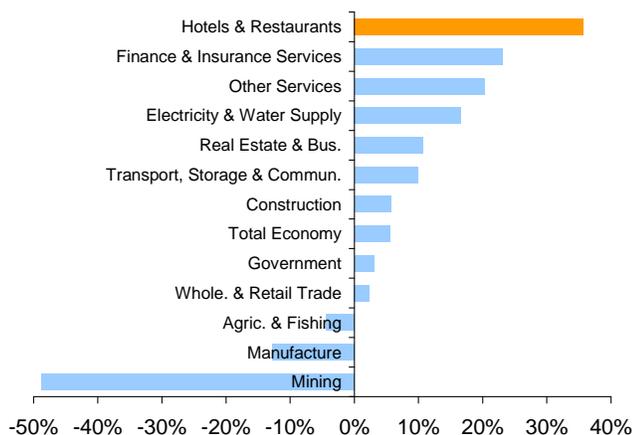
3 The Economic Role of Tourism in Jamaica

3.1 Growth and competitiveness

In real terms (constant 2007 prices), the hotel and restaurant sector has grown more than any other in the Jamaican economy over the past decade, expanding 36% compared with total economy growth of 6%. This suggests that in volume terms, tourism has been the leader of economic growth in Jamaica. That is, when excluding the effects of price changes, the tourism industry has grown more than any other industry during this period. To put this into context, the real GDP (at fixed 2007 prices) grew just 5.5% over the entire 2001-2010 period. However, the hotel & restaurant sector expanded 36% over the same period in real terms.

Jamaican Industry Value Added, 2010 vs 2001

Cumulative Growth, constant 2007 prices



Source: Statin

Before factoring in changes in prices, tourism has been an economic leader in Jamaica. However, the sector has struggled with an ever more competitive operating environment, both domestically and across the region. For this reason, in nominal terms (also called “current prices” which measures in the industry based on market prices in each year), the hotel and restaurant sector has lagged total economic growth in Jamaica, expanding 150% compared with total economy growth of 170% from 2001 to 2010. This illustrates the significant yield challenges the

tourism sector has faced in comparison with the rest of the economy. Despite tourism seeing the largest increase in volume terms of any industry, the value created by the tourism sector is below the average value added for the total economy.

Jamaican Industry Value Added, 2010 vs 2001

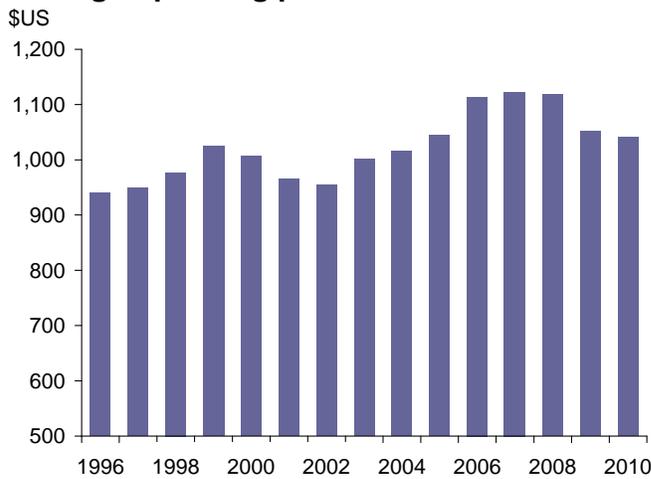
Cumulative Growth, current prices



Source: Statin

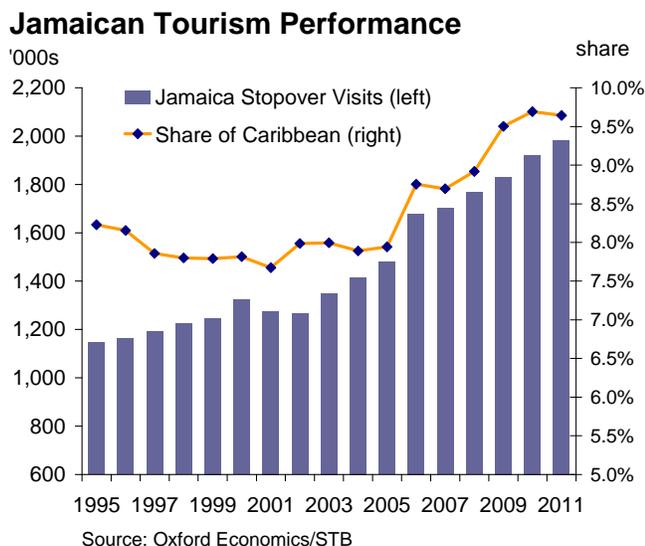
Indeed when examining spending per international visitor, it becomes evident that the industry has lacked pricing power, particularly over the past several years.

Average Spending per Visitor

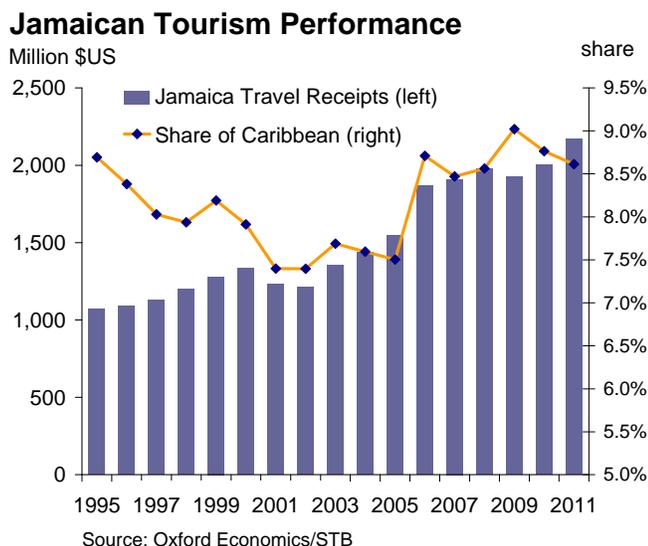


Source: JTB

Nevertheless, Jamaican tourism is a success story when viewed in the context of its regional competitors. After a period of lost market share from 1995 to 2001, Jamaica began to steadily gain market share in the Caribbean. In 2011, we estimate Jamaica to have hosted 9.6% of all stopover visits in the region, up from 7.7% in 2001.



The same trend is evident in terms of spending, illustrating that the challenges of yield are common across the region. In 2001, Jamaica received 7.4% of the Caribbean's tourism receipts. Jamaica's share then rose to its peak of 9.0% in 2008 before settling at its current level of 8.6% as both domestic and regional competition squeezed yields.



3.2 Economic impact

Although tourism is widely held to be a pillar of the Jamaican economy, the industry's full impact is not well understood. The Statistical Institute of Jamaica (STATIN) developed the country's first Tourism Satellite Account (TSA) three years ago, showing that tourism directly contributed 7.3% of Jamaican GDP in 2007. Our analysis has shown this to be an accurate assessment of the direct value added of tourism characteristic/connected industries, generated by tourism consumption. In fact, it compares reasonably with Oxford Economics' recent analysis for the Caribbean Hotel and Tourism Association (CHTA) which found that tourism represented 7.5% of Jamaica's GDP in 2011.

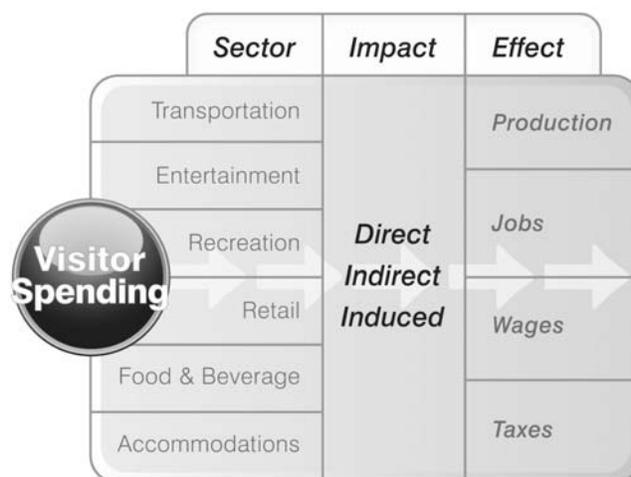
However, this does not reflect the full importance of tourism to the Jamaican economy as the direct impact only includes the value added (comprised of employee compensation, operating surplus, indirect business taxes, and capital depreciation).

A comprehensive assessment of economic impact must also include the indirect and induced impacts of tourism activity.

