

**SUSTAINABILITY IMPACT ASSESSMENT
(SIA) OF THE EU-ACP ECONOMIC
PARTNERSHIP AGREEMENTS**

**Caribbean Region:
Tourism**

3. Caribbean Region: Tourism Services

3.1 Introduction

This study assesses the potential economic, social and environmental impacts of an EPA on the tourism sector in the Caribbean. It begins by exploring the sustainability impacts of a ‘baseline scenario’, which reflects full implementation of regional integration and the current status of liberalisation between the EU and the Caribbean for tourism services. It then considers the sustainability impacts of an EPA scenario that contemplates full regional integration and comprehensive liberalisation of tourism services. Finally, it makes policy recommendations to promote potential positive impacts and mitigate any negative impacts.

Negotiations for an EPA between the countries of the CARIFORUM and the EU were launched on 16 April 2004. There have been no discussions as of yet on tourism services. In the first year, negotiations prioritise regional integration.⁹⁹

This study uses the definition of Tourism and Travel Related Services in the General Agreement on Trade in Services (GATS) as a starting point – category 9 of the Services Classification List.¹⁰⁰ It expands the definition of “core tourism services” under the GATS to include “tourism related services” and cruise ships.¹⁰¹ The study considers related services that provide crucial inputs into the tourism sector, such as construction services (hotels and resorts) and environmental services that can contribute to environmental protection and the development of sustainable tourism. The study also highlights links to related sectors, in particular, agriculture.

⁹⁹ Second Meeting of Principal Negotiators, Bridgetown, Barbados, 12 November 2004.

¹⁰⁰ It divides tourism in 4 sub-sectors: A. Hotels and restaurants (incl. catering) Management (641-643); B. Travel agencies and tour operators (7471); C. Tourist guides services (7472); D. Other. Source: WTO. 1991. Services Sectoral Classification List. MTN.GNS/W/120. 10 July. International tourism is defined by the World Tourism Organisation as occurring when a traveller crosses an international border. The GATS definition of tourism, reflected in W/120, omits service-related activities, such as computer reservation systems, transport, hotel construction, and car rentals, which are regarded by the World Tourism Organization as key tourism-related industries.

¹⁰¹ Cruise ships are currently classified under “maritime transport. See WTO 1999 (WT/GC/W/372, S/C/W/127. 14 October); WTO 2001 (S/CSS/W/107 26 September); WTO 2000 (S/CSS/W/5. 28 September).

3.2 Consultation

An extensive consultation process was undertaken for this study, consistent with the approach outlined for the SIA generally. This involved attending relevant meetings to make presentations and exchange information, meeting with experts in the government and civil society, and dialogue undertaken in an electronic discussion.

The SIA and this study were presented at a meeting to launch the Caribbean Non-State Actors (NSA) network on 13 November 2004 after the second CARIFORUM-EC Principal Negotiators' meeting. This meeting include members of civil society, as well as trade negotiators from both the EU and the Caribbean. In addition, consultation was undertaken in the form of face-to-face meetings with a range of stakeholders representing national and regional organisations, in Barbados. Further consultations were held with individuals in Europe.

An electronic discussion group was organized in March 2005, which included local experts on tourism and trade policy, representatives of non-state actors (NGOs, trade unions, the business community), regional tourism organizations and negotiators from the Caribbean region, as well as individuals and negotiators from Europe. Background documentation was presented in the form of briefs which summarized the major findings of this study.

A complete list of individuals consulted for this study (not including the e-discussion) is included in Annex 2 and Box 4 contains a summary of the major issues raised during the consultations.

Box 4. Summary of Consultations for the Caribbean

Regional integration. It is viewed as a positive opportunity for harmonizing rules and addressing the market fragmentation in the region. However, some indicate that no significant changes have yet been brought about by regional integration as the Caribbean market is already expanding to include free movement of labour is already observed. Nevertheless, the CSME will formalise procedures and rules related to the movement of persons which could lead to an increase in movement as people seek to find better paid jobs in other countries.

Intra-Caribbean tourism. Intra-Caribbean tourism is expanding, particularly for vacation and events. However, this does not necessarily include all ACP countries (such as Belize and Suriname) and the outermost French islands are generally viewed as a specific market. There are also air connection problems in the region. Operators may develop special packages and special rates for Caribbean people to encourage a higher occupancy rate, but there is not the volume of people in the Caribbean to make tourism viable based only on package vacations for Caribbean people, many of whom also travel for only 3-4 days.

Trade liberalisation. The opportunities for Caribbean operators to enter the EU market are considered marginal since Caribbean firms cannot compete with EU firms – more opportunities are considered to exist in the United States. The link between removing remaining limitations and an increase in EU investment is not clear. Although the Caribbean generally presents an attractive environment for FDI there are still limitations related to approvals, obligations to employ nationals and bureaucracy.

South-South trade. There are large opportunities perceived for Caribbean operators to export their services to other ACP countries in Africa and the Pacific where vulnerability issues are similar. There is some perception that the EPA negotiations favour bilateral trade relations between ACP regions and the EU, at the expense of intra-ACP trade relations. Some perceived need for further analysis of the shared challenges faced by all ACP countries.

Economic issues. There is no fear of competition between EU and Caribbean travel agencies given specialised knowledge of the local market of Caribbean agents. However there is some fear of unfair competition between local and EU hotel operators. Nevertheless, some positive impacts of international hotel chains are perceived in that they provide free promotion of Caribbean tourism through their marketing efforts. A key challenge is to increase competitiveness of the Caribbean industry. Specific challenges are related to problems of rating Caribbean hotels (consistency with EU standards), high costs of production, lack of professional skills, high levels of taxes and lack of diversification of tourism products. Land-based and cruise tourism are complementary and should not be in competition.

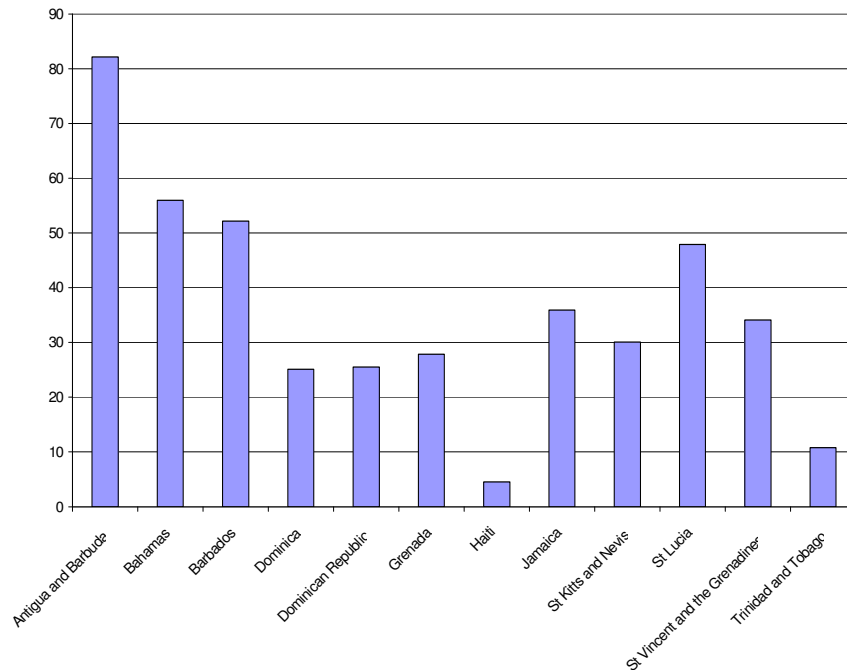
Social issues. The majority of jobs are low-level with low wages but higher than wages in other sectors such as agriculture. Among Caribbean countries the perception of tourism varies – in mature destinations it tends to be negative. There is some fear that liberalization will increase immigration and contribute to unemployment. There are some conflicts between firms engaged in FDI and trade unions. The CTO is working to develop skills and human resources (training for hotel managers and staff, sensitization of youth). Opportunities exist for the transfer of skills within the CSME, delivering services (such as entertainment, architecture or engineering). Tourism is seen by some as eroding culture and contributing to the sex industry.

Environmental issues. Fresh water supply is a problem and there is a need to explore the use of modern technologies to alleviate this. Environmental services are not well developed in terms of recycling, for example. For small islands such as Barbados, there is a need to explore alternatives to landfills as means of disposing of solid waste. Energy consumption is also perceived to be a critical issue and there is a need to explore alternative sources of energy, such as solar. There is some perceived need to for technical assistance, transfer of technology and training for environmental services. Incentives could encourage the import and use of green technologies and their development by local researchers and universities. Domestic legislation should support their delivery across a wide range of environmental issues. There are some problems related to a lack of standards for tourism services (jet-ski or diving operators), apart from hotels and restaurants. EU standards are considered very high and not adapted to the Caribbean and there is a need for training programs to show how EU standards can be applied or for reviewing standards.

3.3 Country groupings

In the Caribbean region, it is the islands that receive the majority of tourist arrivals (Figures 3 and 4). However, there are differences among the islands based on their size and their vulnerability which could have important implications for the way in which any liberalization in tourism affect them. There are also distinctions between islands with mature, long-standing tourism industries where tourism make a strong contribution to the GDP, and emerging destinations where tourism development may be very active but contribution to the GDP remain still relatively weak as the economy is more diversified.

Figure 3. Travel and Tourism Economy as % of GDP in 2004 (WTC est.)



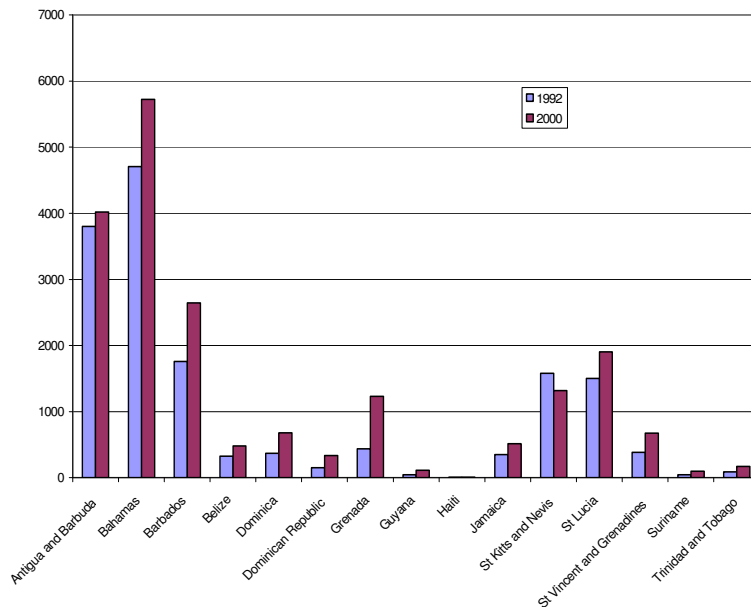


Figure 4. Visitor Expenditure per capita (\$US) (1992 and 2000)

Taking into account the high diversity among countries with respect to the degree and nature of tourism development, which are often linked to geographical and economic characteristics, the following country groupings are proposed:

Large islands and mature tourism destination: Barbados, Jamaica;

Large islands and emerging destinations: Dominican Republic and Trinidad & Tobago where, although tourism is expanding rapidly in the former country, contribution of industry to the GDP still remain important (over one third in both countries);

Small islands and mature destinations: Antigua & Barbuda, Bahamas, St Kitts & Nevis;

Small islands and emerging destinations: the Windward Islands where tourism is developing at the same time as agriculture (primarily banana production) is declining: Dominica, Grenada, St Lucia, St Vincent & the Grenadines;

Mainland countries: Belize, Guyana, Suriname where tourism is primarily nature based (such as diving or adventure tourism);

Haiti: the only least developing country in the region and where tourism industry is marginal.

3.4 Relevant Trade Measures

3.4.1 Modes of Services Liberalisation

The four modes of supply of trade in services under GATS are all relevant for tourism. (Table 22)

Table 22. Relevance of GATS modes to tourism services

Mode of Supply under GATS	Relevance for Tourism Services
Mode 1, Cross-border supply.	Important with respect to Internet bookings (via a GDS or through a tour operator) or travel arrangements with agencies abroad.
Mode 2, Consumption abroad.	Relevant when a tourist moves outside his or her home territory and consumes services in another country (accommodation, catering, or cultural or sporting events).
Mode 3, Commercial presence.	Relevant to the extent that a service provider establishes a commercial presence (such as a hotel, resort, travel agency or restaurant) abroad.
Mode 4, Presence of natural persons.	Relevant to the extent that it includes travel/tour managers or guides from abroad.

Most Caribbean tourism services suppliers export their services through a combination of Modes 1 (e.g., through Internet reservation systems) and 4, (e.g., visiting foreign markets to attend international trade fairs). Because most Caribbean tourism services suppliers “export” their services only when foreign tourists enter Caribbean markets, they also rely heavily on Mode 2. Only a handful of companies sell their services by establishing a “commercial presence” in overseas markets through Mode 3.

The GATS commitments are used as the baseline for the bilateral trade regime between the CARIFORUM and the EU. Within this framework, barriers affecting the trade in tourism services include the following:

- **Market access** limitations across all modes of supply including horizontal commitments (for all services).¹⁰²
- **National treatment** limitations across all modes of supply and horizontal commitments.¹⁰³
- **Domestic regulations** concerning in particular the right of establishment (related to mode 3) have to be considered even if they do not represent barriers to trade. This can refer to regulations for environmental protection for example.¹⁰⁴

¹⁰² Six types of limitations on market access must be scheduled under the GATS if they are to be maintained (Art. XVI GATS). See the list of limitations in Annex.

¹⁰³ There is no closed list of measures subject to scheduling. However, any measure which affects competition to the detriment of foreign services suppliers must be scheduled (Art. XVII GATS). See in Annex examples of typical national treatment limitations.

¹⁰⁴ Domestic regulations are not subject to scheduling. These are important, such as the governmental control of the entry of new foreign companies into the Caribbean market through the issuance of licences or permits (Dunlop 2003).