To calculate these wider impacts, Oxford Economics used STATIN's most recent Input-Output (I-O) model for the year 2000.¹

An I-O model represents a profile of an economy by measuring the relationships among industries and consumers. For example, an I-O model tracks the flow of a visitor's restaurant expenditures to wages, profits, capital, taxes and suppliers. The supplier chain is also traced

¹ A 2010 table is under development but was not available for Oxford Economics' analysis

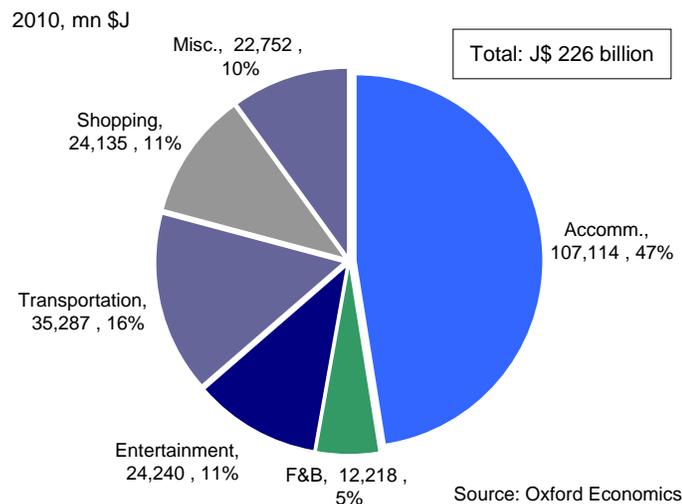


to food wholesalers, farmers, and so on. Using this approach, the I-O model allows for the measurement of the direct and indirect sales generated by a restaurant meal. The model also calculates the induced impacts of tourism. These induced impacts represent benefits to the economy as employees of tourism sectors spend their wages in the local economy, generating additional output, jobs, taxes, and wages.

The modelling process begins with aligning the tourism expenditure measurements with the related sectors in the model (e.g. hotels, restaurants, retail, transportation, and recreation, including attractions). The model is then run to simulate the flow of these expenditures through the economy. In this process, the inter-relationships between consumers and industries generate each level of impact for sales and GDP.

Total tourism consumption, including stopover, cruise, and domestic traveller expenditures, tallied J\$ 226 billion (\$US 2.6 billion) in 2010.

Tourism Expenditures (internal consumption)



The I-O impact analysis of GDP and employment impacts is provided in the following table.

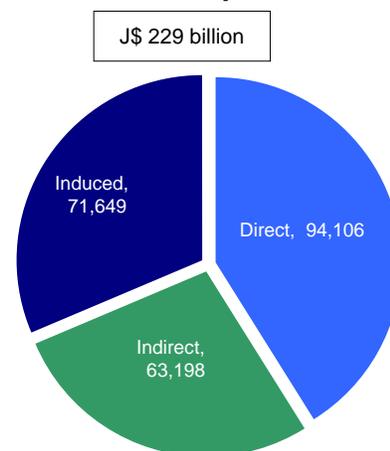
Summary of Jamaica Tourism Economic Impact				
2010	Direct	Indirect	Induced	Total
GDP (million \$J)	85,828	59,558	65,291	210,676
% of economy	7.3%	5.1%	5.6%	18.0%
+ Capital Investments	8,278	3,640	6,358	18,277
Total Tourism GDP Impact	94,106	63,198	71,649	228,953
% of economy	8.0%	5.4%	6.1%	19.5%
Employment	106,024	64,632	77,836	248,492
% of economy	9.7%	5.9%	7.1%	22.7%
+ Capital Investments	9,415	2,926	7,469	19,810
Total Tourism Employment Impact	115,438	67,559	85,305	268,302
% of economy	10.5%	6.2%	7.8%	24.5%

The initial GDP impacts are based on tourism consumption (including the spending of stopover, cruise, and domestic travellers). Consistent with the 2007 STATIN analysis, we found direct tourism GDP to represent 7.3% of Jamaica GDP. Indirect (supply chain) and induced (income effects) impacts bring the total GDP impact of tourism consumption to 18.0% of total GDP.

However, tourism companies are also significant investors in construction and machinery and equipment. Oxford produced estimates of capital investment in the hotel industry based on a survey representing 16% of room supply across both all-inclusive and EP properties.

Jamaica Tourism GDP Impact

million \$J



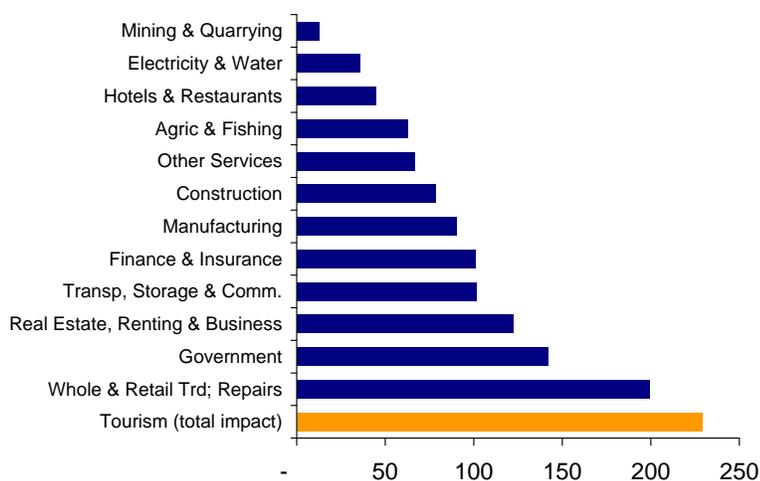
Source: Oxford Economics

A separate I-O analysis generated impacts related to these capital expenditures. Including these impacts, tourism was responsible for 19.5% of economic activity in Jamaica in 2010.

As a point of reference, tourism's total economic impact of \$J 229 billion in GDP is greater than the direct industry GDP of any other sector in Jamaica. Wholesale and retail trade, including repairs, tallied \$J 200 billion in 2010 and the manufacturing sector represented \$J 90 billion. It should be mentioned that this comparison is only for context as the definition of tourism's impact in this analysis is broader than the GDP figures for other sectors. The point remains, however, that tourism's contribution to GDP exceeds the size of any other individual sector in Jamaica.

Comparing Tourism Impact to Sectoral GDP

2010, billion \$J



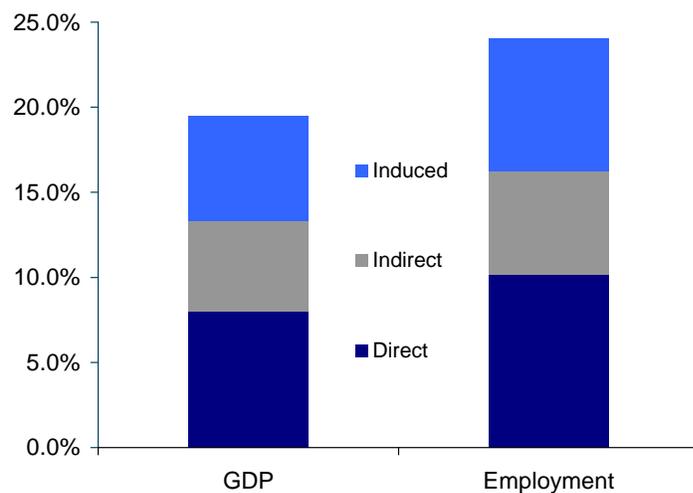
Source: Statin, Oxford Economics

Employment impacts were calculated using average productivity (GDP per employee) for each industry. Given the labour intensive nature of tourism, it was not surprising to find that tourism generates a greater share of total employment than GDP with a direct impact of 9.7% and a total impact of 22.7% of total employment in Jamaica. When including capital investment impacts, 24.5%, or nearly 1-in-4, of Jamaican residents owe their job to tourism.

The unemployment rate stands at nearly 13% at the time of this analysis. Were it not for tourism, the national unemployment rate would reach 34%.

Jamaica Tourism Economic Impact

Share of economy, 2010



Source: Oxford Economics

An analysis of the STATIN I-O table shows that for every dollar spent within the hotel & restaurant sector, 71 cents stays within the local economy. Of this, 33 cents goes to the value added of the tourism industry (compensation of employees, profits, indirect business taxes, and capital consumption) while 38 cents goes to local suppliers. Oxford subtracted the imports of these suppliers in the calculation to account for the leakages of Jamaican wholesalers and retailers.

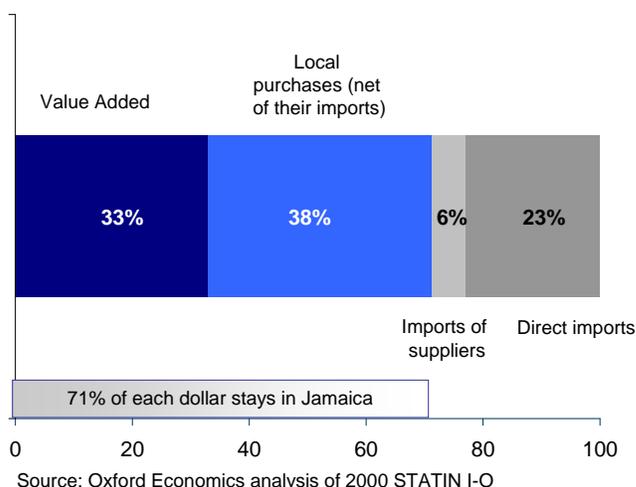
To confirm the calculations of the I-O model, Oxford Economics conducted an industry survey to determine linkages within the domestic supply chain and identify leakages. This survey confirmed the strength of relationships of the I-O calculations of supplier linkages with a range of 69-90 cents and an average of 83 cents per dollar of revenue.

The implications of these linkages are significant. Tourism is more than just hotels, restaurants, tour operators, retailers, and other entities providing services directly to visitors. The supply chain for tourism in Jamaica is more robust than in many Caribbean islands. Furthermore, the incomes earned by the 106,024 Jamaican residents employed in the tourism industry are largely spent within the local economy, generating additional economic activity.

For example, 15% of all construction activity is as a result of tourism activity with 10% coming directly from hotel and restaurant projects. Similarly, almost 10% of the finance and banking sector is as a result of tourism activity. This follows our research with several Jamaican banks who indicated that tourism represents a substantial component their business—up to 30% in one case.

And 20% of manufacturing GDP in Jamaica is driven by tourism. In fact, for every dollar spent by visitors to Jamaica, the manufacturing industry receives 26 cents in sales, 15 of which are through the supply chain and the remaining 11 cents through locally-spent incomes.

Destination of \$100 in Hotel and Restaurant



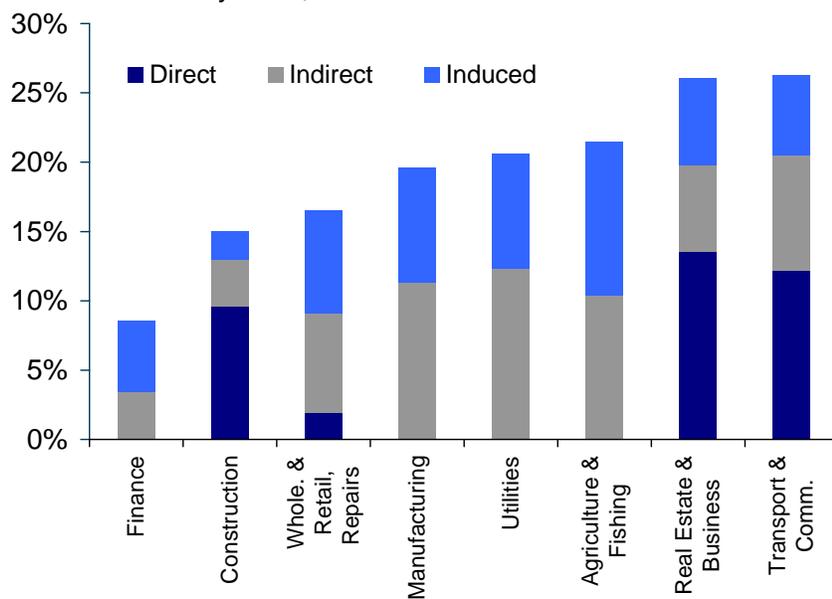
Importantly, 21% of all utilities (water and electricity) GDP is driven by tourism demand. Without tourism demand, the economy would not be able to financially support the infrastructure required to supply these vital services to parts of the country.

The agriculture, forestry, and fishing sector owes 21% of its business to tourism demand—coming through the supply chain and incomes generated by tourism.

The figure below illustrates the benefits to industries as a result of tourism activities.

Tourism Contribution to Various Sectors

Share of industry GDP, 2010



Source: Oxford Economics

The following section introduces the background and research aims of the consultations with industry leaders.

4 Implications

In assessing tourism as an economic development opportunity compared to other sectors in the Jamaican economy, a series of consultations were carried out with industry leaders to gain their perspective on the relative strengths and weaknesses of the sector within the environment it currently operates. With Government seeking to raise taxes at a national level, a prerequisite for the IMF to continue its financial support, it was important to fully understand the incentives schemes, tax policies and marketing strategies underpinning the development of the sector and to identify what changes should be made to influence future economic performance.

Consultations were carried out with key stakeholders throughout the sub-sectors of the tourism industry, covering all-inclusive hotels, EP hotels, cruise liners, airports, attractions, tour operators, banks, security officials, policy makers, government bodies and private sector organizations. A full list of the individuals and organizations are provided in Appendix A.

The following sections present the key findings of the qualitative research under the following headings;

- Tourism incentives and tax reform
- Marketing
- Jamaica's competitive advantages – why tourism?
- Challenges facing tourism in Jamaica
- Market opportunities and next steps

5 Tourism Incentives and Tax Reform

5.1 Introduction

A topic at the forefront of debate amongst policy makers and those in the tourism industry, is how the sector should be taxed going forward. As the Government of Jamaica becomes increasingly under pressure to reach a tax reform package, in order to reap more revenue at a national level, tourism stakeholders are concerned over proposals to change the tax regime for tourism operations under incentive schemes, which could be potentially harmful to the sector, inhibiting further growth.

In terms of taxes collected from the tourism sector, General Consumption Tax (GCT), Special Consumption Tax (SCT) payments and PAYE have consistently contributed to the total tax revenue received from the sector. Other contributions include Head Tax, a Tourism Enhancement Fee currently projected at just under US\$40 million annually, as well as over twenty different licensing fees paid to local Government and other Executive Agencies, and statutory deductions. The sector has also been a major contributor to the economy, creating significant levels of direct and indirect employment and is a premium earner of foreign exchange.

At the centre of the tax reform discussion stands the question of whether tourism should be treated as an export in terms of its taxation. This is an important question as Jamaica grants favorable tax treatment to export industries in order to offset global challenges and ensure competitiveness.

The tourism sector in Jamaica is indeed an export. In fact, it is Jamaica's most important export by far, representing 50% of all exports of goods and services. In 2010, the tourism sector brought in 31 times the export revenue of manufacturing.

Composition of Jamaica Total Exports

2010, million \$US

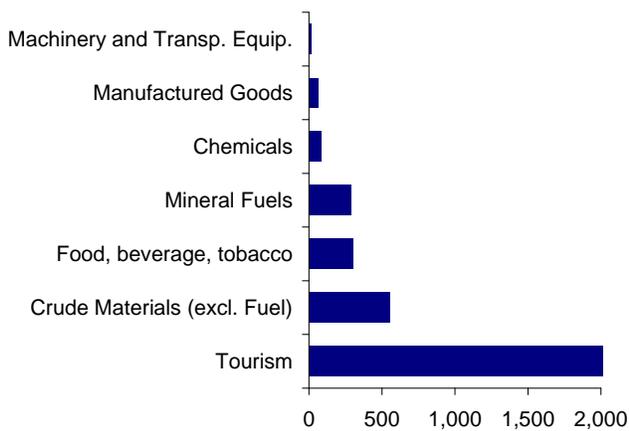


Source: STATIN

No other service or commodity approaches the importance of tourism as a foreign exchange generator. In 2010, tourism was responsible for more than \$US 2 billion in exports, including both travel and transportation receipts.