3.4.2 Foreign Direct Investment

The tourism sector currently captures a significant part of local and foreign investment. Tourism is one of the traditional sectors besides mining, energy, agriculture and forestry where FDI inflows to the CARICOM countries are concentrated. Moreover, the trend of FDI inflows to the CARICOM in services sectors is increasing, reflecting the international trend. On average in the Caribbean an estimated 36% of the total capital investment was directed toward travel and tourism in 2004.¹⁰⁵ As a percentage of total capital investment, tourism is most important for Antigua & Barbuda (73.6%) and Barbados (65.1%) although Bahamas and the Dominican Republic attract the highest volume of investment.

Sixty-three percent of the largest hotels (over 100 rooms) are foreign-owned (although the majority of tourism service suppliers are small and medium-sized enterprises (SMEs)).¹⁰⁶ Much of the smaller hotel infrastructure is privately owned and the involvement of the larger international hotel chains is limited. High levels of investment in the Dominican Republic are linked to investment in “all-inclusive” resorts.¹⁰⁷

3.5 Sustainability Variables

The following variables have been identified as most important for economic, social and environmental sustainability for this sector study.

3.5.1 Economic Sustainability

The tourism sector is the most important service sector in the Caribbean.¹⁰⁸ Indeed, with an average contribution to GDP of 36% the Caribbean is the most tourism dependent region in the world.¹⁰⁹ Currently, tourism accounts for most hard currency earnings.¹¹⁰ Impacts on GDP of the development of tourism services depend largely on tourist arrivals (numbers of tourists) tourist expenditures and tourism products. Investment is also relevant for tourism since it is a capital intensive activity, and

However, it is important to ensure that they are administered in a transparent manner and “do not constitute unnecessary barriers to trade in services”. (WTO).

¹⁰⁵ WTTC, 2004.

¹⁰⁶ Fuller, 1999.

¹⁰⁷ Much of this investment in the Caribbean region has come from Spain in recent years.

¹⁰⁸ However, the contribution of tourism sector to GDP has declined over the past recent years, probably due to the increase of other services sectors.

¹⁰⁹ Considering the *travel and tourism economy* from the WTTC (2004) which is based on a Tourism Satellite Accounts approach and is larger than the *travel and tourism industry*. Belize, Guyana and Suriname are excluded from WTTC data 2004.

considering balance of payments is important to reflect the role of tourism sector in the macroeconomic account. Finally, because tourism is the most integrated sector for Caribbean economies in that it relies heavily on other sectors for key inputs, it is important this study considers inter-sectoral impacts. Key variables include:

- *Impact on GDP*
- *Government revenue*
- *Investment*
- *Balance of payments*
- *Inter-sectoral impacts*

3.5.2 Social Sustainability

Employment in the travel and tourism sector, both direct and indirect, is important for the Caribbean economies and people.¹¹¹ Currently, tourism accounts for one in four jobs in the Caribbean.¹¹² But increased employment opportunities in tourism don't necessarily mean reduction of social inequalities due to underemployment, seasonal work, etc. Despite a decrease in poverty in some Caribbean countries (Dominican Republic, Trinidad & Tobago) during the 1990s, individual poverty linked to high income inequality, unemployment and under-employment remains a problem in the region with around 30% of the population living under the poverty line.¹¹³ Also relevant is the role of women who make up the majority of workers in the tourism industry.¹¹⁴ Key variables from a social perspective are:

- *Employment, wages and poverty*
- *Education and professional training*
- *Gender equity*

¹¹⁰ CTO, 2004.

¹¹¹ WTTC 2004. The CTO highlights the extreme difficulty of having available data for this issue, due to the absence of a clear and consistent definition of what constitutes the tourism sector.

¹¹² CTO, 2004.

¹¹³ PWC/Solagral. 2004. *SIA of the EU-ACP Economic Partnership Agreements. Regional SIA: Caribbean ACP Countries* (30 January, SIA Phase I).

¹¹⁴ There are a number of other social variables that are also important for tourism but this paper has to select a limited number on which to focus. However, HIV/AIDS, crime and culture are also noteworthy and are omitted from this analysis because of time, length and resource limitations and the need to balance social variables with economic and environmental variables.

3.5.3 Environmental Sustainability

Whether tourism is land-based or in the cruise sector, the Caribbean relies on its natural environment to attract visitors. These tourists and the supporting infrastructure that they require can increase pollution (solid waste and waste water), put pressure on freshwater resources, and impact natural resources such as land, wetlands and coastal and marine areas.¹¹⁵ However, tourism can also raise awareness of the value of environmental assets, contribute to the creation of protected areas through financial contributions and contribute to improved environmental infrastructure.¹¹⁶ Key variables to include are:

- *Land use, watersheds and coastal ecosystems*
- *Use of natural resources*
- *Pollution, wastewater and solid waste*

3.6 Methodological Issues for the Impact Analysis

The **baseline scenario** for this sector study contemplates regional integration under the CARICOM Single Market and Economy (CSME) and a continuation of the existing trade regime between CARIFORUM countries and the EU. The baseline scenario has been assessed using desk research, interviews, discussions from the consultations in Phase I, and existing forecasts undertaken by the CTO and the WTTC which project development in this sector for the Caribbean region.

The **EPA scenario** involves comprehensive liberalisation of trade in tourism services between the CARIFORUM and the EU, which implies a broad liberalisation among CARIFORUM Member States going further than the CSME.¹¹⁷ This scenario considers full liberalisation for all tourism sub-sectors under modes 1, 2 and 3 and as complete liberalisation as possible for specific categories of persons under mode 4.

To assess the economic impacts of the EPA scenario and impacts on employment this study uses a **computable general equilibrium (CGE)** approach. The model used is a relatively standard *small open economy model* CGE model, applied to Jamaica and Trinidad and Tobago. Annex 1 contains a detailed explanation of the model, including the underlying assumptions, the criteria for selecting the countries, the terms of reference, and the simulations performed.¹¹⁸

In order to model impacts of tourism liberalisation, it is necessary to make assumptions with respect to the kinds of impacts that might result from making commitments in the various modes of services delivery. This exercise is further qualified by the fact that it is very difficult to isolate tourism flows specifically from the

¹¹⁵ Synthesis of national reports, “Integrating management of watersheds and coastal areas in small islands developing states of the Caribbean”, prepared for the Caribbean Environmental Health Institute and United Nations Environment Programme, 2001.

¹¹⁶ WWF, 2001.

¹¹⁷ Considering that the Dominican Republic is part of the CARIFORUM.

¹¹⁸ Savard, Luc. 2005. Impact Analysis on Tourism Sector: The Jamaican and Trinidad and Tobago Case Studies. A Computable General Equilibrium Analysis. University of Sherbrooke, Canada. March. Available at www.sia-acp.org.

EU, with those from other countries and regions and the model does not do this. However, the results provide an indication of economic and employment impacts from assumed impacts (within certain boundaries) to illustrate trends that might be expected (i.e., links between demand and production, and production and employment etc.).

In support for the study as a whole, a **case study** on the environmental impacts of tourism development in the Caribbean (both positive and negative) was used.¹¹⁹ The case study provides concrete examples of *where* tourism development has been sustainable and unsustainable and *why* (critical/crucial factors/variables, or “main drivers”) in environmental terms. It focuses on two countries, Barbados (which is among the largest and most diversified, economies in the region) and St. Lucia, a smaller country, less diversified where impacts might be somewhat different. Both St. Lucia and Barbados are heavily dependent on tourism. Barbados is relatively mature tourism destination with related development activity occurring since the 1960s. St. Lucia on the other hand is a comparatively immature destination with government policy thrusts only making significant shifts in the mid-1980s. The case study provides useful examples that can be used to support a qualitative analysis of environmental impacts.

3.7 Baseline Scenario

The baseline scenario contemplates the full implementation of the CARICOM Single Market and Economy (CSME) and the continuation of the existing trade regime between CARIFORUM countries and the EU.

GATS Commitments

With respect to GATS commitments, Caribbean tourism is one of the most liberalised services sectors. Almost all Caribbean ACP countries have made GATS commitments in this sector.¹²⁰ However, commitments among CARIFORUM countries differ from one tourism sub-sector to another and from one mode of supply to another. Table 23 illustrates that almost all CARIFORUM countries have made commitments for *hotels and restaurants* but fewer have done so for *travel agencies and tour operator services* and only the Dominican Republic has made commitments in the four tourism sub-sectors.

¹¹⁹ Undertaken by the Caribbean Policy Development Centre located in Bridgetown, Barbados. It is available in full at: www.sia-acp.org.

¹²⁰ The majority of commitments are “standstill bindings” whereby a WTO Member maintains the current level of access. Standstill bindings provide investors with the assurance that the conditions on which their decisions are based will not be overturned by sudden policy changes. When there is no commitment, there is no indication on the degree of the liberalisation. De facto trade is often more liberal than reflected in the GATS commitments. However, there is no guarantee that it will remain open. Therefore, schedules must be used with caution (WTO). And there is limited information on restrictions in effect in Caribbean countries affecting trade in services (Dunlop 2003).

Table 23. Specific GATS Commitments (for Tourism and Travel Related Services) in the Caribbean

COUNTRY	A. Hotels and Restaurants	B. Travel Agencies and Tour Operator Services	C. Tourist Guide Services	D. Other	TOTAL
Antigua & Barbuda	X				1
Bahamas (not WTO Member)					
Barbados					
Belize					
Dominica	X				1
Dominican Republic	X	X	X	X	4
Grenada	X				1
Guyana					
Haiti	X				1
Jamaica	X	X			2
St. Kitts & Nevis	X				1
St. Lucia	X				1
St. Vincent & Grenadines	X				1
Suriname	X	X			2
Trinidad & Tobago	X	X			2
TOTAL	11	4	1	1	17

Trade barriers exist mainly under mode 3 (commercial presence) and mode 4 (temporary movement of persons) which are of particular importance for host countries. Under mode 3, EU investors in *hotel and restaurant management* are limited in most Caribbean countries by measures such as the *Hotel Proprietor Act*, withholding tax, and/or registration licensing for investments in hotels and resorts in excess of a certain number of rooms. Only the Dominican Republic, Jamaica and Suriname offer a fully liberalised trade regime for *hotel and restaurant management*, and Trinidad & Tobago is liberalised with respect to *hotel management*. For travel agencies and tour operator services, registration licensing is required in the few countries that have made commitments (except Suriname and Jamaica where full liberalisation exists).¹²¹ For constructing hotels and resorts (included in the GATS under Construction services) EU investors are subject to limitations similar to those above, as well as alien landholding regulations.

Under mode 4, most of the limitations are *unbound*, leaving countries free to introduce or maintain restrictions and/or refer to horizontal commitments such as, *inter*

¹²¹ In Belize for example, special permission is required to invest in certain service activities such as cruise ships and sight seeing tours and some sectors are closed to foreigners. In the Bahamas, certain businesses are reserved for Bahamians including restaurants, construction, most retail outlets and small hotels (Reports of the Department of Commerce of the US Government, in Abugattas Majluf, CRNM).

alia, work permits (for a specific period, position, or skill level when qualified nationals are unavailable).¹²²

In the EU-25, the tourism sector is, in general, more liberalised than in Caribbean countries, with a few countries having no commitments (Table 23). However, restrictions and therefore opportunities for further liberalisation exist, primarily under modes 3 and 4 as well as horizontal commitments under mode 4. **Under mode 3**, remaining restrictions are under *Hotels and Restaurants* as well as for *Travel Agencies and Tour Operator services* and include, *inter alia*: nationality requirement, limitation on market access regarding issues as environmental protected zones, authorisation that can be denied in order to protect areas of particular historic and artistic interest and economic needs test. **Under mode 4**, restrictions existing in the three tourism sub-sectors are condition of nationality,¹²³ numerical contingent,¹²⁴ market test (in Poland). Other remaining restrictions are inscribed in the horizontal section which defines categories of natural persons benefiting from a free temporary movement (without economic needs test).¹²⁵ These restrictions are residence permit and specific authorisation requirements.

Table 24. Specific GATS Commitments (for Tourism and Travel Related Services) in the EU-25

COUNTRY	A. Hotels and Restaurants	B. Travel Agencies and Tour Operator Services	C. Tourist Guide Services	D. Other	TOTAL
Austria	X	X	X		3
Belgium	X	X	X		3
Cyprus					
Czech Republic	X	X	X		3
Denmark	X	X	X		3
Estonia	X	X	X		3
Finland	X	X	X		3
France	X	X	X		3
Germany	X	X	X		3
Greece	X	X	X		3
Hungary	X	X			2
Ireland	X	X	X		3
Italy	X	X	X		3

¹²² An annex to the GATS makes it clear, however, that the agreement has nothing to do with individuals looking for employment in another country, or citizenship, residence or employment requirements. Even if members undertake Mode 4 commitments to allow natural persons to provide services in their territories, they may still regulate the entry and stay of the persons concerned, for instance by requiring visas, as long as they do not prevent the commitments from being fulfilled (WTO).

¹²³ This is the case in particular for tourist guides services in five European Member States.

¹²⁴ Two persons per travel agency in Greece.

¹²⁵ Three categories are defined: :i) intra-corporate transferees; ii) natural persons who (a) are representatives of a service supplier to negotiate the sale of services, (b) are working in a senior position and are responsible for the setting up of a commercial presence; iii) natural persons not having a commercial presence, under a service contract for not more than 3 months (or the duration of the contract if less) in any 12 months period with necessary academic qualifications and professional experience.