Jamaican Exports

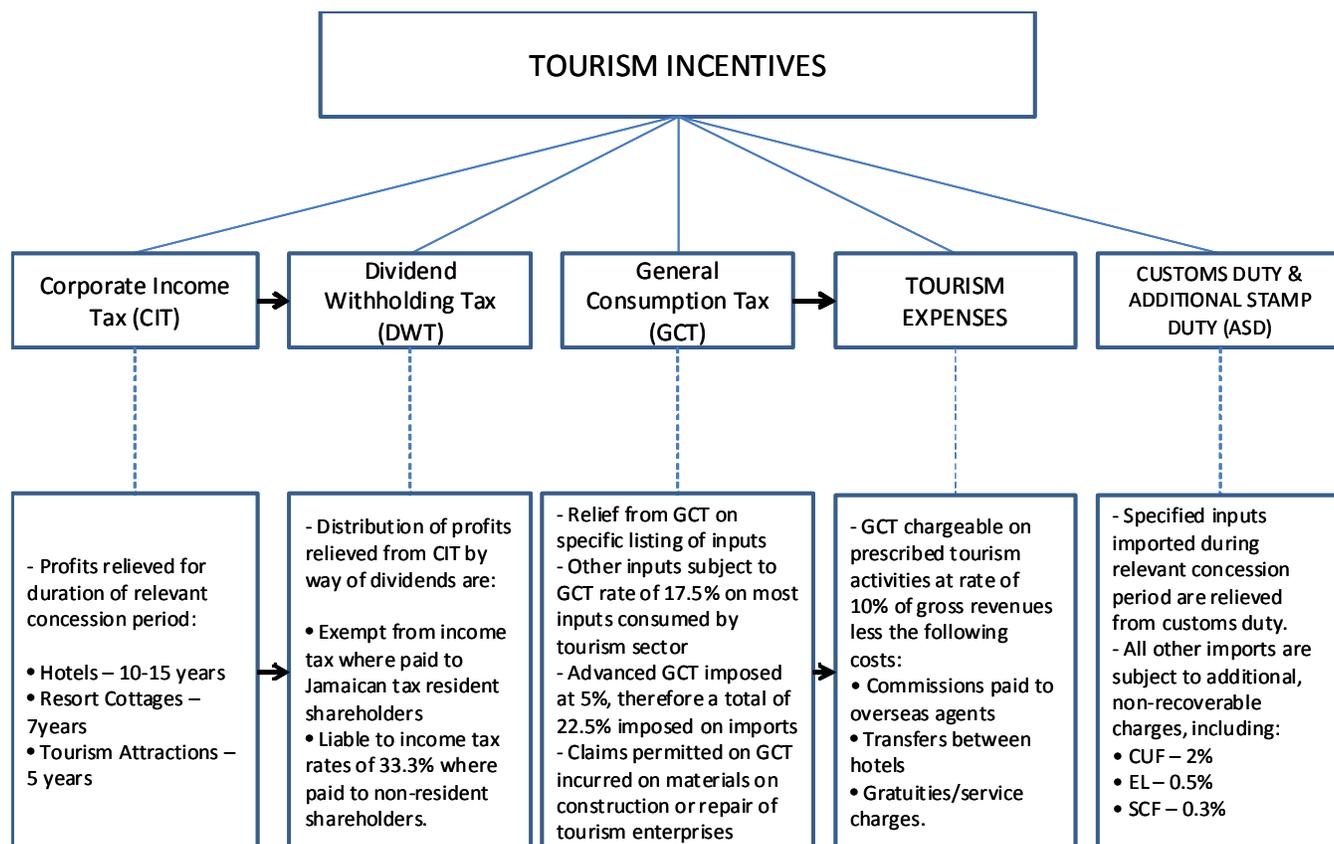
2010, \$US millions



Source: STATIN

Several incentive schemes, geared at attracting investment and fostering tourism development, have been implemented by the Jamaican Government from which players in the sector currently benefit. Under the Hotels (Incentives) Act, Resort Cottages (Incentives) Act and Attractions Incentive Regulation, tourism entities receive specific tax relief and duty concessions. These benefits are summarized in Figure 1.

Figure 1: Summary of Tourism Tax Incentives in Jamaica



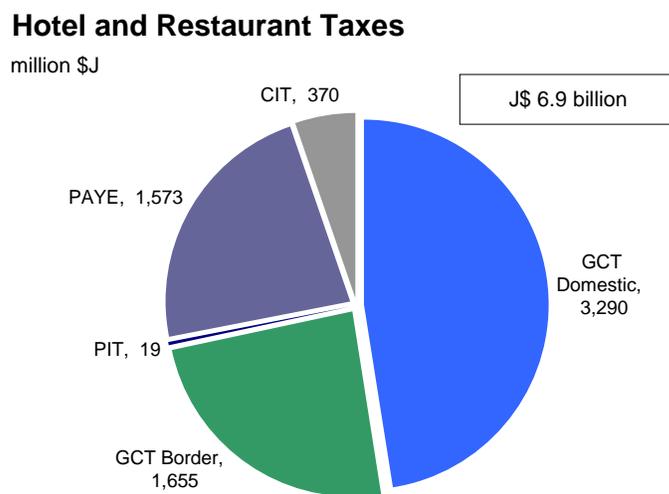
5.2 Revenue and incentives

As Jamaica faces some difficult decisions regarding its current budget deficit, it is important for the government to raise additional funds, whilst not limiting economic growth potential. Given the incentives offered to the tourism industry, it is important to understand the levels of taxes currently generated by tourism.

The Ministry of Finance recently completed a study analyzing the tax incentives granted to the tourism sector compared to the tax revenue generated by the

sector. The research showed that the value of incentives awarded to the tourism sector did not outweigh the tax revenue it earned between 2005 and 2007, averaging at 40.4%.

The latest data on tax returns provided by the Ministry of Finance show that the hotel and restaurant industry alone generated J\$ 6.9 billion in taxes in 2010, growing by almost 28% since 2007. It is likely that this revenue continues to outweigh the amount provided to the sector in incentives.



Source: Jamaica Ministry of Finances / Fiscal Services

This only represents a small share of the total taxes generated by tourism. As we saw earlier, the tourism economy extends far beyond the hotel and restaurant sector and even other tourism service providers to a host of other sectors as suppliers and beneficiaries of tourism sector incomes as they are spent throughout the economy.

In order to estimate the full tax contribution of tourism, we applied the total tourism impact share (including direct, indirect, and induced impacts, to the 2010 tax return figures for each sector of the Jamaican economy. So for example, if not for tourism, 20% of manufacturing sales—and taxes—would be lost.

Tax Revenue Generated by Tourism Activity in 2010, million \$J								
Returns by Industry	PIT	PAYE	CIT	GCT Domestic	Border Taxes	Total	Tourism Share	Tourism Revenue
Agriculture, Fishing, Forestry	16	490	83	8	828	1,424	21%	306
Construction	10	662	338	494	834	2,339	15%	352
Electricity & Water Supply	(0)	1,227	1,436	3,499	144	6,306	21%	1,297
Finance & Insurance	7	5,005	3,587	8,473	8,649	25,719	9%	2,212
Government	8	803	233	179	51	1,273	1%	13
Hotels & Restaurants	19	1,573	370	3,290	1,655	6,907	87%	6,040
Manufacturing	15	1,985	2,006	9,241	25,371	38,617	20%	7,584
Mining	0	449	10	(23)	130	567	1%	8
Other Services	52	1,648	356	1,174	442	3,673	31%	1,149
Real Estate & Business Services	244	3,449	1,442	5,501	2,007	12,642	26%	3,292
Transport & Communications	23	2,071	476	8,029	3,556	14,155	26%	3,723
Wholesale & Retail	211	3,621	2,210	3,698	48,176	57,917	17%	9,562
Undefined	1,449	12,207	1,209	16	987	15,868		
Grand Total	2,055	35,191	13,755	43,577	92,831	187,408		35,538
+ Other Tourism Taxes								
								2,551
								29
								139
								38,257
								20.4%

This is an important perspective because tourism is an export industry. Therefore, we need to view taxes in terms of what does the visitor pay in taxes as part of the cost of his or her holiday. This naturally includes not only the taxes paid by a hotel, but by its suppliers.

All told, we estimate that tourism generated J\$ 38.2 billion in tax revenue in 2010, representing 20.4% of total tax revenue. This exceeds even its total GDP impact of 19.5%, partly because of tourism specific taxes such as the travel tax.

5.3 Proposed Tax Changes

There is still a reluctance to view tourism fully as an export industry in public policy planning in Jamaica despite the fact that tourism is fundamentally an export industry, selling a significant share of its goods and services outside the country.

The Government imposes a GCT regime, albeit at a lower rate compared to other sectors on tourism activities including accommodation providers, attractions and transportation providers. Instead of the current rate of GCT at 10%, it is proposed that a rate of 12.5% be applied to these prescribed activities.

This is a major concern for the tourism industry as the imposition of a higher GCT rate will depend upon the ability of each entity to absorb this added expense within their gross operating profits.

This concern seems warranted in our view. Given the export nature of tourism and the need to remain competitive in the region, it is unlikely that increased GCT could be easily passed on to customers. STATIN data indicates an average profitability in the hotel and restaurant sector of 10%. (This calculation uses operating surplus as a proxy for profits.) This would mean that this proposed 25% increase in GCT would exactly equal a 25% decrease in average profitability. Our survey of tourism sector companies in Jamaica reveals that many companies are operating at an even lower profit margin, in the mid-single digits or lower, implying that this increase in GCT could bring these companies to a break even or loss.

In terms of CIT, it is proposed that it be reduced from 33.3% to 15% and applied to all tourism operations and activities supporting the sector. The new regime would honor existing agreements to entities under the current incentive scheme, fully relieving profits of CIT until expiry. Furthermore, dividends paid to Jamaican resident companies would be exempt from a tax rate of 10% applied to non-resident shareholders.

This proposal is likely to be welcomed by key stakeholders, putting their businesses on more of an even playing field with other tourist destinations, where CIT is much lower.

According to one hotelier, “A reduction in corporation tax would

“Fiscal policy in many developing countries places a heavy tax burden on tourism service suppliers (particularly small and medium-sized enterprises). While most governments provide for tax and duty drawback paid by exports of goods, this is usually not applied to exports of tourism services” (Report on strengthening the capacity for expanding tourism sector in developing countries, UNCTAD, 1998)

“There should be beneficial treatment on GCT as the hotel industry is an exporter.”

free up funds to re-invest in our product.”

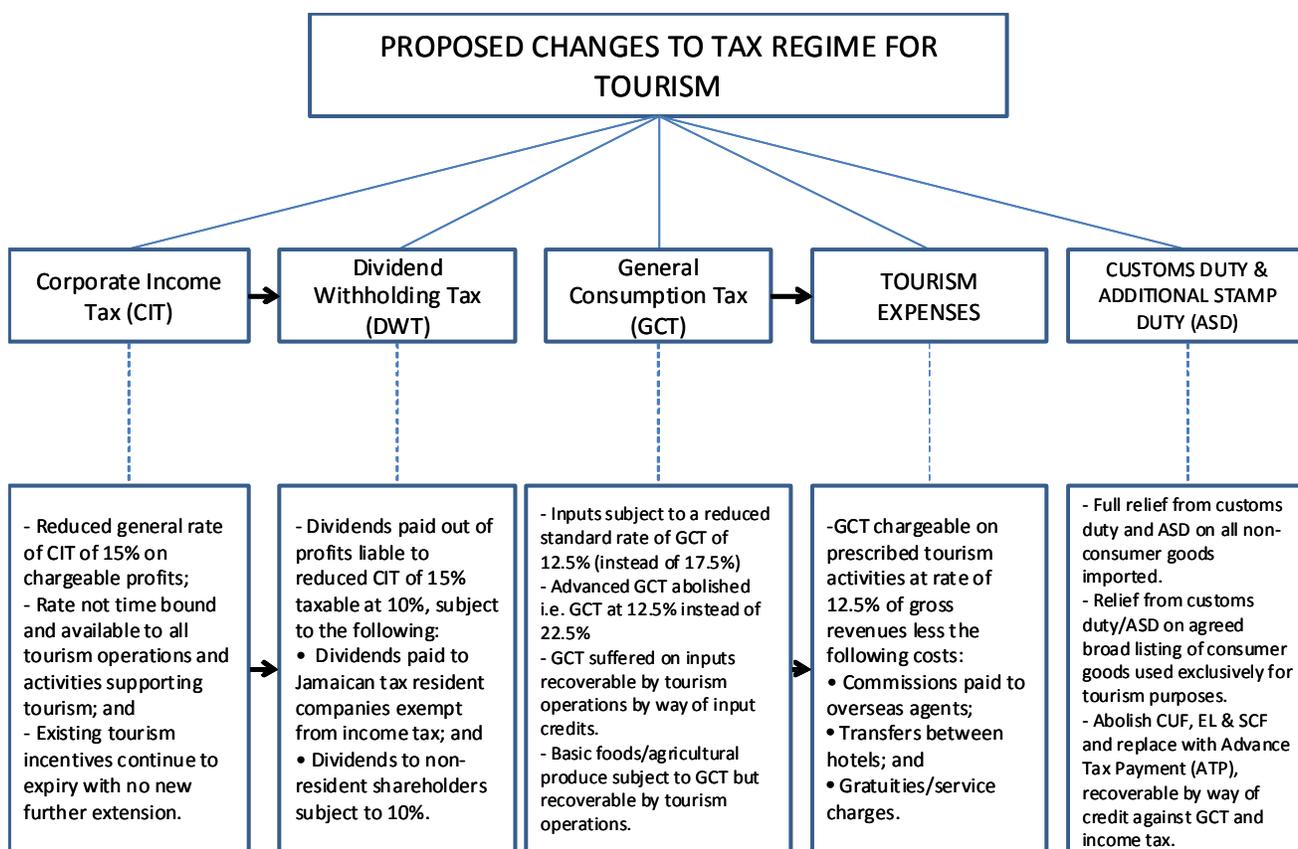
Under the proposed change to Customs Duty and Additional Stamp Duty (ASD), full relief would be provided on all non-consumer goods imported with relief on an agreed listing of consumer goods utilized exclusively as inputs for tourism purposes.

Should this proposal be implemented by government, it would significantly reduce the cost of operation for tourism entities, especially in the accommodation and attraction sub-sectors.

“Tourism needs to be treated as an export industry – inputs should not be taxed as on imports”

A summary of the proposed changes to taxes for tourism is provided in Figure 2 below.

Figure 2: Summary of proposed changes to tax regime for tourism in Jamaica



5.4 Competitiveness

5.4.1 Specific Risks

Tourism incentives have played a pivotal role in enabling Jamaica to compete against other destinations for investments, as well as visitor arrivals and spend. As tax reform is undertaken, any initiatives to remove incentives from existing tourism entities and raise taxes payable by the sector are likely to impact upon their ability to compete at both regional and international levels.

Incentives drive the pricing of the product, which in a highly competitive marketplace can determine the success or failure of an investment. It is unlikely that Jamaica would continue attracting the level of tourism investment and have the ability to make a significant contribution to economic development in the absence of incentive schemes.

Jamaica's tourism industry competes against the world for tourists and therefore must be price competitive. High cost structures and taxes would become a financial burden on the industry as the tourism industry is unable to pass on increases to international customers as they have a choice of destination.

"We do not want to be priced out of the market, we must remain affordable"

"This is critical, what we cannot afford to happen is tax policy on tourism to become so regressive to the industry that it begins to chip away further at the industry's competitiveness"

5.4.2 Competition with Other Destinations

Over the years tourism incentives have provided a favorable business environment, attracting and facilitating a number of major investments in Jamaica. These have played an integral role in Jamaica's ability to compete with other tourist destinations and influencing the location decision of investors.

From examining the incentive regimes of similar competing destinations, it is clear that Jamaica would be at a comparative disadvantage if incentives were reformed to exclude benefits such as the tax holidays. In fact, there are already incentives in place in countries such as the Barbados, Puerto Rico, and Anguilla that give their tourism industry competitive advantage

"Anything that makes an island more expensive relative to competition, will lead to a substantial fall in total revenues" Demand for Tourism, World Bank, 2001

above Jamaica.

Demand for tourism services is highly sensitive to price and subject to intense international competition. Countries where the tourism sector is subject to a lower rate of VAT therefore have a competitive advantage over those countries where a higher rate is levied.

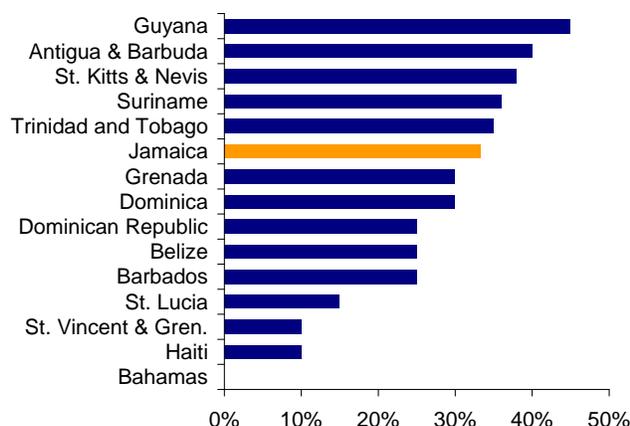
The figure below compares current tax incentives/concessions offered in countries across the Caribbean and benchmarks them to those currently offered in Jamaica. It is evident that many countries have incentives and concessions that are better than those offered in Jamaica (indicated by green cells in the figure).

	Corporate Income	Withholding	Property	VAT	DUTY	Qualifying
Anguilla	Green	Green	Green	Green	Blue	Red
Antigua & Barbuda	Green	Green	Green	Blue	Blue	Green
ARUBA	Green	Green	Green	Green	Red	Red
The Bahamas	Green	Green	Green	Green	Blue	Green
Barbados	Green	Green	Green	Green	Blue	Green
Bermuda	Green	Green	Red	Green	Red	Red
Cayman Islands	Green	Green	Green	Green	Blue	Red
Dominican Republic	Red	Green	Red	Green	Red	Blue
Grenada	Green	Green	Green	Blue	Blue	Green
Puerto Rico	Green	Green	Green	Green	Blue	Green
St Kitts & Nevis	Red	Red	Green	Blue	Blue	Blue
St Lucia	Red	Red	Green	Green	Blue	Blue
Trinidad & Tobago	Red	Blue	Blue	Blue	Blue	Red
Turks & Caicos	Green	Green	Blue	Blue	Blue	Red
US Virgin Islands	Red	Blue	Green	Green	Red	Green

indicates current incentives/concessions are better than those in Jamaica
 indicates current incentives/concessions are comparable to those in Jamaica
 indicates current incentives/concessions are worse than those in Jamaica

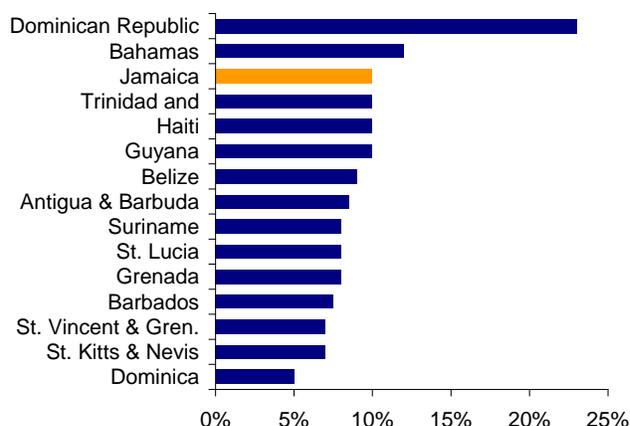
There was overall consensus from stakeholders that corporation tax in Jamaica is too high at 33.3%, compared to other tourism destinations such as Anguilla, the Bahamas, Bermuda, the Cayman Islands, Puerto Rico, and Turks and Caicos, where there is no corporate income tax for hotels. Although all hotels in Jamaica are exempt from paying the tax for ten years under the Hotel Incentives Act, once this expires it can have a negative effect on further re-investment in the country as a third of businesses' profits are collected by government. Furthermore, it was evident that this would have a significant impact on smaller businesses compared to larger hotels that are able to extend this benefit for an additional ten years through upgrades that qualify as "substantial structural alteration".

Corporate Income Tax Rates



Source: Oxford Economics

Hotel Accommodation Tax Rates



Source: Oxford Economics

As shown in the above charts, our comparative research indicates that Jamaica is currently in the upper tier of tax rates, both in terms of corporate income and hotel accommodation taxes. It follows that, as an export industry, competing with other Caribbean destinations, tourism would struggle to compete under the weight of additional taxes.