COUNTRY	A. Hotels and Restaurants	B. Travel Agencies and Tour Operator Services	C. Tourist Guide Services	D. Other	TOTAL
Latvia					
Lithuania	X	X			2
Luxembourg	X	X	X		3
Malta	X	X			2
Netherlands	X	X	X		3
Poland	X	X			2
Portugal	X	X	X		3
Slovakia	X	X	X		3
Slovenia	X	X			2
Spain	X	X	X		3
Sweden	X	X	X		3
United Kingdom	X	X	X		3
TOTAL	23	23	18		64

Non-GATS related Barriers

In the Caribbean there are some restrictions to the entry of foreign companies that are not included in the GATS schedules of CARIFORUM members.¹²⁶ There are also other obstacles that may constitute barriers to EU investments even though most Caribbean countries have in place a relatively attractive framework for investors, with a declared policy of encouraging FDI.¹²⁷ For example:

- Every CARIFORUM country reserves some services for local service suppliers.¹²⁸
- The sector is heavily regulated through the issuance of licences or permits or other forms of control, such as an economic needs test.¹²⁹
- Difficulties associated with incentives regimes (taxation) are viewed as a major drawback and/or limiting factor to investment in the sector.
- Lengthy procedure for the delivery of authorisations and licences and bureaucratic “red tape” associated with new travel and tourism projects.¹³⁰
- High costs associated with investing in the CARICOM countries. These include labour costs, high costs of local and imported inputs, costs of capital, high

¹²⁶ These are for instance included in national legislation for tourism development or are unwritten policies. Dunlop, 2003.

¹²⁷ Pro€Invest 2004.

¹²⁸ These services tend to be those within the investment capacity of CARIFORUM suppliers including services to provide water-sports, diving, tour guides, ground transport, entertainment, travel agents, restaurants, or hotel development for hotels of 75 rooms or less. Dunlop, 2003.

¹²⁹ For example, in Trinidad & Tobago any investment over one acre requires a licence. Dunlop, 2003.

¹³⁰ WTTC 2004.

import duties on both construction and consumer goods, costs of distribution and marketing, and broad-based levels of taxation.

- Increasing problem associated with securing hurricane insurance.¹³¹

In the EU, commercial barriers that affect Caribbean exporters of tourism services include, *inter alia*:

- The high cost of marketing and advertising, beyond the means of all but the largest CARIFORUM hotel groups.
- Difficulty securing access to distribution channels that place tourism products on the EU market.¹³²
- High cost and time associated with obtaining visas for temporary entry into the EU “frontier formalities” (including travel taxes and duty free limits) imposed on outgoing residents.¹³³
- Lack of harmonisation in diploma recognition, which may restrain the temporary movement of skilled persons.
- The high cost of compliance with tour operator health and safety standards for EU consumers that Caribbean hoteliers have to apply (derived from national regulations implementing the *EU Package Travel Directive*) if they want to be in tour operator catalogues and/or be competitive.¹³⁴

3.7.1 Regional Integration

The regional trade regime under the CARICOM Single Market and Economy (CSME) constitutes the cornerstone of Caribbean integration.¹³⁵ December 2005 was the deadline for the Member States to begin full participation in the CARICOM Single

¹³¹ WTTC 2004.

¹³² Dunlop, 2003.

¹³³ Dunlop, 2003.

¹³⁴ Some standards are even considered inappropriate for the Caribbean climate, and the location, design and architecture of Caribbean hotels. Dunlop, 2003.

¹³⁵ The case of Bahamas will have to be addressed since it is a full member of CARICOM but not of the CSME. (Carryl, 2004); the existing CARICOM-Dominican Republic Free Trade Agreement (FTA) which is supposed to cover trade in services has yet negotiated this component (both rules and market access); the Free Trade Area of the Americas (FTAA), which is currently being negotiated aims to have one set of rules for the entire Western Hemisphere and to progressively eliminate tariffs and institute common trade and investment. Tourism is not significantly covered by the FTAA (Dunlop, 2003).

Market (CSM), the parallel element of the CSME.¹³⁶ A programme for the removal of restrictions regarding provision of services (approved in February 2002 by Member States and in effect on 1 March 2002) is expected to be phased in by 31 December 2005. Achieving the Single Economy is an ongoing effort.

3.7.1.1 Impact on regional integration

Full implementation of the CSME considered in the baseline scenario contemplates the creation of the CSME among the 15 CARICOM, including the free movement of capital, services and people. (Box 5) With respect to tourism in particular, the relevant components of the CSME include: the free movement of tourism professionals (“skilled” persons); intra-regional tourism; intra-regional investment in the tourism sector; and, the development of a regional definition of tourism and of a regional policy towards cruise tourism.

Box 5. Free movement of services, people and capital under the CSME

Under the CSME, Member States are required to ensure (obligations):

- The free movement of services: removal of any impediment, which could restrict one’s right to provide services. Nationals from other Member States will have access to land, buildings and other property on a non-discriminatory basis, without the restrictions that currently exist such as Alien’s Landholding Licences.
- The free movement of natural persons: there are two regimes i) the facilitation of travel, with common travel documents (community passport), common landing documents and national treatment at ports of entry. ii) the movement of skills which concern the non-wage earners as self employed persons, and the wage earners (University Graduates, Media Workers, Sports Persons, Musicians, Artists, Managerial, Technical and Supervisory Staff of establishing entities). For these latter persons, the removal of work permits will be extended beyond University Graduates. Mechanisms will be established for recognising degrees, diplomas and certificates from certain institutions.
- The free movement of capital: removal of existing restrictions in the free movement of capital and no new restriction introduced. The right of establishment will be permitted in all areas: freedom to create a company or other legal entity and establish and operate in any part of the CSME. There will be the equal right to move capital from one Member State to another, to invest in any Member State, to buy shares in any company in any Member State without having to obtain permission to do so. The easy convertibility of region’s currencies and the co-ordination of exchange and interest rate policies are also envisaged.
- The implementation of a favourable business environment aimed at attracting investors both regionally and internationally. There will be investment facilitation through the removal of bureaucratic barriers (red tape) and non-discrimination in the granting of incentives among Community nationals. There will be also harmonisation of national incentives to investment in the services sector.

¹³⁶ CARICOM Secretariat. “CSME Seminar emphasises the need to capitalise on opportunities”. Press release, 1 March 2005.

Full implementation of the CSME means that any provider of tourism services from one member of CARICOM will have the right to deliver services in any other member, enjoying the same treatment as nationals.¹³⁷ Finally, a self-employed person will be able to travel throughout the CSME to seek work and compete for employment without the need for a work permit.

3.7.1.2 Impact on South-South trade

In 2002 intra-regional tourism generated an estimated 1.3 million tourists.¹³⁸ Further regional integration should increase flows of intra-Caribbean trade. In terms of tourist arrivals, the internal Caribbean market is the third largest market for the Caribbean (after the United States and Europe) and currently represents almost 7% of total stay-over arrivals in the Caribbean and up to 60% in Dominica.¹³⁹ The WTTC indicates that the major obstacles to intra-Caribbean travel are inadequate air transport among the islands, lack of attention to marketing and promotion, and relatively low levels of public and private investment. The implementation of common travel documents aiming at facilitating travel in the CSME is likely to encourage intra-regional tourism.

3.7.2 Trade Flows

3.7.2.1 Trade with the EU

Impact on relations with the outermost regions¹⁴⁰

In the EU, outermost regions are particularly important since they face similar constraints and economic structures as the majority of Caribbean ACP countries: remoteness, insularity, small size, difficult topography and

¹³⁷ Bureaucratic barriers should be removed for individuals seeking to invest in hotels. These include the time it may take to obtain all approvals and licenses to invest, develop and operate a hotel in the country. It may take years and not weeks as it should be in a developed economy (Prime Minister of Barbados, in Budget 2003 Economic Analysis). Someone from Barbados wanting to buy land in St. Lucia to build a hotel should no longer have to apply for an Aliens Landholding Licence with full implementation of the CSME.

¹³⁸ CTO, 2004.

¹³⁹ The CTO (2004) points out that there are certain difficulties in accurately measuring the level of intra-Caribbean tourist travel (whether for business or pleasure). In some cases, tourist arrivals from Caribbean countries are not separately identified (i.e. included under "Other Countries" or "Rest of the World"), while in other cases only a subset of the intra-regional tourist traffic (for example, CARICOM countries) are separately identified. Some countries do not count visits by nationals normally resident elsewhere in the region (frequency of movement between close neighbouring countries).

¹⁴⁰ Three of the seven regions in the European Union classified as 'outermost' are located in the Caribbean region. These are the French overseas departments: Guadeloupe, French Guyana and Martinique.

climate, as well as heavy reliance on tourism and low level of economic diversification. Institutional relations to encourage co-operation between both sides already exist, notably through the Caribbean States Association, where France has status of associated Member. Caribbean ACP countries and outermost regions are also already complementary in some parts of tourism, with lots of cruises proposing a combination of outermost regions and ACP countries in their catalogues.

Without an EPA, institutional co-operation will continue and may result in further trade flows in tourism services. However, trade flows from the outermost regions to the ACP Caribbean countries are currently very small. The impacts of institutional co-operation may also be limited if it is not associated with change and new impetus in the bilateral trade regime to encourage trade flows between CARIFORUM and the EU.

Impact on trade flows

The *status quo* regarding the bilateral trade regime may affect the development of EU investment in the Caribbean and impact the growth of tourist arrivals from Europe.

Tourism arrivals in the region have increased at an average rate of 5.3% since 1970, marginally above the global average over the same period.¹⁴¹ Currently, despite the fact that, in 2002, 52% of the visitors to the Caribbean region as a whole were from North America and just 24% from Europe, Europe has been the fastest growing market since the mid-1990s and is now the most significant market for many Caribbean destinations.¹⁴²

EU visitors prefer Caribbean destinations with which they share historical links and a common language.¹⁴³ In particular, the Dominican Republic has increased its EU market share, benefiting from the entry into the long-haul mass tourism market of major EU charter tour operators.¹⁴⁴ The EU is now the largest market for the Dominican

¹⁴¹ CTO 2004. Dominican Republic is leading tourism in the region with the highest number of arrivals whereas tourism arrivals have been marginal in Suriname and Haiti.

¹⁴² CTO 2004, WTTC 2004.

¹⁴³ The largest European country to contribute tourists to the Caribbean region (comprising the 32 Caribbean countries members of the CTO, and including the DOMs) in 2002 was France with a market share of 32.5 percent, followed by the United Kingdom numbered 24.6 percent of the European market, together accounting for more than half of all Europeans visiting the region (CTO 2004).

¹⁴⁴ CTO, 2001.

Republic.¹⁴⁵ The potential to increase the Caribbean's share of the European long-haul market is vast, particularly from non-traditional markets like Germany and Italy. Rapid growth in charter programs has made European travel to the Caribbean more affordable, enabling potential visitors to switch from Mediterranean destinations at a relatively modest additional cost.

Notwithstanding an EPA, forecasts suggest that the tourism sector in the Caribbean will continue to grow and that the numbers of EU tourists will increase in the next decade. The WTTC estimates an average annual growth rate in the travel and tourism sector of 4% over the next decade in the Caribbean and it is likely that the trend of growing numbers of EU arrivals will continue.

Cruise tourism, which has generally grown faster than land-based tourism over the past decade, is expected to continue to grow as the Caribbean is the most popular destination in the world for cruises. Since 1980 cruise arrivals have grown by an average rate of 7.1% per year.¹⁴⁶ Most increases will therefore be in the cruise industry and the charter industry.

There is also a continuing trend in favour of EU investment in the region (mode 3). The major geographical sources of FDI inflows to the CARICOM countries are the United Kingdom, the United States, Canada, and the Netherlands. Spain, France, Germany are also important investor countries into Latin America and the Caribbean. More generally EU countries have significantly increased their presence in this region since the mid-1990s. Annual FDI inflows into Latin America and the Caribbean tripled in the second half of the 1990s and fell by 22% in 2000. UNCTAD forecasts that in 2004-2005 service sectors such as tourism will see an increase in FDI flows.

3.7.3 Sustainability Impacts

3.7.3.1. Economic Impacts

Contribution to GDP

The expected continuing increase in tourist arrivals in the Caribbean from the EU, is likely to involve an increase in the contribution to GDP through visitor expenditure and depending on the tourism product.

¹⁴⁵ CTO 2004.

¹⁴⁶ CTO 2004.

In 2000, visitor expenditures accounted for around one quarter of GDP in CARIFORUM.¹⁴⁷ Therefore, the expected continuing increase in numbers of tourists from the EU could be positive in terms of visitor expenditure since Europeans tend to stay longest on average, travel in larger groups and spend more, than North American tourists.

With respect to tourism products, land-based tourism has more significant spin-off effects on the local economies and makes a larger economic contribution (direct and indirect employment and tax revenues) than do cruise ships. Traditional, small-scale accommodations tend to generate more income for local populations. Given the relatively low contribution of cruise tourism to GDP, unless policies are put in place to capture the benefits of cruise tourism, economic gains could be relatively small, despite the huge increase in numbers.

However, cruise tourism is not expected to dominate the tourism market in the short term as it remains a relatively niche market for wealthier tourists. Even with the leakages associated with cruise tourism, the overall tourism contribution to GDP is likely to increase in the coming years. The WTTC forecasts the contribution of the travel and tourism economy to grow by 16% between 1999 and 2014 to a total of 42% of GDP in the Caribbean region. Jamaica and Barbados are expected to grow the most with increases of GDP of 10% and 15%, respectively, between 1999 and 2014. However, it forecasts that St. Lucia and Trinidad & Tobago will experience reductions in the contribution of the travel and tourism industry to GDP in the same period.

Government revenue

The potential increase in tourism contribution to GDP is likely to lead to an increase in government revenues. However, this increase may be limited depending on the leakages associated to the different tourism products. At present land-based tourism makes a greater contribution to government revenues than does cruise tourism. Land-based tourists typically pay significant departure taxes and hotels are required to pay environmental levies. Cruise passengers pay token port charges, if anything, and the cruise industry does not pay an environmental levy.¹⁴⁸ Therefore, any increase in cruise tourism as it is expected is unlikely to make a large impact on government revenues, while increases in all inclusive resorts, will tend to make a positive impact. In 2002 hotel occupancy taxes accounted for an average of 2% of total government revenues in

¹⁴⁷ CTO 2004.