5.5 Strategic Implications

Taking into account the proposed tax changes and their implications on the competitiveness of Jamaica as a tourism destination raises the question of “should tourism be prioritized as an economic development opportunity compared to other sectors in the Jamaican economy?” If so, “should current tax incentives still apply for tourism or should there be harmonization of the tax system for all sectors?” Or, is it a case of refining current tourism incentives so they are conducive to further growth? In the case of the latter, key stakeholders identified some of the changes they would like to see implemented as part of tax reform and review of incentive schemes.

High importance was placed on the need for incentives to buy goods and services locally. It was recommended that a stipulation of buying a certain percentage of goods and services be imposed, excluding purchases of energy and labor.

It was also highlighted that incentives should be provided for those investing in alternative sources of energy to reduce the business operating costs and to protect the environment which is intrinsically linked to tourism.

Another recommendation in relation to refining the incentives that apply to the accommodation sector was that there should be greater consideration given to all sizes of properties wanting to replenish their product through refurbishment. The reason for this is that it is not always viable for small properties to expand their premises and therefore there should be an incentive specifically for refurbishment purposes for all types of property.

“Tax policy has not been geared in such a way that it makes it better for hotels to buy locally than import”

“There is no encouragement or incentive for implementing renewable sources of energy in a country with extremely high running costs”

“The small hotel sector in general is struggling – the indigenous product of Jamaican tourism is under threat and some have had to close...the economies of scale do not favor small businesses, everything is geared towards the large”

“Some small hotels have not maintained their product given rising costs and challenging environment. However, there are not incentives provided for small properties to update or invest in their product through refurbishment as you have to expand your room count to regain the incentive”

6 Marketing

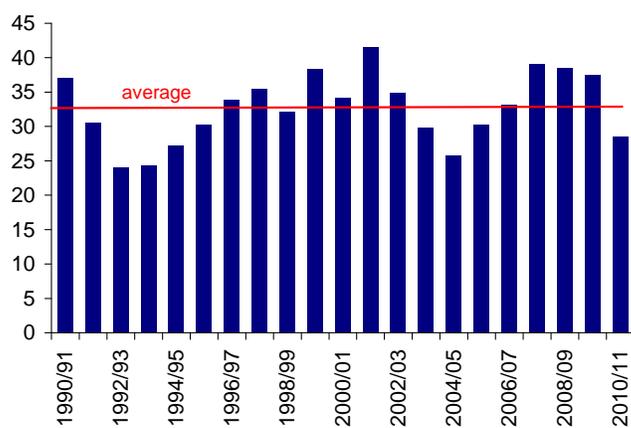
Marketing is essential to the success of any destination. This is particularly true of Jamaica which has formidable brand strengths (culture, music, beauty) to foster, as well as brand challenges (namely, security perceptions) to overcome. The increasingly competitive nature of tourism markets has made gaining “share of voice” and market influence all the more challenging.

Effective and well-funded marketing is not only essential for the Jamaican tourism industry but for the entire Jamaican economy due to the substantial linkages discussed in the previous sections.

As is the case for many destinations dependent upon government funding, promotional budgets have come under duress in recent years. As shown in the following chart, funding for the JTB is below its twenty-year average, falling 24% in the 2010/11 fiscal year to \$US 29 million.

JTB Budget

\$US millions



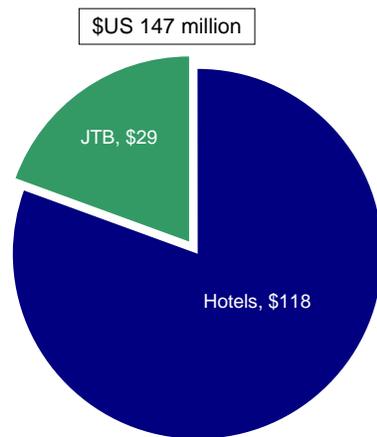
Source: JTB

A national marketing and advertising program is essential to provide an umbrella for partnerships, awareness, and branding for a destination. Our research has shown consistent economic returns from such investments.

It should be understood, however, that the private sector invests substantial sums in marketing Jamaica to the world. Our survey of hotel properties in Jamaica indicates an investment of \$US118 million in marketing and advertising in 2011. This is more than four times the JTB marketing fund and represents 10% of total hotel industry revenue.

Jamaica Destination Marketing

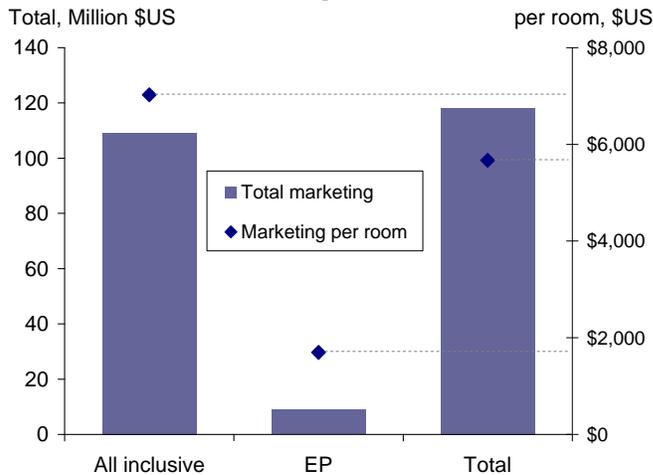
million \$US



Source: JTB, Oxford Economics

This equates to more than \$US 100 million for all-inclusive properties and approximately \$US 7,000 per all-inclusive room. Approximately \$US 9 million was invested in 2011 by EP properties, representing \$US 1,700 per room.

Hotel Sector Marketing in 2011



Source: Oxford Economics

What comes into focus is that the tourism industry is investing heavily in the brand strength of Jamaica. This is valuable to the entire Jamaican economy. The marketing and promotion of Jamaica has direct implications for foreign direct investment, real estate, and even the manufacturing sector as it sells to foreign markets.

While significant efforts have been made to promote and develop the tourism sector in Jamaica, anecdotal evidence suggests that advertising needs to market the numerous assets of the country more effectively to increase awareness.

“There is a need to develop sub-themes to the Jamaica Brand, advertising specific areas of the island, like the advertising done for California and Australia”

7 Jamaica's Competitive Advantages – Why Tourism?

In evaluating tourism as a priority for economic development in Jamaica, it is important to compare it with other major industries in the country to determine the sector's competitive advantages whilst considering the views of industry experts within this context.

“Tourism touches the widest cross-section of the populous in terms of skill set and its impact is carried through to every other sub-sector of the economy”

Tourism differs substantially from agriculture and manufacturing industries in that it produces an invisible export. As a service industry, the product is consumed in the destination that it is produced in. The sector is also the main source of hard currency earnings, **“accounting for 47% of foreign exchange earnings, according to the Bank of Jamaica”**.

More than any other industry, tourism was cited as being multifaceted as it **“touches every available part of the economy, connecting and supporting other sectors”**. It was also identified as **“a large employer of skilled and unskilled labor, absorbing a lot of that unskilled labor”**. While sectors such as agriculture and manufacturing remain relatively large employers and export industries in Jamaica, they are considered less as economic development opportunities and more as ancillary operations benefitting from tourism.

Tourism earnings impact directly on the tourism sector, essentially on tourist accommodation, restaurants and other service industries such as entertainment and domestic transport. Workers in the sector benefit directly through wages and supplier industries benefit through supplying inputs to tourism and through purchases by employees of the tourism sector. Tourism is recognized as a valued employer in Jamaica, supporting the local community as **“for every employee working in a hotel or as a taxi driver, it is potentially supporting three further individuals, be it kids or other family members”**

“Tourism is labor-intensive, which is good for a country with low employment and limited education. It is easy to train people to do jobs in the tourism industry”

In terms of economic growth opportunities going forward, the primary problem identified with agriculture was that it is totally dependent upon a few specific crops or products. In a competitive global market, where externalities such as tropical storms are uncontrollable and prices are unpredictable, agriculture was considered to be an unreliable and inconsistent source of revenue. However, tourism has played a key role in diversifying the economy and complementing the income brought in through agriculture. In 2010, the tourism sector brought in 6.8 times the export revenue of all traditional agricultural exports.

As with agriculture, the majority of consultees agreed that there were inherent problems with the manufacturing sector. Following a growth spurt in the early 1980s, when there was an influx of manufacturing industries developed through free zones, the sector continued to decline. Generally, the sector uses a mix of local and imported raw materials, although is often heavily reliant on the latter, creating a large deficit between manufacturing imports and exports. It was also acknowledged that in areas that have lost manufacturing jobs, tourism offers an alternative advantage in that unlike manufacturing jobs, visits to a specific locale cannot be shipped offshore. In addition, the tourism sector does not necessarily require official training for everyone working as part of day-to-day operations, although it is preferred by employers, it is an industry that can offer on-the-job training.

Tourism, like manufacturing, requires similar access to land, labor and capital resources. Yet, tourism, in the way that the product is produced and delivered, appears to be a more viable growth opportunity for Jamaica in the longer term. The natural beauty of the island, weather, and diversity of attraction assets, culture and brand were identified as making the destination unique and marketable to visitors.