¹⁴⁸ The growth of the cruise industry is due largely to its tax-free status. WTTC 2004.

the Caribbean ACP countries. This figure was highest in Antigua & Barbuda (7.7%) and St. Lucia (4.8%).¹⁴⁹

Investment

The tourism sector currently receives a significant proportion of both local and foreign investment. Under the baseline scenario, and taking into account the current GATS regime between the CARIFORUM countries and the EU as well as the existing non-GATS related barriers, it is likely that EU investments in the Caribbean tourism sector will not experience significant changes. The WTTC forecasts indicate that the share of capital investment dedicated to travel and tourism out of total capital investment will experience a modest increase between 1999 and 2014 for the CARIFORUM countries, rising from 35.2% to an average of 37%. It indicates that there is a danger that CARICOM countries may not be able to meet their growth targets because of lack of investment, not due to a lack of investors, but due to a lack of projects yielding returns of over 15%.

The most important increases are expected in the largest economies such as Trinidad & Tobago, Bahamas, and Jamaica. St. Lucia is an exception being a small island that is expected to benefit from increasingly high levels of investment. The ranking of countries where over 30% of total capital investment is already dedicated to travel and tourism will remain largely unchanged. This includes Antigua & Barbuda, Bahamas, Barbados, St Lucia, Jamaica, and St. Vincent & the Grenadines.¹⁵⁰ The increase in Spanish investment contributing to the development of all-inclusive holiday packages in the Caribbean in general and in particular in the Dominican Republic may continue.¹⁵¹

In general, however, under the baseline scenario, it is likely that investment will increase but only modestly because of high costs and continued challenges in the operating environment.

Current account balance

The expected increase in Caribbean exports of tourism services through further tourist arrivals (mode 2) is likely to result in an improvement in the balance of payments. In 2004, *travel and tourism* represented, on average, 42% of total exports.¹⁵² Antigua & Barbuda and St. Lucia rely the most on travel and tourism in this respect. In Antigua & Barbuda it accounts for 72.3% of total exports and in St. Lucia, for 66.1% of

¹⁴⁹ CTO, 2004 .

¹⁵⁰ WTTC 2004.

¹⁵¹ It is compared to destinations such as Mallorca. Pro€Invest 2004.

¹⁵² WTTC, 2004.

total exports.¹⁵³ According to the CTO, the ratio visitor expenditure to merchandise exports fluctuates due to the instability of merchandise export earnings and the relative stability of tourism earnings.¹⁵⁴

3.7.3.2. Social Impacts

Employment, wages and poverty

In response to the potential increase in tourist arrivals, employment in the tourism sector may also increase. At present in the Caribbean the total number of people directly and indirectly dependent on tourism for a living (including taxi drivers, water sports operators, bar workers, restaurants, casinos, souvenir and other retail shops) is estimated at 1.3 million. The WTTC estimates that employment in travel and tourism economy may account on average for 43% of total employment by 2004 in 12 Caribbean countries. In the region, Antigua & Barbuda has the highest proportion of the population working in the tourism sector with 95% of its total employment reliant on direct or indirect jobs in travel and tourism in 2004.¹⁵⁵

For the narrower travel and tourism industry, the WTTC forecasts that employment will increase by an average of 14% for all Caribbean countries between 1999 and 2014. Jamaica is expected to experience the highest levels of growth – 48% in the travel and tourism industry. Employment in the travel and tourism industry is expected to be the most important in absolute terms in Antigua & Barbuda, Bahamas, Barbados, and St. Lucia.

However, in terms of wages and poverty, potential impacts may be less positive or even negative. The average level of wages and the existence of a minimum wage are strongly related to the efficiency of trade unions. The level of wages in the tourism sector also reflects the average wage in the whole economy and is therefore different from one Caribbean country to another. In Barbados for instance trade unions are strong and the minimum wage is higher than in some other Caribbean countries. In the hotel sub-sector in particular, trade unions are powerful and may guarantee some requirements regarding the quality of jobs, wages representing 35% to 40% of hotel costs.

Moreover, employment in the tourism industry is seasonal as the Caribbean is primarily a winter destination.¹⁵⁶ It is also important to take into account the irregularity in days of arrivals of cruise passengers. On some days there are high levels of

¹⁵³ WTTC, 2004.

¹⁵⁴ CTO, 2004.

¹⁵⁵ WTTC, 2004.

¹⁵⁶ The ratio of employment to rooms in the Caribbean is higher in the winter season than in the summer (CTO, 2004).

congestion created by an increasing number of cruise passengers disembarking from ever-expanding ships, and on other days little business. This contributes to underemployment and poverty. Therefore, increases in the number of cruises in the region are unlikely to make a large impact on employment in the sector. On the other hand, increasing levels of all-inclusive resort packages could have a positive impact, at least on a seasonal basis.

Finally, the potential higher competition Caribbean countries as a result of the free movement of services and persons may increase the pressure on tourist operators to improve flexibility of labour at the expense of the quality jobs and quality of life of tourism workers.¹⁵⁷

Education and professional training

In many cases, jobs in the tourism sector require low levels of qualifications and training. While this can offer jobs for unskilled labour, it is also consistent with an image of the hospitality industry generally offering low-paying work with little to offer in terms of careers and advancement opportunities.¹⁵⁸ However, this is changing. Information technologies are transforming the travel and tourism industry requiring increasing numbers of skilled workers and equipment. The lack of skilled workers in the industry at all levels has been cited as a weakness.¹⁵⁹ Therefore, levels of training and education will play a role in determining impacts on tourism on employment. This is true across the sector, but particularly for skilled employment.

To take advantage of any emerging employment opportunities, entrants will require higher skills (notably in the field of new technologies). Therefore, positive impacts on employment and more generally on the competitiveness of the Caribbean destination will depend on the skill level and professionalism of the workforce. However, the pressure to improve efficiency and competitiveness should be balanced with the need for quality jobs and quality of life for tourism workers.¹⁶⁰

The full implementation of regional integration assumed in the baseline scenario may also provide opportunities for transfer of skills through the free movement of persons (for specific categories of skilled persons). Caribbean skilled people may have more opportunities to export their services within the region.

This positive trend in terms of education may however have negative impacts on unskilled people for whom jobs in the tourism sector requiring low levels of qualifications and training represent important opportunities. To address these potential

¹⁵⁷ Caribbean Tourism Strategic Plan, in WTTC 2004.

¹⁵⁸ Caribbean Tourism Strategic Plan in WTTC 2004.

¹⁵⁹ Pro€Invest 2004.

¹⁶⁰ Caribbean Tourism Strategic Plan, in WTTC 2004.

detrimental impacts, training provided by public as private organisms (including tourist operators) for potential workers as well as permanent training for staff appears necessary.

Gender equity

Any potential further tourism development may disproportionately impact women as women make up the majority of workers in tourism industry (formal and informal). In the Caribbean and Latin America, 35% of the workforce employed in the tourism formal sector is female¹⁶¹. However, there are some countries where women are the main tourism workers in the formal sectors, like for example in Barbados and Jamaica.¹⁶² According to the ILO, hotels and restaurants employed 7,600 females compared to 6,200 males in Barbados in 1998; 3,195 females compared to 2,515 males in St. Lucia in 1999; and 1,195 females compared to 779 males in Grenada in 1999. In the sector of wholesale and retail trade, hotels and restaurants, 128,800 females were employed compared to 76,600 males in Jamaica in 1998 and 44,900 females compared to 38,400 males in Trinidad & Tobago in 1998.

However, women dominate in the informal tourism sector where they provide a wide range of services to tourists (washing clothes, cooking, childcare, production and selling of handicrafts). Women tend to predominate in the majority of menial, semi-skilled, domestic and services type occupations. For example, in Barbados and Jamaica, women are employed in less stable, lower status work such as housekeeping, reception and others services¹⁶³. In the food sector of the tourism industry, they are at the bottom of the hierarchy as restaurant helpers, cooks (not chefs) and waitresses –all the lowest paid parts of the food sectors. Their presence is marginal at executive and managerial levels.

Therefore, it is important to make sure that women are also able to benefit from jobs requiring higher qualifications and skills, in order to increase the benefits they would have from increased employment opportunities in the tourism sector. This would mainly depend on local governments' ability and willingness to improve women's

¹⁶¹ Which is significantly higher than in some others destinations: for example, in India women equal a very small percentage of the employed (2,98%). Mariana Williams, IGTN-Secretariat, "The political economy of tourism liberalization, gender and the GATS".

¹⁶² Badger Anne, 1993. "Why not acknowledge women?" Equations, 2000, in Mariana Williams, "The political economy of tourism liberalization, Gender, GATS".

¹⁶³ Badger Anne, 1993. "Why not acknowledge women?" Equations, 2000, in Mariana Williams, "The political economy of tourism liberalization, Gender, GATS".

education and training opportunities. This would be a good example of a policy ensuring that increased tourism leads to positive social development.

3.7.3.3. Environmental Impacts¹⁶⁴

Environmental impacts associated with scale including congestion and pressure on natural resources such as water; may or may not be impacts on physical infrastructure as current vacancy rates relatively low; will be impacts on supporting services such as transportation, entertainment, water sports etc.; may be pollution associated with cruise ships.

Land use, watersheds and coastal ecosystems

The continuing increase in infrastructure to support resort tourism could aggravate negative impacts on ecologically sensitive areas, although existing capacity might be sufficient to accommodate much of the development in the short term given occupancy rates at around 40% in some existing facilities. Nevertheless, existing tourism facilities concentrated along ecologically sensitive coastlines have already destroyed mangroves and beaches and caused lagoon pollution from sand mining, dredging, and sewage dumping.¹⁶⁵ Hotels and resorts are often located too close to high water marks contributing to sedimentation and soil erosion.¹⁶⁶

Damage to coastal habitats is also caused by uncontrolled development of marine recreational activities (snorkelling, cruise ships, boat anchoring, harbour dredging);¹⁶⁷ marine water contamination (through sewage and effluent loading) and solid waste generation.¹⁶⁸ Planners are aware of the value of such ecosystems but in most cases very little or no mitigating action can be taken, carrying capacity is exceeded and impacts are, in some cases, irreversible.

¹⁶⁴ This section relies heavily on the case study produced for this SIA by the Caribbean Policy Development Centre (2005).

¹⁶⁵ Wilkinson, 1989. Traditionally little importance has been placed on mangrove forests and they were often cut down or dredged for the development of hotels or marinas. Both the St. Lawrence Gap area in Barbados and the Rodney Bay Marina in St. Lucia exist because of the destruction of mangrove areas. CPDC, 2005.

¹⁶⁶ In Antigua and Barbuda, 39 of 55 hotels have a beach-front location. See Antigua and Barbuda National Report, p. 13.

¹⁶⁷ For example, in Antigua and Barbuda, several of the larger mangroves have been filled during the last 20 years. Construction of tourism facilities (hotels, marinas, etc.) has largely contributed to this situation. See National report for Antigua & Barbuda.

¹⁶⁸ Increasing pressure is put on hotels to display greater environmental awareness. As a consequence, larger hotels have invested in their own sewage treatment disposal. However, discharge of untreated effluents into the environment from smaller hotels and resorts remain significant in the some countries (St Lucia, Trinidad and Tobago).

Tourism threatens the health of the beaches on which the sectors relies for its success. The main tourism related environmental threats to the resources of the beach and the sea come from congestion, pollution and erosion. Congestion can lead to sand compaction and may also impact turtle nesting sites. Beaches are also subject to tourism-related pollution and erosion. Moreover, coral reefs, which provide the white sand beaches in the Caribbean and are an important resource for diving and can be physically damaged by divers and by boat anchors.

The continuing diversification in the tourism sector could lead to positive or negative impacts on the environment under the baseline scenario. Inland areas, such as national parks, as well as historic areas and cultural resources are increasingly becoming important. Further intra-Caribbean travel as a result of full implementation of the CSME is likely to encourage this diversification because Caribbean tourists tend to be relatively more interested than foreigners in heritage and cultural tourism. The continuing increase in EU tourist arrivals may also impact favourably on diversification towards nature tourism.

Although this diversification is a relevant strategy developed to capture growing international demand for such activities and by extension an effort to increase tourism revenues. It threatens to expose previously pristine or relatively untouched areas to degradation, if not properly managed.¹⁶⁹ On the other hand, it has contributed to the conservation of natural areas and biodiversity and promotes social and economic advancement of local communities.

Use of natural resources

The continuing trend in tourist arrivals may have negative impacts on the use of natural resources. The tourism industry consumes considerable amounts of potable water and in the Caribbean; tourists tend to use significantly more water than residents (Box 6). Resort tourism is generally associated with high levels of water and energy consumption.

¹⁶⁹ For example Harrison's Cave in Barbados was opened without the recognition of a carrying capacity for visitors. After several years of operation the caves had to be shut. The use of lights and the increased level of carbon dioxide generated by visitors allowed algae to grow and discolour the limestone formations, degrading the visual appeal of the resource and reducing its earning potential. CPDC, 2005.

Box 6. Water consumption by tourists and tourist facilities

- In the Dominican Republic hotel water consumption is 4 times higher than domestic consumption.
- In 1998, in St. Lucia the average daily consumption of water by hotel guests was between 364 and 682 litres per person while residents used around 227 litres daily.
- The average Barbadian uses between 273 and 286 litres of water per day while hotel guests use on average 814 litres per day.
- In Barbados, the total groundwater used for golf course irrigation amounts to 2.368 m³/day. Planned development of 5 others golf courses will require 11,930 m³/day. Agricultural water demands amount to 44,383 m³/day. Total available water resources were estimated at 140,909 m³/day.

Source: Dominican Republic National Report; Barbados National Report, 1997; CPDC, 2005.