Demand for tourism amongst stakeholders was expected to remain relatively strong given its **“geographical location on the doorstep of the richest country in the world, situated mid-way between North and South America”** with a wide range of gateways to airlift visitors. Also, as a result of penetrating of marketing strategies aimed at promoting ‘Brand Jamaica’ as well as, recent and planned investments. Particular emphasis was placed on planned and hoped for investments in the accommodation sector and the development of other growth opportunities within casino and gaming, time share, health and wellness, adventure, eco tourism and high-end products.

“Brand Jamaica still remains the key driver for tourism on the island; Bob Marley put us on the map”

“Attractions and natural beauty make Jamaica different from the other Caribbean islands”

The opportunity for development through tourism was touched upon throughout consultation with spin-offs from the sector, such as events and festivals cited as “vital” and “**a success in providing a greater offering to visitors and generating spend in the local economy**”. Tourism supports large festivals through funding provided by the Tourism Enhancement Fund (TEF), which has helped in marketing events and drawing in visitors.

It was evident from the feedback gathered that if the scale of the tourism sector was cut back in Jamaica, it would have an adverse affect on the local economy. In particular, utilities would become much more expensive and scarce.

Furthermore, hotels have made progress in linking domestic agricultural production with the local market created by international tourism. Some local large players in the accommodation sector have developed these linkages and liaise directly with agricultural producers so they better understand the specific requirements for their products. Increasingly, chicken products, fruits and vegetables for tourism consumption are sourced locally where available.

The following section presents the constraints on tourism growth, identified by key stakeholders, and the challenges facing the sector going forward.

“Tourism is the area in which Jamaica has competitive advantage. The country has few resources that allow the competitive advantage that tourism does... Right now, you would not find a stronger industry to provide for sustainable growth than tourism”

“SumFest and Jazz are examples of events where marketing has benefitted and worked in Jamaica”.

“As the largest consumer of energy, without tourism, electricity companies would run into difficulty and have to spread their overheads over a smaller domestic base”

“Wherever we can and whatever is available, as much as possible is purchased locally”

8 Challenges Facing Tourism in Jamaica

Although tourism has been an economic development success story on the whole, the industry faces several real challenges as it seeks to move forward.

A concern raised was that of leakage of income, identifying the main contributors to leakage being imports and the value added accruing to service providers such as airlines and tour operators based overseas.

Another reason given for the significant level of imports by international hotels was that they could avail of the benefit of duty-free imports offered through the Hotel Incentive Act, which can be extended beyond the original investment agreement of ten years through the expansion of premises. However, the same waiver also applies to local hotel companies, although as discussed in the previous section, have taken steps to buy what is available locally, mainly in agricultural produce.

This is not to say that the Hotel Incentive Act should abolish this benefit, The majority of consultees agreed that it could perhaps be refined to stipulate that a certain percentage of overall input should be to purchase locally to prevent future investments in Jamaica having pre-arranged deals with suppliers outside the country which is found to be the case in manufactured products such as furniture.

Furthermore, it was recognized that for all hotels investing in Jamaica, incentives should not place local producers at a disadvantage to foreign-owned suppliers either based in the investing country or otherwise.

Bulk supplies of low priced goods—a requirement of all-inclusives—are often more conveniently sourced through imports. Both foreign owned all-inclusive accommodations and large-scale resorts import supplies including food and beverages which in most cases are purchased through agents and local distributors who have already imported the goods.

The problem has been the fact that growth and development in agriculture and tourism has been pursued separately, even

“Of the 5,000 rooms built recently in Jamaica, not one single room was furnished by a Jamaican furniture manufacturer”

“There is no sharing of information regarding what each hotel will require and when it will refurbish, which would help develop local industries as they would know what and how much of their products to supply or tap into”

“One aspect of tourism used for development, that has not been fully explored, nor attempted to get the tax policy to be consistent with that, is where incentives are provided to hotels for imports. As an hotelier, it is easier to import a bed with zero duty and zero GCT than to buy the same bed from a local manufacturer as that would require paying all the duties the manufacturer would have paid and the GCT”

within the agriculture sector, development of export and domestic agriculture has been mutually exclusive.

As one consultee stated, **“No info regarding new hotel investment is communicated across the sectors to give local producers and suppliers the opportunity to sell their goods directly to the hotel purchasing manager”**

Given the scale of the tourism industry compared with relatively small agriculture production, a selection of imported items is necessary in order to meet the demand of the sector in which there are approximately 21,000 rooms in the hotel sector alone. However, there needs to be greater collusion between the sectors to allow the strengthening of existing linkages further and to plan ahead.

It was also highlighted that the type and ownership of tourism accommodation influenced the importation of agricultural goods. While larger and foreign owned hotels were cited as relatively large consumers of imported products, it was confirmed that the small hotel sector tends to purchase directly from local supermarkets, farmers and fishermen, albeit more expensive on a cost per unit basis. These smaller properties represent the best immediate opportunity for strengthening these linkages given the ability of local producers to meet these lower volume requirements.

High energy costs remain a concern for long term viability of the tourism sector as it competes for new investment and as current establishments seek to remain price competitive. Heat, light and power were said to account for a significant proportion of revenue. Our financial operations survey indicates that energy costs represent the equivalent of 7% of hotel income.

This, coupled with the downward spiral in average daily rates of available rooms, as a result of large international chains discounting their prices, has placed the hotel sector, particularly smaller operators, in an extremely challenging environment.

Anecdotal evidence suggests that it has been the indigenous industry that has suffered as a result of the discounted prices as they were forced to implement this pricing structure in order to remain competitive in the country and the region. The

“A large part of Jamaica’s problem is its import food bill. If agriculture had a guaranteed market from hotels, it would mean farmers would be better able to plant accordingly and for the domestic market as well. For example, knowing that 30% is guaranteed for hotels, farmers could take more of a risk in planting and production”

“We pay higher prices for small units of local produce but it is affordable for our use”

“In Jamaica, government taxes fuel that is used for producing energy, leading to higher costs for hotels. We are charged 5 times the cost of hotels in Florida”

challenge for home-grown hotels is to differentiate themselves from the international chains to develop and maintain a higher quality product.

High volume mass tourism has been the main feature of the tourism industry in Jamaica. It is less known for its diversity from “**beach to mountain**” and as a “**special interest**” destination. It was recognized that tourism in Jamaica needed to be re-positioned to offer a more diversified and higher quality product offering, to differentiate from competing destinations and move away from the standardized “**sun, sand and sea**” tourism product which “**opens it to extreme price competition**”.

It was agreed that the challenge going forward did not lie in attracting visitors to Jamaica, as stopover arrivals have continued to rise consistently over the last decade. It was a case of creating quality tourism to attract high-income tourists.

Another challenge to overcome is how to leverage benefits to the local economy from the cruise ships that bring, on average, one million passengers per year to Jamaica.

Cruise visitors generally spend less than stop-over visitors as they spend most of their time and money on the ship. The security on and off ship has also restricted what passengers can bring to consume on board, constraining the benefits arising from cruise tourism. The average cruise visitor spends less than \$US 100 per visit while the average stopover visitor spends nearly \$US 1,000 per visit.

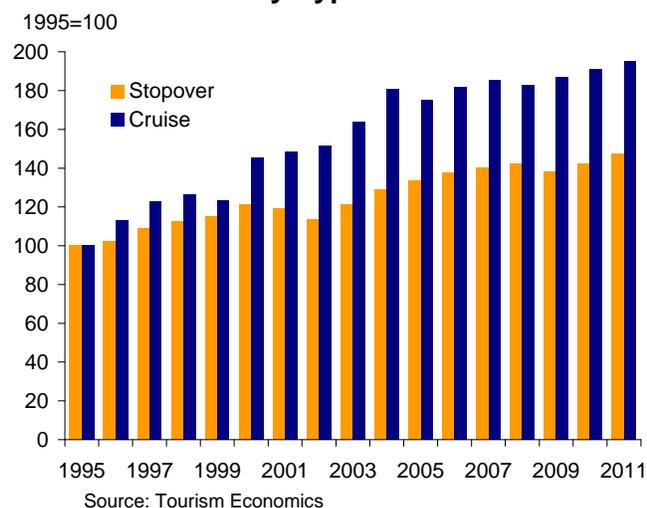
Nevertheless, the cruise market is a critical market to develop, both in its own right and as a marketing opportunity to would-be stopover visitors. Since 1995, total stopover visits to the Caribbean have grown 48% while cruise visits have expanded 95%.

“Tour operators promote Jamaica in the traditional form of sun, sand and luxurious resorts and do not place emphasis on its diversity, experiences or special interests”

“Too much focus on getting visitors to Jamaica, there is not enough emphasis on spend”

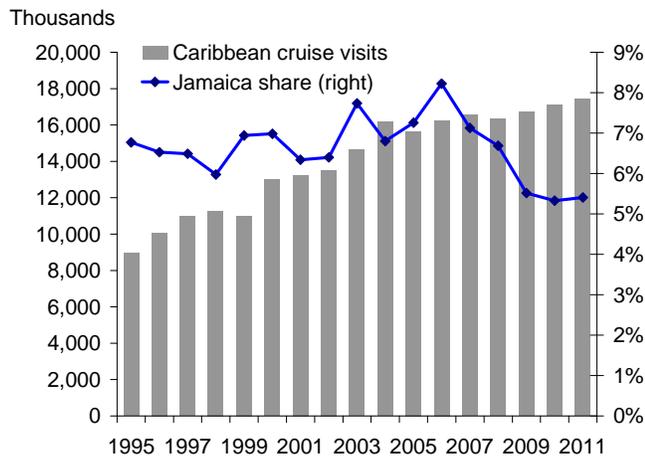
“We need the cruise ships to increase the time they dock at our ports and create carnival effects to encourage more to come on land”

Caribbean Visits by Type



There is also the issue of harassment when cruise passengers leave the ships to come onshore. Developments like the new 'Historical Port of Falmouth' have mitigated this problem in providing a contained area regulated by security officials, where visitors can shop in a hassle free environment. This should mitigate regional market share declines in Caribbean cruise visits experienced over the past five years.

Cruise Visits: Caribbean and Jamaica Share



Source: Tourism Economics

More generally, crime and related security concerns are perhaps the largest constraint to growth of the Jamaican tourism sector. Not only does crime (and associated perceptions in the marketplace) constrain the market, it also causes tourists to remain in resorts. This limits their spending as well as their experience of true Jamaican culture.

9 Summary and Recommendations

Tourism is the core driver of the Jamaican economy.

- Tourism's linkages to the rest of the economy are strong, extending its total economic impact to 19.5% of GDP.
- Tourism is Jamaica's # 1 industry in absolute size.
- Tourism is Jamaica's #1 export sector.
- Tourism has posted consistent growth, even when the rest of the region was in decline.
- Jamaica has a clear competitive advantage in tourism given its location, air service, natural beauty, cultural heritage, and strong international brand.

Tourism contributes substantial tax revenue and further taxes would jeopardize its competitiveness as an export industry.

- The hotel sector has a relatively high tax burden in comparison to regional comparisons.
- The incentives offered to the industry have been an essential part of maintaining growth while they remain generally less generous than those offered across the Caribbean.
- When factoring in linkages, the tax contribution of tourism is greater than any other industry and greater than its contribution to GDP.
- Tourism is an export industry and should be treated accordingly.

Marketing

- JTB funding is essential and should be maintained as an investment into Jamaica's economic core strength – tourism.
- Destination marketing has been shown to generate substantive return on investment.
- Jamaica possesses real brand opportunities but also faces perception barriers that marketing can address.

- A real opportunity exists for the tourism sector to create a robust platform for EP hotels to jointly market and promote their properties,
- Jamaica can more effectively market directly to cruise visitors to return for stopover visit. Envision this as an ongoing consumer trade show at cruise ports with incentives, giveaways, and a showcase of the best of what Jamaica has to offer. This should be financed by JTB/TEF and can be cooperatively funded by the private sector in a “pay to play” format.

Investment strategies and incentives must be targeted.

- Future development should focus on higher end product.
- An attempt to attract major U.S. brands should be made. It should be noted that despite incentives, higher-end flags have been reluctant to invest in Jamaica. This should be explored further with specific flags to learn what must be done to bring these operators—and their considerable customer networks—to Jamaica.
- Casino licenses can be used strategically toward these ends.

Appendix A: Technical Appendix on Input-Output Analysis

The 2000 Jamaica I-O table was used to generate industry multipliers by using the Leontief system (1986). Under the Leontief system industry multipliers are achieved through a series of manipulations of the I-O matrix. The first of these manipulations is the creation of the A matrix, where each value within the I-O matrix is divided by the total output figure at the base of its column (for example, any values in the agriculture column are expressed as a proportion of agricultural output, and so on for each different sector). The second manipulation is the creation of an identity matrix (I matrix), within which all values are zero except for when the consuming industry (columns) and the producing industry (rows) are the same; these cells are given a value of 1. The third stage of the manipulation is the subtraction of the A matrix from the I matrix. The final stage is the inversion of the matrix produced in the third stage. The result of these manipulations is a matrix in which the values represent the individual cross-multipliers for each industry, showing the impact on each producing industry (row) of an increase in US\$1 output in a consuming industry (column). The total multiplier for each consuming industry is the sum of the multipliers in the relevant column.

Calculating economic impacts

When assessing the impact of a particular activity on an economy it is important to consider that the impact of an activity, such as an increase in spending, extends beyond the industry in which it occurs. An increase in spending impacts on an economy in through three major channels:

- **Direct impacts** – additional employment and activity in the sector receiving the extra spending.
- **Indirect impacts** – additional employment and activity supported down the supply chain to any sector benefiting directly from an increase in spending, as a result of the sector's purchasing of goods and services from domestic suppliers.
- **Induced impacts** – additional employment and activity supported by those directly

or indirectly employed in the sector benefiting directly spending their incomes on goods and services in the wider economy. This helps to support jobs in the industries that supply these purchases, and includes jobs in retail outlets, companies producing consumer goods and in a range of service industries.

In the context of this model, the direct GVA impact of tourism in Jamaica equates to the value of tourism revenues in each industry, adjusted from sales to GVA. The allocation of spending to various industries (e.g. hotels, restaurants, transportation) was based on the most recent visitor surveys for Jamaica tourism. The direct employment impact an industry experiences equates to the direct GVA impact divided by the per worker productivity levels of the industry.

Direct impact in sector = tourism spending * GVA to Sales ratio by industry

The indirect impact of tourism measures the additional activity and employment generated through the supply chain, and is measured through the use of industry multipliers. To calculate the value of the total indirect GVA impact of tourism in the Jamaica economy, the model adjusts the direct impact of experienced by each industry using the industry's "Type I" economic multiplier, generating a value of the combined direct and indirect impact. The indirect impact is therefore the difference between this combined impact value and the direct impact. As tourism has a direct impact on a number of industries, the total indirect impact for each industry, must be the sum of the indirect impact calculations for each industry that benefit directly. The indirect employment impact is calculated by dividing the indirect benefit experienced by each industry by that industry's productivity level.

Indirect impact = (Direct impact in industry * Type I industry multiplier) – Direct impact in sector

The induced impact quantifies the income effect (Type II multiplier) as the incomes generated by tourism activity are spent within the Jamaican economy. Matrix multiplication yields individual Type II multipliers by sector.

$$\text{Induced impact} = (\text{Direct impact in industry} * \text{Type II industry multiplier}) - \text{Direct impact in sector} - \text{Indirect impact in sector}$$

The overall economic impact of tourism is the sum of the direct, indirect and induced GVA impacts. Similarly, the total employment impact of tourism is the sum of the direct, indirect and induced employment impacts.

$$\text{Total impact} = \text{Direct impact} + \text{Indirect impact} + \text{Induced impact}$$

Appendix B: Special Thanks

Oxford Economics thanks the following organizations for providing data, expertise, and perspectives which were invaluable in constructing this study.

Airports Authority of Jamaica	Institute of Jamaica
Altamont Court Hotel	Jamaica Constabulary Force- Saint Ann, Saint Mary and Portland Divisions
Absolute Entertainment (ATI)	Jamaica Association of Villas and Apartments
Association of Jamaica Attractions Ltd.	Jamaica Hotel & Tourist Association
ATL Group	Jamaica National Heritage Trust
Bacchanal Jamaica	Jamaica Tourist Board
Bank of Jamaica	JAMPRO
Blue Mountain Bicycle Tours, Ltd.	Jewels & Time
Caribbean Producers (Jamaica) Ltd.	JTL Jamaica Tours Ltd.
Caymanas Golf Club	Lifeline Medical Response
Charela Inn	Ministry of Finance
Chukka Caribbean Adventures	Ministry of Tourism
Club Ambiance	Montego Bay Chamber of Commerce and Industry
Club Kingston	Montego Bay Convention Centre
Coco La Palm	Mystic Mountain
Couples Resorts	Mystic Ridge Resort
Crystal Waters Villas	National Commercial Bank Jamaica Limited
Dolphin Cove	National Cruise Council of Jamaica
Falmouth Jamaica Land Co. Ltd.	Negril Entertainment Association
Galaxy Leisure & Tours	Norman Manley International Airport
Gran Bahia Principe	Pana Carib Business Solutions
Green Grotto Caves & Attractions	Planning Institute of Jamaica
Hermosa Cove	Reggae Marathon
Hotel Mockingbird	
Ian Fleming International Airport	

Rockhouse Hotel
Rondel Village
Round Hill Hotel and Villas
Sandals Resorts International
Scotiabank Group Jamaica
Seacrest Beach Resort
Smith & Stewart Distributors, Ltd.
Spanish Court Hotel
Saint Ann Chamber of Commerce
Statistical Institute of Jamaica
Sunflower Resort Villas/ Skycastles
Condominiums/Fisherman's Point
SuperClubs Breezes Resorts & Spas
Tensing Pen Hotel
The Courtleigh Hotel and Suites
The Knutsford Court Hotel
The Jamaica Pegasus
Tourism Enhancement Fund
Tourism Product Development Company Ltd.
Travellers Beach Resort
Tropical Tours
Tropicana Jewellers
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