This high use of potable water has the greatest environmental consequences in countries such as Barbados, which depend almost entirely on groundwater. Over extraction leads to depletion and can lead to saline intrusion of the aquifers which will render them virtually useless. St. Lucia depends on surface water for its potable water. In St. Lucia the environmental concern related to extraction is connected to decreasing levels of water in freshwater ecosystems. Facilities such as golf courses can also lead to both the depletion and pollution (through use of agrochemicals) of scarce groundwater in the region. There are desalination plants in the Caribbean region to tackle this problem.¹⁷⁰

Pollution, wastewater and solid waste

Wastewater. The forecasted increase in cruise tourism in the baseline scenario may have detrimental impacts on coastal and marine areas. Any increase in the number of cruise ships in the region is likely to exacerbate marine pollution problems associated with oil and solid waste pollution. A considerable amount of marine pollution in the Caribbean already stems from ship-generated waste (unprocessed waste and plastic products), discharged illegally. Although most ships are registered in countries which are signatories to international environmental protocols and subject to standards for waste treatment, storage and disposal, there is evidence that waste from cruise ships is reaching the shores of many Caribbean islands. The coastal areas most polluted in the

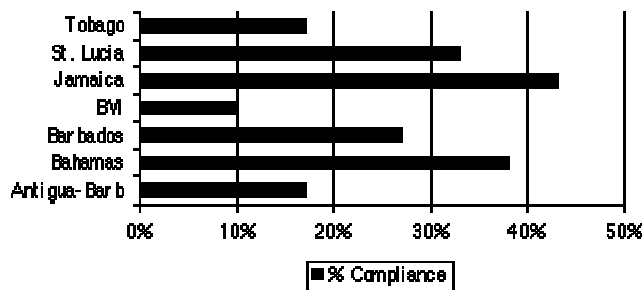
¹⁷⁰ For example, Barbados has built two desalination plants since 2000 and plans to recycle wastewater and upgrade the distribution system to reduce leakage and waste. A new plant will include a facility to reprocess wastewater for agricultural use and for reinsertion into underground aquifers. The government estimates that it can recover up to 5 million gallons of wastewater a day for non-potable uses, through investment in treatment and recycling. Drosdoff 2005, in CPDC 2005.

Caribbean are also major habitats for marine plants and animals which are reliant on vulnerable coastal mangroves, estuaries and coral reefs. If levels of pollution were to significantly increase it would have long-term degenerating effects.

Whether or not there are large infrastructure projects, increases in scale of tourism will bring about increases associated with large numbers of people, such as congestion and added wastewater. The tourism industry already generates significant amounts of largely untreated liquid waste from the activities of hotel and restaurant kitchens, raw sewage, the presence of increasing quantities of oil and other waste from recreational vehicles (including cruise ships) along with herbicides, pesticides, and fertilizers from resort landscaping and golf course maintenance. Seventy five percent (75%) of existing treatment plants do not function efficiently enough to protect the environment.

Surveys undertaken in 1994 by the Pan American Health Organisation (PAHO) indicated that non-existent or improperly operated sewage systems at hotels, resorts, and vacation condominiums are major contributors to pollution and three-quarter of these plants do not comply with a basic effluent criteria.¹⁷¹ (Figure 5)

Figure 5. Hotel Wastewater Treatment Compliance¹⁷²



Impacts of this in St. Lucia include the introduction of pathogens into the marine aquatic environment, which is a potential health hazard to tourists and residents using coastal recreational resources as well as aquatic plants and wildlife.¹⁷³ These impacts are exacerbated by concentration of hotel and resort development in coastal zones, roads and other impervious surfaces normally associated with development, which increase volumes of rainwater runoff in and to coastal areas.

¹⁷¹ 30 mg/l for BOD and SS or 85% removal of BOD and SS.

¹⁷² Tourism and Coastal Resources Degradation in the Wider Caribbean. A Study by Island Resources Foundation. St. Thomas, Virgin Islands. December 1996.

¹⁷³ St. Lucia Biodiversity Country Study Report, 1998. Waste water introduces bacteria and viruses that attack corals and inhibit their growth, and effluents containing nitrogen and phosphorus hasten eutrophication.

Solid waste. Potential increase in tourist arrivals (whether it is associated to cruise or land-based tourism) may have negative impacts on solid waste. Tourism generates substantial amounts of solid waste. Per capita, the average tourist (land and cruise) produces more solid waste than residents. However the total waste generated by tourists (3,600 tons per year) is significantly less than the 47,500 tons per year produced from domestic sources and the 30,000 tons per year produced by the commercial sector. Solid waste produced by the tourism sector adds to an overall waste disposal problem in the region.

This problem has special significance for small islands such as Barbados and St. Lucia owing to the difficulty in siting solid waste disposal facilities, and to the fact that they are too small to support economically viable re-cycling programs.¹⁷⁴ Very little is done in the areas of large-scale recycling, composting or incineration. Both Barbados and St. Lucia use sanitary land fill technology for the disposal of solid waste. However, closed landfills and dumps may pose threats to both ground water and marine coastal water quality through leaking and the generation of *leachate*.¹⁷⁵

Solid waste generated by the tourism sector also includes garbage from cruise ships, which pose a threat to the sea and coastal areas. As with land-based tourism the solid waste from cruise ships ends up in landfill facilities once it has washed ashore. Solid waste pollution in coastal and inland areas also has a negative aesthetic impact. Plastic in marine and coastal environments can maim or kill marine animals and shore birds. Anecdotal evidence exists of tourists receiving injuries from broken bottles and metal cans, improperly disposed of on beaches. Improper disposal of containers can also provide breeding grounds for mosquitoes that can spread disease, such as dengue fever.

3.8 EPA Scenario

The EPA scenario for this SIA is based on substantial liberalisation from both the Caribbean countries and the EU Member states.

- Full implementation of the CARICOM Single Market Economy (CSME)
- Full liberalisation for all tourism sub-sectors under modes 1, 2 and 3 and as complete as possible within specific categories of persons (mode 4).

⁸A.A. Vlugman 1994.

¹⁷⁵ *Leachate* is water that collects contaminants as it trickles through wastes, pesticides or fertilizers. It may occur in farming areas, feedlots, and landfills, and may result in hazardous substances entering surface water, ground water, or soil. It is toxic and is capable of impacting the near-shore marine flora and fauna. It can also affect human health if it contaminates potable ground or surface water resources.

3.8.1 Potential impacts on regional integration

3.8.1.1 Impacts on the regional integration process

An EPA may have two main impacts on regional integration. First, an EPA may impact the institutional configuration of regional integration. Since an EPA is expected to be signed between the CARIFORUM (and not only the CARICOM) Member States and the EU, it is likely to foster the negotiation of the FTA between CARICOM and the Dominican Republic. The CSME is also likely to constitute the basis to be extended to the CARIFORUM regional integration process.

Second, an EPA may strengthen regional integration in encouraging Caribbean ACP countries to build a common position towards non-Members and in particular EU countries. Through this common external policy, an EPA may encourage Caribbean countries to undertake further the harmonisation of their policies towards the EU investors.

3.8.1.2 Impacts on South-South trade

Further liberalisation brought about by an EPA may encourage CACP countries to improve their competitiveness in terms of tourism services at the regional level in order to compete with EU suppliers. The quality of local human resources in the sector may be improved by increasing **movement of skilled persons (mode 4)** within the region as a result of the full implementation of the CSME. **Intra-Caribbean investment flows in the tourism sector (mode 3) may also increase** further than in the baseline scenario with the full implementation of the free movement of capital. The potential increase in investment flows, in particular in sub-sectors where local investors may have comparative advantages compared to EU investors (e.g. travel agencies, small hotels, villas), may respond to the increasing Caribbean tourism demand. This may lead to higher **intra-Caribbean tourism (mode 2)**.

In addition, any increase in EU investments in *Hotels and Restaurants* could offer better conditions for tourism within the Caribbean region and result in more intra-Caribbean tourism. However, an increase in intra-Caribbean tourism will only be possible with significant improvements in air transportation in the region. Finally, an EPA may stimulate the harmonisation of environmental standards and rating among the Caribbean ACP countries. Caribbean standards and rating are generally lower than those in the EU and currently there is no regional rating system for hotels. This is critical for Caribbean competitiveness since trade in tourism is increasingly driven by quality standards.

3.8.2 Trade with the EU

3.8.2.1 Impact on relations with the outermost regions

The perspective of an EPA has already proved positive results in terms of institutional co-operation between the ACP Caribbean countries and the outermost regions. This was demonstrated in the seminar on a “Strengthened economic partnership in the Caribbean involving the DOMs in the context of an EPA”, held in Guadeloupe in December 2004. The communication of the European Commission on “A stronger partnership with the outermost regions” also suggests this conclusion.¹⁷⁶

Trade liberalisation in the Caribbean ACP countries as a result of an EPA could have positive impacts on encouraging trade flows between both sides. Outermost regions have some comparative advantages related to tourism that they could exchange with Caribbean ACP countries. These include a trained labour force, expertise in construction (notably anti-seismic and anti-cyclonic habitats), and know-how in the collection and recycling of solid waste, water management and in new information technologies.

On the negative side, further trade liberalisation in tourism services between the CARIFORUM and the EU may expose the outermost regions to a stronger competition. By improving the attractiveness of the Caribbean region, some European investments may be diverted from the outermost regions to the Caribbean ACP region. However, this trend has to be tempered since the outermost regions, while suffer from higher labour costs from investors point of view, offer a generally better trained labour and stable juridical environment.

3.8.2.2 Impact on trade flows

This section considers the trade-related impacts of the EPA scenario – “comprehensive” liberalisation under modes 1, 2 and 3 and as complete as possible within specific categories of persons (mode 4).¹⁷⁷

Mode 1 (Cross-Border Supply) and Mode 2 (Consumption Abroad)

In the EPA scenario there are no major policy changes anticipated for the modes of supply 1 and 2 from the EU side.¹⁷⁸ There is no potential to increase Caribbean

¹⁷⁶ Regional integration is one of the three priorities identified: “the outermost regions and neighbouring non-member countries exist in a common regional environment which should facilitate trade among them in goods and services”. An action plan for a wider neighbourhood is proposed, aiming at enlarging the natural area of socio-economic and cultural influence of the outermost regions by reducing barriers to trade with their geographical neighbours.

¹⁷⁷ It includes an explanation of the EPA scenario, its relationship to the CGE model and the underlying assumptions it employs to employ trade-related scenarios to determine economic and employment impacts.

exports to the EU under mode 1 as a result of an EPA since the EU regime is already open. The ability of CACP countries to take advantage of existing EU liberalization under mode 1 is constrained by issues such as technical capacity to access markets and marketing capacity. However, there may be a potential increase in EU exports under mode 1 with full Caribbean liberalization although constraints include lack of air transport facilities and local tourist accommodation capacity in some Caribbean countries. EU exports in the short term may be concentrated in the larger Caribbean countries where demand is strong and with well-developed air transportation and infrastructure.¹⁷⁹

Regarding Caribbean exports under mode 2, an EPA will not have a direct impact on the number of tourists able to travel from the EU to the Caribbean since the EU regime is already open. There may be indirect effects resulting from changes under modes 1, 3 and 4 (mainly for the Caribbean regime) that affect mode 2. The CGE simulation undertaken to represent these potential indirect effects assumes that the possibility of more marketing in the EU of tourism products from Jamaica and Trinidad and Tobago could generate an exogenous increase in demand from the EU by 10% for tourism exports from the Caribbean (simulation 1). However, as for EU exports under mode 1, the potential indirect increase in EU tourist arrivals may benefit to the best-equipped Caribbean countries in transportation and tourist facilities.

Mode 3 (Commercial Presence)

There are few restrictions on commercial presence in the EU trade regime. The ability of CACP countries to take advantage of existing liberalization under mode 3 in the EU is constrained by lack of investment capacity of Caribbean investors.¹⁸⁰

In the CACP countries, there are some market access restrictions for foreign investors where commitments have been made. For Jamaica and Trinidad & Tobago, to which the CGE model has been applied, remaining restrictions are as follows: there are requirements for registration and licensing in Jamaica, for hotels and restaurants, travel agencies and tour operators. In Trinidad & Tobago, there is no restriction under mode 3

¹⁷⁸ Opportunities exist in the ten new Members States although any impacts related to an EPA for Caribbean countries are expected to be neutral in the short term because exporting tourism services to these countries requires some knowledge of the characteristics of the market and potential demand which may only be achieved in the medium or longer terms.

¹⁷⁹ To spread benefits across the region it involves further investment. Otherwise most benefits will accrue to the most popular desinations: Barbados, the Bahamas, and the Dominican Republic.

for hotels and restaurants, travel agencies and tour operators. There has been no commitment for tourist guides services in both countries and in Trinidad and Tobago a licence is required for a foreigner to acquire land for trade or business, which exceeds five acres. Direct impacts of an EPA are therefore expected to be minimal in Jamaica and Trinidad and Tobago

In the Caribbean region as a whole, the removal of remaining restrictions could encourage more EU companies (including SMEs) to invest in the Caribbean. Some non-trade related events such as the Partnership Opportunities for Investors in Tourism (PROFIT) may also stimulate EU investments. However, these positive impacts could be mitigated by the following factors:

- Regulatory climate, business conditions and high operating costs. The regulatory environment in the Caribbean is considered restrictive and not conducive to increased investment.¹⁸¹
- EU investors may not invest in these countries with which they have not historic links.¹⁸²
- EU investments in *hotels and restaurants* in the Caribbean are strongly related to the existence of local air and maritime transportation facilities (such as international airports and port infrastructure) so as under modes 1 and 2 any benefits could accrue disproportionately to CACP countries where such facilities already exist.

The simulation aimed at capturing potential impacts of commercial presence is based on the assumption that there is a possibility of removing any existing restrictions that exist in market access and national treatment and improving the business climate for investment generally. This would have the implicit effect of improving operating conditions for foreign owned companies in Jamaica and Trinidad and Tobago and result in an increase of 10% of the physical capital of the tourism sector (infrastructure related to tourism) (simulation 2).

¹⁸⁰ Opportunities for Caribbean investment in the 10 new Member States face potentially greater challenges given that they share no historic links with Caribbean countries, such as those links that exist with Spain, France and the UK.

¹⁸¹ ProInvest 2004. Smaller EU investors potentially interested in the removal of remaining trade barriers such as economic needs tests may be more vulnerable to non-trade barriers than larger investors.

¹⁸² Transaction costs related to knowledge of local regulations and training in local languages for intra-corporate transferees, for example, may be equally if not more important than business conditions and operating costs.

Mode 4 (Temporary Movement of Natural Persons)

Full implementation of the CSME with respect to the free movement of persons for distinct categories, implies the ability of more nationals from the region obtaining work in the Caribbean tourism sector. In addition, there may be increased opportunities for Caribbean exports to the EU under liberalisation in Mode 4 for distinct categories. However, barriers to entering the EU market such as high costs, difficulty obtaining visas, or problems recognising Caribbean academic qualifications, may also be important.

In the Caribbean, the removal of limitations (such as economic needs tests) could facilitate the movement of skilled persons from the EU including, for example, executive chefs, tour managers and tourist guides (considered “specialists”). A simulation was performed showing the potential inflows of labour (could include intra-regional or extra-regional) into Jamaica and Trinidad and Tobago. The assumed level of inflow of workers is 2% (simulation 3).

3.8.3 Potential Sustainability impacts

3.8.3.1 Economic Impacts

Economic impacts, as well as impacts on employment, are mainly based on results of a comprehensive simulation that includes 1, 2 and 3 (discussed above). This corresponds to a comprehensive package of reforms, representative of a potential EPA scenario of “comprehensive liberalisation”. Where relevant, results of individual simulations (simulation 1 or 2 or 3 considered independently) are also presented.

Contribution to GDP

For the Caribbean region, in response to an increase in EU tourist arrivals as a result of an EPA, the production of tourism services and therefore the contribution of tourism to GDP may be higher than in the baseline scenario. This conclusion is supported by results of the joint simulation from Jamaica and Trinidad & Tobago.

In Jamaica, results of the joint simulation are to increase production of tourism services (+ 7.78%) and expand sectors that supply the tourism industry. The impact on GDP is also positive (+ 0.75%). This is explained in part by the increase in export of tourism services and by the increase in productive capital in the same sector. This added capital contributes to increasing productive factors in the economy and therefore allowing the increase in GDP. In Trinidad & Tobago, the production of tourism services increases by 3.26% and the GDP increases by 0.42%. Two items explain this increase in GDP. First, the increase in capital in the tourism sector provides more productive capital

in the economy; second, the current account balance (or foreign savings) increases significantly in % terms.¹⁸³ This produces a strong percentage change in the current account balance (+150%). It is important to note that in Trinidad & Tobago the smaller impact on the tourism sector (and therefore, the smaller impact on GDP) is linked to the relative importance of the sector to the economy compared to Jamaica.

If liberalisation is combined with regional and national policies in the Caribbean to improve of air and maritime transportation between the EU and the Caribbean (through charter programmes for example) and among Caribbean countries, positive effects on GDP could be strengthened. The fact that the Dominican Republic is a leading charter destination explains in large part its rapid tourism development. Other Caribbean countries, which are more isolated in terms of air transport (such as the small islands, Haiti and the mainland countries), could experience disproportional impacts of increasing tourism than the mature destinations that already have relatively well-developed air links with major markets. This is particularly true for EU markets as EU visitors tend to stay longer and spend more than non-EU tourists.

The CTO forecasts that cruise tourism is expected to increase faster than the land-based tourism.¹⁸⁴ This could temper the contribution of tourism to GDP generally in countries very reliant on cruise tourism. However, in countries that do not rely heavily on cruise tourism, such as the mainland countries, as well as the small islands without infrastructure to accommodate large cruise ships, the benefits from land-based tourism should flow.

Government revenue

The increase in the economic activity GDP in the Caribbean generates an increase in government revenue. In Jamaica and Trinidad & Tobago, this increase is 0.34% and 0.56%, respectively. The source of the increase is the increase in GDP but also the stronger relative expansion of sectors that contribute more to the tax base than sectors, which contribute less to public finances.

Results of increasing FDI in the tourism sector (simulation 2) are positive for both countries modelled. In Jamaica it results in an increase in government income of 0.5% (along with a 7.5% decrease in savings). Results are also positive with any changes to mode 4 which make it easier for workers to travel to and work in Jamaica (simulation 3). They will have an impact on government revenues (0.45%) through the increase in GDP and a decrease in the government deficit of 6.7% but an outflow of

¹⁸³ It is important to note that the size of the current account balance surplus is quit small so all changes in the current account balance are small relative to the size of the economy, but large relative to the size of the initial current account balance surplus.

¹⁸⁴ CTO, 2004.

labour from Jamaica has a negative impact on government revenue through a decrease in GDP.

Directions of impacts are roughly the same for Trinidad & Tobago and Jamaica. A 10% increase in physical capital results in a slight increase in government savings and government income because of stronger GDP and an expansion in sectors that contribute to the tax base. This is the same for an increased flow of labour into Trinidad & Tobago.

Investment

The assumed flows of FDI from the EU to the Caribbean involve both macroeconomic and microeconomic impacts, which are considered in this section.

Macroeconomic impacts on total investment. Conclusions of the joint simulation on total investment¹⁸⁵ in the Caribbean appear contrasted. This conclusion is supported by results of the joint simulation from Jamaica and Trinidad & Tobago, which are different. In Jamaica, the current account balance decrease significantly (-8.73%)¹⁸⁶, which in turn produces a decrease of 2.95% in total investment. It is important to note that it is an exogenous increase in investment in the tourism sector, which has been simulated. The investment effect described will only have an impact on the next period, as the model is a not dynamic and only model the consumption effect in the period of the investment. This situation results in negative demand pressure on the sectors most concerned by investment demand, including the construction and distribution sectors. These two sectors represent 68% and 16% of the total investment demand, respectively.

In Trinidad & Tobago however, there is an increase of almost 3.32% in total investment, which comes from the increase in savings from all four agents (household, government, firm, rest of the world). On the sectoral side, all the sectors experience an increase in production (value added), including construction (the stronger increase after tourism) and distribution.

Moreover, in both countries, it appears that, considered independently, a 10% increase in physical capital from the EU to the Caribbean (simulation 2) produces an increase of around 2% in total investment. On the sectoral side the single increase in capital to the tourism sector produces positive effects in the construction sector and distribution sectors.

¹⁸⁵ Total investment is the sum of savings from the different agents including foreign savings (equivalent to the current account balance).

¹⁸⁶ See the explanation for the decrease in the current account balance in the next sub-section.

These contrasted results show the importance of the difference in relative importance of tourism to the local economy. They suggest that a positive impact on total investment is likely to be stronger in countries where tourism is emerging, than in mature destinations. It is also likely that effects are stronger in small islands than in larger islands. Therefore, countries such as Grenada and St. Vincent & the Grenadines may benefit disproportionately from an EPA scenario and in particular from an increase in investment compared with countries such as Antigua & Barbuda or Barbados where levels of investment are already relatively high.

Impact on local SMEs in the sector and across the economy. Two issues related to a potential increase of EU investment in the Caribbean tourism sector are the following:

- Potential positive impacts in terms of, *inter alia*, transfer of knowledge, introduction of new technologies (environmentally sound technologies), modern management methods, technological and professional training, and CSR.
- Potential negative impacts in terms of competition between EU and local suppliers of tourism services.¹⁸⁷

Regarding the transfer of technologies and management methods, foreign-owned hotels and particularly those belonging to international chains, are accustomed to providing training for the staff, which transfers knowledge and skill to the local population. Moreover, when local workers are engaged to participate in the construction of foreign-owned hotels and restaurants respecting high environmental standards, there may also be a transfer of technology. There are also examples of local hotels and restaurants that are recognized for having a positive image in terms of certification and respect for high standards. Finally, foreign investment is generally synonymous with the transfer of knowledge and know-how.

At the first stage, the competition between EU and local suppliers seems rather unfair since local and EU operators have not the same financial leverage and capacity. However, this issue has to be discussed by type of activity. With respect to travel agencies, for example, some Caribbean travel agencies may be specialized in travels with the region and the competition of EU suppliers for this kind of travel may not be so relevant. Caribbean travel agencies may benefit from some comparative advantages

such as the local knowledge of the Caribbean demand, the local staff. On the other hand, EU investors wanting to develop this specific activity will have to face management costs in terms of staff and knowledge. For large hotels and restaurants, the risk of competition is more relevant. Moreover, the presence of international chains in the Caribbean may represent a kind of free promotion of Caribbean tourism which could have positive impacts for local suppliers of tourism services. At the same time, large, international companies which locate their offices in the Caribbean due to the attractiveness of duty free zones may also promote, at the same time, tourism in the Caribbean since tourism is strongly related to the duty free sector.

Current account balance

From the perspective of the CACP countries, any increase in tourist arrivals as a result of more trade flows under modes 1, 3 and 4 is expected to improve the services balance and therefore, the current account balance and the balance of payments of the Caribbean countries.

In the CGE model, the standard definition of the current account balance is considered to be the difference between what comes into a country (such as sales of imports, wages from foreign workers, and capital income from FDI) and what goes out of the country (such as exports and transfers). Any increase in demand for tourism exports produces a downward pressure on the current account balance.

Related to results on total investment and depending on the size of the initial current account balance surplus (smaller in Trinidad & Tobago than in Jamaica) and on the export ratio, results on the current account balance appear contrasted. The current account balance decreases in Jamaica (- 8.73%) but significantly increases in Trinidad & Tobago (+ 150%). The main reason for this is that tourism sector exports only 25% of its production in Trinidad & Tobago compared to 58% in Jamaica.

Therefore, the CGE model indicates that the larger the manufacturing base, the less impacts on the CAB to any changes in demand for tourism services. So the CAB in countries such as Jamaica (large islands with mature tourism destinations) are more sensitive to changes in demand and to the extent that these countries can diversify, develop manufacturing (beyond sectors related to tourism), they will be less vulnerable.

¹⁸⁷ Opportunities for Caribbean tourism suppliers to enter the EU market and to compete with EU suppliers, in particular by implementing a commercial presence, are marginal. In the field of travel agencies for instance, Caribbean suppliers appear to be too small operators facing well-organised, strong EU operators.

Moreover, for the smaller islands with high dependence on tourism, these impacts are likely to be even more pronounced.

Inter-sectoral impacts

Changes in the tourism sector tend to have impacts throughout the economies because of the important linkages between tourism and a number of other sectors. Overall, tourism tends to be most closely related to food industries, beverages, and tobacco and tends to have positive impacts on these sectors. This result is particularly interesting and encouraging for the development of agro-tourism for mainland countries, some of the Windward Islands and even Haiti where agricultural activities account for around 10% to over 30% of the GDP.¹⁸⁸ But there will also be sectors that lose and there may need to be programmes put in place to facilitate transition of producers and workers into other sectors.

For both Jamaica and Trinidad and Tobago for instance, an increase in production of tourism leads to an increase in production of suppliers of intermediate products. The main inputs into the tourism sector are electricity, transportation, beverages, meat processing, financial services and personnel services.¹⁸⁹ The relative impact on the production side of suppliers of the tourism sector is influenced by the relative importance of demand by the tourism sector with other sources of demand for these goods.

In Jamaica, the related sectors that increase with increases in tourism production are citrus, meat processing, beverages, and electricity. In Trinidad and Tobago they are the alcohol-beverage-tobacco, construction, and construction materials sectors. Those that are not impacted or are impacted negatively as there are structural shifts in the economy towards tourism are those that are unrelated or have weak links to the tourism sector. These include mining, wood manufacturing and non-metal and metal industries in Jamaica and petroleum refining and processing, and textiles for instance in Trinidad and Tobago.

For both countries, an increase in FDI in the tourism sector, considered independently (simulation 2), produces an increase in capital in the sector and has a positive impact on intermediate inputs. Increasing FDI has a positive impact on sectors such as construction, which is the largest beneficiary, but also on distribution which benefits from increasing investment.

¹⁸⁸ World Bank 2000 and authors' calculations, in PwC/ Solagral (2004) SIA of the EU-ACP EPA. Regional SIA: Caribbean ACP countries.

¹⁸⁹ In Jamaica, three goods contribute over 5% of the total intermediate inputs into the tourism sector: electricity (8.1%), transportation (7.8%) and beverages (7.4%).

3.8.3.2 Social Impacts

Employment, wages and poverty

Generally, an increasing demand for tourism services in the EPA scenario will produce a stronger positive impact on employment than in the baseline scenario. In Jamaica for instance, results of the joint simulation on employment in tourism are very positive with an increase by 5.38%.

At an economy-wide level, the added labour may have a partial “eviction” effect (forcing workers out of the sector) on domestic labour and may lead to a slight increase in unemployment. This is the case in Jamaica, where the unemployment rate increases from 14.8% to 15.04%. This is also the case in Trinidad & Tobago where the “eviction” effect of new workers migrating inward is less important and produces a relatively insignificant increase in the unemployment rate of 0.21% (from 10.5% to 10.52%). In the tourism sector, however, the substitution effect (between capital and labour) which forces employees in the sector to be laid off is more significant and employment decreases by around 9%. The additional capital in the sector, which is evident in the simulation, implies that the producers can get an equivalent output with fewer workers.¹⁹⁰

However, both substitution effects and eviction effects have to be considered in light of growth in the tourism sector. Indeed, they may occur only in the short term as positive impacts on employment may occur along with growth in the tourism sector. These positive impacts as a result of tourism growth have not been captured in this model and would require a dynamic model. In addition, usual practices of foreign tourism investors have to be taken into account as they generally favour local employment. For example, one of the world’s leading groups in tourism, the group Accor, with 4000 hotels in 140 countries employs local workers in priority and 99% of the hotel staff around the world is local.

Gender equity

This variable considers gender equity in terms of participation in the labour market, education and professional training, economic and social progress. The magnitude of the impact on women of a further development of the tourism industry in

¹⁹⁰ Concretely it could occur when the owner of an hotel invest in equipment for the kitchens requiring less workers for preparation of food and washing dishes.

the Caribbean as a result of the EPA with the EU is difficult to assess. Some trends can nevertheless be highlighted.

With respect to employment opportunities, since women make up the majority of workers in the tourism sector, an EPA resulting in an increase in employment is likely to imply a positive effect on the number of females employed in the sector compared to the number of males. For women, this increased employment opportunity provided by the development of the tourism sector is an opportunity to reinforce their financial and economic autonomy.

However, as the presence of women is more marginal at executive and managerial levels, an increase in employment in the tourism sector may not lead to a proportional increase in female employment due to the evolution of skills required in the sector.

Beyond impacts on employment opportunities, a further development of the tourism sector in the Caribbean can bring greater access to basic services, such as the development of roads and sanitation equipment. As access to water and electricity services are concerned, it could also be improved, provided that it is not diverted to hotels and resorts. Improve access to such basic services would have positive impacts on women's family and community life.

Education and professional training

The single biggest obstacle affecting human resource development and adequate training in the tourism sector is the lack of affordable financing. This is particularly significant because the bulk of the operators are small, locally owned business.

In this context two trends can be highlighted.

First, compared to the baseline scenario, an increase in EU investment in the tourism sector with an EPA may strengthen the trend of higher skills requirement. Indeed, foreign-owned hotels, which are mainly large hotels, are particularly demanding in managers, executives and technical staff in specific fields (NTIC, environment, etc.). Second, in terms of available financing this further European FDI may also represent greater training opportunities for local employees than in the baseline scenario. The group Accor for instance has developed a training policy for its hotel employees consisting in the creation of 12 "enterprise universities" which should provide in the short-term one training course for each employee per year.

Both of those trends –increase in the demand for high-qualified jobs and increase of available financing- should lead to greater education and professional training opportunities for Caribbean people working in the tourism sector.

3.8.3.3 Environmental Impacts

As regards environmental concerns, what is at stake in the EPA scenario is to see whether an EPA may aggravate or not negative environmental impact resulting from tourism development and may strengthen or not positive trends in environmental management. Two major trade flows in tourism services are of particular concern for the Caribbean environment:

- further commercial presence (EU exports to the Caribbean under mode 3),
- and further tourist arrivals (Caribbean exports to the EU under mode 2).

Tourism development due to an EPA is likely to aggravate all the detrimental environmental impacts related to tourism described in the baseline scenario. However, given the characteristics of European investments and tourists an EPA may also offer some opportunities to explore further environmentally sound practices. Moreover, considering an increase in European investments in environmental services combined with the one in tourism services provides useful insights. The positive driving forces in environmental management that are likely to temperate and even avoid detrimental impacts may be strengthened.

Land Use, Watersheds and Coastal Ecosystems

Further European investment in hotels and restaurants may not pose environmental problems in it. However, past experience shows that the lack of domestic regulations in the field of land use planning in particular, or lack of enforcement of existing regulations, as well as absence of incentives lead to negative impacts on ecosystems. In the absence of improvement in the enforcement of coastal management and land-use legislation, construction of new hotels is likely to induce an increased pressure on ecologically sensitive areas such as coral reefs and wetlands.

Moreover, higher tourist arrivals and diversification within the industry to respond to demand, if not properly regulated, can expose previously untouched areas to degradation. Increasing tourist arrivals will be combined with increasing demand for recreational activities that may produce physical changes of natural habitats and marine pollution.

Beyond domestic regulations and incentives, the environmentally sound practices that European investments may bring to reduce the ecosystem degradation related to tourism development may not come from environmental services but from the CSR.

One way an EPA could help promote positive impacts is to support the development of eco-tourism and nature tourism in the region. However, even this has

risks for ecologically sensitive areas. Estimates from national authorities and tourism organisations identify a growing interest of tourists in eco-tourism and nature tourism, reflecting a higher environmental awareness and interest in local traditions and unique ecosystems. Given this interest, public authorities could be encouraged to create marine or forest reserves, or to improve the management of existing reserves. However without adequate regulation, increases of the eco-tourism and nature tourism could exacerbate current pressures on ecologically sensitive areas.

Use of natural resources

An increase in tourist arrivals as a result of an EPA may result in higher consumption of freshwater and energy than in a baseline scenario without EPA.

- Construction of new hotels is likely to be encouraged by full liberalisation of tourism and construction services. In the absence of adequate and enforced coastal management and land-use legislation, this could increase pressure on ecologically sensitive habitats (such as coral reefs and wetlands).
- If construction of new hotels and resort attract more tourists, the following consequences might be expected: increase of demand for recreational activities and for energy and water resources and increase of solid and liquid waste generation leading to groundwater depletion, physical changes of natural habitats and marine pollution. However, such environmental impacts will depend on the existence of efficient solid and liquid waste treatment plants, enforcement of environmental health protection legislation, on tourist habits and environmental awareness and on the availability of environmental services and expertise. At present, most of the effective sewage treatment plants are owned by tourism sector.¹⁹¹

Pollution, wastewater and solid waste

Further increase in tourist arrivals and European investments in hotels and restaurants may increase solid and liquid waste as well as air pollution and noise due to new tourism facilities.

However, European investments in tourism services and above all in environmental services may be particularly useful to contribute to address the lack of waste disposal facilities and recycling in the Caribbean. Some European-owned hotels

¹⁹¹ Caribbean Environmental Health Institute, “Why treat waste water? Environmental, health and legal considerations”.

and restaurants have undertaken environmentally sound practices such as the selective sorting of wastes. Domestic regulations or incentives to encourage this kind of practices from local as from foreign-owned tourism facilities are needed to reduce or avoid negative environmental impacts related to tourism. Transfer of technology as well as training for use of environmental services is also needed.

Moreover, European tour operators develop in the Caribbean and tend to impose their standards. European standards are often viewed from a Caribbean point a view as very high and not adapted to the Caribbean region. For safety reasons regarding showers and elevators for instance hotel proprietors have to pay a huge amount of global insurance. European standards seem therefore not attainable for small scale hoteliers.¹⁹² Caribbean standards may also be set up and recognised as relevant standards. In the framework of the Caribbean regional sustainable tourism development (on going) program, the CTO is working on Caribbean standards (incl. for eco-tourism, nature tourism, introduction of use-pay systems on environmental consumption) in conformity with international practices.

Finally, the risk of a competition between local and European suppliers in environmental services appears rather limited in the short term due to the global lack of local suppliers. However, it exists for a few local private operators involved in solid wastes and sewage treatment and a further liberalisation in environmental services may benefit essentially to European operators, at the expense of a potential emerging local supply.

3.9 Conclusions

The tourism sector has experiencing strong growth in the Caribbean region for the past decades, benefiting from the trend in growing global demand. While this growth might slow in the coming years as a result of increasing competition from other regions, it is expected to continue to grow notwithstanding an EPA. However, there are ways in which the EPA negotiations can promote regional integration and encourage

¹⁹²It has to be noticed that the Communication from the Commission “A stronger partnership for the outermost regions” indicates that certain obligations related to Community policies “are disproportionate in view, in particular, of the remoteness and small size of these regions. For example, some categories of waste cannot be processed on the spot and have to be sent to treatment centres on mainland Europe. The result is a constant burden of additional costs falling solely on the outermost regions” (p.6, COM(2004 343 final).

growth that promotes sustainability and the negotiations should be used as an opportunity to take into account, and mitigate any potential negative impacts of this growth in the region.

The economic importance of the tourism industry and in particular its positive effects on GDP, current account balance, and investment differs from one Caribbean country to another. Some countries, such as Barbados and Antigua & Barbuda, are considered “mature” tourism destination with a relatively high dependence on tourist arrivals. For small islands, this over-reliance on tourism may aggravate their vulnerability since tourism is extremely sensitive to external shocks (climatic or economic). Some other Caribbean countries are viewed as relatively “emerging” destinations with a tourism contribution to the GDP not as important as the former group. Tourism is generally increasing as other economic sectors, which traditional agricultural activities are declining. This is particularly true for some of the Windward Islands whose economies are shifting from agriculture to services and in particular tourism. The Dominican Republic and Trinidad & Tobago have relatively diversified economies with important industrial sectors, although tourism is rapidly becoming very important in the Dominican Republic. Haiti has not benefited from the tourism development in the region and is not likely to benefit in the coming years.

Whether or not there is an EPA and even if tourism development in the Caribbean slows down, its structural growth is likely to continue in particular in emerging destinations. Regional integration with the full implementation of the Caribbean Single Market and Economy, which contemplates, *inter alia*, the free movement of tourism professionals, intra-regional tourism and intra-regional investment is likely to foster tourism development in the region. Economic gains associated with such a further development are also expected.

However, among the limiting factors of tourism development related to trade in tourism services, the lack of investment in physical infrastructure (refer to commercial presence –mode 3) and of trained human resources (refer to the temporary presence of tourist professionals –mode 4) are crucial. Even if with respect to GATS commitments Caribbean tourism is one of the most liberalised services sectors, there are opportunities for further liberalisation in particular in other sectors than Hotels and Restaurants. From the EU side, opportunities also exist under mode 3 and 4.

3.9.1 Economic Impacts

Without any change with respect to these limiting factors, tourism development and related economic gains may be relatively modest in emerging tourism destinations. With an EPA, trade flows between the Caribbean and the EU through commercial presence, the temporary movement of tourism services providers, the cross border supply of tourism services (basically through new technologies), and consequently tourist arrivals, are expected to increase. This may be particularly significant for commercial presence and for emerging tourism destinations, with positive impacts on South-South trade and outermost regions. Even if the current business environment in the Caribbean is attractive for foreign investors, further liberalisation is expected to provide investors with a more secure environment and to encourage FDI.

The production of tourism services and the contribution of tourism in the GDP are also expected to be higher than in the baseline scenario for the whole Caribbean region. The competition of local operators with EU investors is particularly true in the large hotels and restaurants sub-sector, small local ones as well as local travel agencies specialised in intra-tourism having comparative advantages. In general, results of the joint simulation on the economy (GDP, government income) and on the tourism (value-added, employment) sector are positive. Not only the tourism sector benefits from the reform but also the other sector strongly linked to the sector also benefit indirectly for the growth of the sector. Differences in effects are strongly related to some factors such as the relative importance of the sector in the economy, its export ratio and the structure of the national demand for tourism services. The relative importance of the tourism sector in Jamaica for instance, compared to Trinidad & Tobago, contributes to producing more favourable effects in the economy in general and in the tourism sector specifically.

Moreover, liberalisation of trade in tourism services is not sufficient to ensure positive economic impacts and a sustainable tourism development. First, the lack of air and maritime transportation is a crucial limiting factor to tourism development. If no improvement is to be made in this area, it is likely that only the already best equipped and served in tour operators catalogue Caribbean countries will benefit from an EPA, at the expense to more isolated ones such as the mainland countries.

Some obstacles related to domestic regulations in the Caribbean region are also crucial in influencing the degree and nature of economic impacts of an EPA. This is the case in particular of difficulties associated with incentives regime (taxation), lengthy procedures for the delivery of authorisation and licences and bureaucratic “red tape” associated with new travel and tourism projects. Finally, if economic gains are to be strengthened from further tourism development, it appears important to encourage diversification of tourism products and reduce the leakages from the forecasted increase in cruise and resort-based tourism.

3.9.2 Social impacts

Social impacts of the baseline scenario assume the full implementation of the Caribbean Single Market and Economy. In response to the potential increase in tourist arrivals, employment in the tourism sector may also increase. This trend may be particularly positive on women since they represent the majority of workers in the sector. However, potential substitution and “eviction” effects in the short term should be taken into account.

To ensure positive impacts on poverty it is important to consider not only the number of jobs created but also the level of wages and the quality of those jobs. These may vary from one Caribbean country to another depending on the average level of wages, the existence of a minimum wage and the efficiency of trade unions. In addition, it is a fact that tourism jobs are highly seasonal and tend to be increasingly so with the strong development of cruise tourism. The full implementation of the CSME considered in the baseline scenario may accentuate this trend with a stronger pressure on tourist operators to improve flexibility of labour.

Moreover, if women represent the majority of workers this is generally as unskilled labour in less stable and lower status work, while there is a demand for higher skilled workers (in management methods, use of new technologies, etc.). The free movement of persons (for specific categories of skilled persons) expected with the CSME may provide opportunities for transfer of skill. Caribbean skilled people may have more opportunities to export their services within the region. Indeed, there is no guarantee that women and in general unskilled people would benefit from the CSME.

Under an EPA scenario, positive impacts on employment in tourism are expected to be higher than in the baseline scenario as a result of further tourism development. In general, positive impacts on related intermediate sectors may also occur. As in the baseline scenario, this may in part positively impact women but as unskilled workers they may not benefit entirely from these additional jobs. Further liberalisation under mode 4 allows some categories of tourist professionals to work more easily to the EU for a temporary time period. This may have positive impacts on training for tourism services providers and consequently quality and competitiveness of Caribbean tourism services. Since women are marginal at executive and managerial levels and have less academic qualification and professional experience, the opportunity for them to benefit from this further liberalisation seem rather limited except as intra-corporate transferees. These results show the necessity to pay a particular attention in domestic regulations to wages, training for women and unskilled persons.

3.9.3 Environmental impacts

In the Caribbean existing tourism facilities concentrated along ecologically sensitive coastlines have already destroyed mangroves and beaches and caused lagoon pollution from sand mining, dredging, and sewage dumping. Hotels and resorts are often located too close to high water marks contributing to sedimentation and soil erosion. Damage to coastal habitats is also caused by uncontrolled development of marine recreational activities, marine water contamination and solid waste generation. In fact, in some areas, tourism threatens the health of the beaches on which the sectors relies for its success.

The continuing diversification in the tourism sector away from beach tourism and towards inland eco-tourism or adventure tourism for example is generally desirable, but could lead to positive or negative impacts on the environment, depending on how it is approached. On one hand, diversification can capture growing international demand for such activities, increase tourism revenues, contribute to the conservation of natural areas and biodiversity, and promotes social and economic advancement of local communities. However, it also threatens to expose previously pristine or relatively untouched areas to degradation, if not properly managed.

Generally, the continuing trend in tourist arrivals may have negative impacts on the use of natural resources. The tourism industry consumes considerable amounts of potable water and in the Caribbean tourists tend to use significantly more water than residents. Land-based tourism is generally associated with high levels of water and energy consumption.

The forecasted increase in cruise tourism may have detrimental impacts on coastal and marine areas. Any increase in the number of cruise ships in the region is likely to exacerbate marine pollution problems associated with oil and solid waste pollution. A considerable amount of marine pollution in the Caribbean already stems from ship-generated waste (unprocessed waste and plastic products), discharged illegally. The coastal areas most polluted in the Caribbean are also major habitats for marine plants and animals, which are reliant on vulnerable coastal mangroves, estuaries and coral reefs.

Whether or not there are large infrastructure projects, increases in scale of tourism will bring about increases associated with large numbers of people, such as congestion and added wastewater. The tourism industry already generates significant amounts of largely untreated liquid and 75% of existing treatment plants do not function efficiently enough to protect the environment.

Potential increase in tourist arrivals (cruise and land-based tourism) may also have negative impacts on solid waste. Tourism generates substantial amounts of solid waste. *Per capita*, the average tourist (land and cruise) produces more solid waste than residents and add to an overall waste disposal problem in the region (particularly for small island countries). Very little is done in the Caribbean generally in the areas of large-scale recycling, composting or incineration. Solid waste generated by the tourism sector also includes garbage from cruise ships, which pose a threat to the sea and coastal areas and marine life.

An EPA is not likely to slow or reverse any of these trends, without appropriate mitigating policies both with respect to trade and to be taken at the national or regional level in the ACP region.

From a trade perspective, it would be important to consider the importance of putting in place a regime to ensure that FDI occurs in a way that supports environmental sustainability and liberalising vital environmental goods and services in conjunction with tourism services in order to complement this effort. Increased demand and FDI will require increasing infrastructure such as efficient solid and liquid waste treatment plants, which are inadequate at present. This parallel liberalisation could therefore bring environmental gains, while encouraging the economic gains associated with increasing

tourism. Given the characteristics of European investments and tourists, an EPA may also encourage further environmentally sound practices, technical know-how, management systems and CSR.

These results are contingent in part on the development of strong domestic regulation that is enforced to ensure that any FDI is undertaken in a way that does not compromise the environment. This is particularly important where new hotels or transportation infrastructure (such as cruise terminals) is built in fragile coastal zones. It should be complemented with strong planning, and zoning laws to govern appropriate land use, and accompanied by an environmental impact assessment. Moreover, higher tourist arrivals and diversification within the industry to respond to demand, if not properly regulated, can expose previously untouched areas to degradation. Ironically, this is often a major concern with respect to the development of eco-tourism.

3.10 Policy Recommendations

This section proposes measures that could be implemented both by EPA negotiators and by decision makers in the EU and ACP countries, to mitigate any potential negative impact of an EPA and strengthen any positive impact in the tourism sector. In economic terms, addressing this challenge could make tourism a catalyst for other economic sectors such as agriculture, manufacturing and other services sectors. For example, sustainability produced food and man-made products that tourists buy when they visit the Caribbean countries could create opportunities for export in the countries of origin. From a social perspective, working in the tourism sector could provide opportunities for developing valuable skills for use in other services sectors through training programmes, in fields such as new information technologies for communication or marketing. From an environmental perspective, developing sustainable tourism is a way to raise awareness of environmental issues and encourage environmental protection and management.

3.10.1 Policies Related to Regional Integration

In addition to the process of regional integration that is already well-advanced in the CACP counties with respect to reducing regulatory barriers to entry and harmonising travel formalities, Caribbean ACP countries should pursue a cooperative work programme to:

- *Remove any remaining barriers to entry for tourism services*
- *Define guidelines, at the regional level, for the economic, social and environmental sustainability of tourism development.* This includes efforts of the CTO through its Regional Sustainable Tourism Policy Framework and efforts to establish and disseminate quality standards to ensure healthy, safe and environmentally conscious tourism products and services. The CACP countries should strive to adopt regional tourism standards. To the greatest extent possible, they should promote comparative advantages of each country (such as historic sites, forests, cultural activities) in an effort to improve the competitiveness of the Caribbean region. Particular attention should be paid to the specific case of Haiti and its comparative advantages with respect to agro-tourism and cultural tourism should be promoted. Elements of regional cooperation to develop a single regional tourism market include:
 - Development of a regional definition of tourism;
 - Develop a regional cruise tourism policy;
 - Build safety and security provisions into regional, national and local strategies;
 - Free movement of tourism professionals and tourists;
 - Regional cooperation to improve the skills of workers in the tourism industry and enhance the quality of tourism services offered in the region;
 - Regional competition policy;
 - Regional approach to ratings, certification and voluntary initiatives (e.g., CSR).
- *Encourage South-South trade.* Develop linkages with other ACP regions experiencing similar sustainability challenges. This should begin with sharing information and best practices with respect to promoting sustainable tourism services. Similarities with Pacific Islands make the exchanges in tourism services between these two regions particularly relevant (for example for further diversification from beach tourism). Mutual interests also exist with the African region.

3.10.2 Trade Measures: Recommendations for Negotiators

3.10.2.1 Market Access.

In the Caribbean, the most important modes of delivery for tourism services, relevant for liberalisation, are commercial presence and the presence of natural persons, even if the cross border supply is increasing with the use of NTIC.

- ***Remove remaining restrictions to commercial presence (mode 3) to encourage FDI.*** FDI can play an important role in developing tourism services that promote environmental sustainability and employ management standards that meet social codes such as those that exist in the EU. While a stable environment for investment already exists in the Caribbean, it is not so conducive to FDI. There should be an effort to increase FDI in the Caribbean and ensure it plays a role in supporting sustainability. To this end, an EPA should include clear rules to govern FDI between the EU and the Caribbean region to ensure environmental and social protections and transparency. The main elements of such a policy, concerning both governments and foreign investors, would be as follows:

- An undertaking at the government level that any rules intended to protect investors should not affect a host country's right to regulate for environmental and social protection or be construed to prevent a Party from adopting, maintaining or enforcing any measure that it considers appropriate to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental and social concerns.
- Harmonisation of incentives or tax on tourism among Caribbean countries as part of the regional integration process.
- An undertaking that Parties will not encourage investment by relaxing domestic health, safety or environmental measures. Accordingly, a Party should not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such measures as an encouragement for the establishment, acquisition, expansion or retention in its territory of an investment of an investor.
- Foreign investors should be required to put in place environmental management for post-establishment that promotes good governance including compliance with international environmental and social standards, corporate accountability, and transparency.

- A dispute settlement mechanism that is consistent with the overall goal of increasing transparency. Proceedings should be open to the public and there should be procedures for *amicus curiae* to make submissions to arbitral tribunals. This could ensure input on important sustainability issues that might not otherwise be adequately considered by a tribunal.
 - An undertaking that companies are required to behave in the same manner wherever they operate even where domestic regulations may not exist. In such cases voluntary practices such as Corporate Social Responsibility (CSR – whereby companies integrate social and environmental concerns into their business activities and in interaction with stakeholder on a voluntary basis) should be employed to fill the gaps.
 - A requirement to conduct impact assessments of prospective investments. Foreign investors should be required to undertake an objective, independent environmental and social impact assessment of proposed investments.
- ***Further liberalization with respect to the presence of natural persons (mode 4).*** Further opportunities for Caribbean tourist professionals to work temporarily in EU countries either to improve their experience and training in tourist destinations (such as France, Spain, Croatia) or to explore new markets such as those in the 10 new EU Member States are important to improve competitiveness of Caribbean tourism. Tourist professionals coming from the EU into the Caribbean may also help Caribbean countries respond to the forecasted development in a sustainable way and to improve their competitiveness. Recognising each country’s right to decide on market access conditions associated with their scheduled commitments the following recommendations are presented in order to promote these potential positive impacts associated with mode 4 liberalisation:
 - Improve market access for tourism professionals;
 - Remove requirements for an “economic needs test” for entry except under exceptional circumstances, which should be specifically stated.

3.10.2.2 Improve market access in related services.

- *Tourism development could be affected by lack of market access in other services sectors.* Improving market access in at least the two following related services

sectors could strengthen positive impact of an EPA in tourism services: air transportation services and environmental services.

➤ **Environmental services.** Particular emphasis should be placed on environmental infrastructure services including water and waste management in tourism facilities: the design of equipment for handling, storing and transporting solid, liquid or hazardous waste, the design, management and operation of waste-water treatment plants, the collection, treatment and disposal of solid waste, and waste recovery and recycling. Liberalisation of tourism services should be considered with liberalisation of these environmental services when they appear crucial for ensuring a sustainable tourism development. Other environmental services related to basic needs (e.g. drinking water) may be considered in a separate way.

➤ **Air transportation services.** The lack of air transportation services is one of the major obstacles to tourism development within the region (and for EU tourists travelling within the region). As highlighted by the CTO, sustainable air transportation is vital for the development and growth of the Caribbean tourism industry.

➤ **Other related services.** Additional services could be considered simultaneously with the liberalisation of tourism, as well as air transportation and environmental services. An EPA should prioritise the liberalisation of services sectors that will support the acquisition and management of technologies to support sustainability and improve technology transfer and the transfer of knowledge, construction, engineering, electronic commerce, maritime transport, communications, and recreational activities.

- ***Include items related to sustainable tourism on the agenda of the existing Regional Preparatory Task Force (RPTF).*** The RPTF should consider adding issues related to sustainable tourism to its work programme. In the first instance, these could include: addressing commercial barriers such as high marketing/advertising costs or inadequate internet access, frontier formalities and diploma recognition or the pursuit of Mutual Recognition Agreements between the Caribbean region and the EU.

3.10.3 Policies to promote sustainability: Recommendations for EU and ACP Policy Makers

- ***Training and Education.*** Put education and training at the forefront of tourism development. This includes integrating sustainable development education including tourism in the curricula of schools at all levels, universities and training institutions, involving all stakeholders groups, create and promote open networks for information and research on sustainable tourism, disseminate and implement results. It also includes ensuring that formal education and vocational training systems are adapted to the rapidly changing human resource needs of the industry, covering a variety of skills and customer service, including information technology. Finally, to the extent that these issues are addressed at a regional level there will be consistency in educational standards and qualifications.

- ***Domestic regulation and economic instruments.***
 - **Ensure high standards for environmental quality and social protection.**
 - **Regulate tourist access to ecologically fragile or stressed natural areas.** Given the growing interest of travellers in eco-tourism, governments should create marine and forest reserves or improve management of existing reserves to minimise risks to environmentally sensitive areas. Without adequate regulation, increases in eco-tourism and nature tourism could exacerbate current pressures on ecologically sensitive or pristine areas.
 - **Competition policy.** Slow growth of revenue per tourist in some developing countries is due to the combination of the following factors: monopolistic practices against developing country hotels, anti-competitive practices, such as vertical integration, predatory pricing, discriminatory access to networks and anti-competitive practices in air transport.
 - **Planning and Zoning.** Improve land-use planning and protection, guarding against unsustainable real-estate development that poses a threat to the image and quality of the Caribbean as a destination and discourages foreign investment. Improved planning and management to increase the technical expertise required in the areas of pollution

monitoring, and coastal zone management. Formulate appropriate policies and guidelines including consideration of the types of developments to be allowed.

- **Sustainability Impact Assessment.** Include requirements for SIAs for development and in particular for major infrastructure projects such as construction of bigger airports to facilitate the arrival of long-haul aircraft or terminals for cruise ships. Formulate appropriate policies and guidelines to guide SIAs that include a process for effective stakeholder consultation and for follow-up and continued monitoring to ensure that necessary preventive and/or corrective measures as necessary to promote sustainability.
- **Licensing and rating.** Enhancing compliance of Caribbean tourism services with European standards. Due to the increased importance of standards in trade in tourism services, and more generally the issue of quality of tourism services with respect to consumers' interests to remain competitive, this issue should be addressed. It includes the need for Caribbean suppliers to develop regional standards and ratings that are consistent with international ones.
- **Monitor and enforce national, regional and international laws.** Given the projected increase in cruise tourism and the contribution of cruise ships to marine pollution, governments in the region should dedicate resources toward monitoring and enforcing national, regional and international laws on marine pollution in order to prevent pollution of coastal areas.
- Countries should consider using *economic instruments (positive and/or negative incentives)*, as viable. Incentive measures should be designed in conjunction with relevant stakeholders including local communities. Specifically, the findings of this study indicate that these could usefully be directed towards: generating a sustained market for environmental goods and services; encouraging good governance and CSR; promoting environmentally friendly modes of transport and renewable sources of energy; maximizing opportunities for local provisioning to cruise ships

and trading opportunities for local retailers, as well as increase the conversion of cruise tourists to stay-over arrivals.

- ***Encourage investment for development.*** There is a need for improvements in infrastructure across the region, notably in utilities such as water and electricity supply and solid waste disposal. Tourism has a larger multiplier effect than any other sector since every unit of tourist expenditure goes through several rounds of income creation and expenditure before its effect is exhausted. The benefits accruing from investments in such infrastructure and superstructure as airports, hotels and restaurants, road network, communications, power and water supply as well as other related public utilities are widely shared with other sectors of the economy. Their development enhances the overall development at the local level and also encourages greater economic diversification. In all cases, major infrastructure projects or upgrading existing facilities should be subject to sustainability impact assessments.

- **Investment in environmental infrastructure** should be focused on upgrading existing plants and building new sewage treatment plants to ensure that basic effluent criteria are met.
- The role of **technology and environmental services** are vital with respect to improving techniques for wastewater management in the Caribbean. The development and use of new and appropriate technologies that minimise the impact of tourism activities on the environment and conserve natural resources (particularly water) will help alleviate pressures on the environment by pollution and the excessive use of water resources.
- **Investment in large-scale recycling, composting and incineration** would help address issues associated with solid waste, given the lack of space for land-fills in small Caribbean islands.
- **Investment in major infrastructure such as airports and cruise port facilities** might be necessary to meet projected demand in resort and cruise tourism.

- ***Capacity building for the private sector.*** In the Caribbean this should focus on:
 - **Research and Development and Technology.** Technology has become a vital source of innovation driving change in the hospitality industry.

The explosion of e-commerce has occurred in the past five years and the fastest growth in e-business-to-consumer has been in tourism, in the areas of air travel, car rental and hotel accommodation.

- **Strategies to promote SMEs.** This would include promotion of smaller hotels that might have positive impacts on the local economy but are not singled out as the type of tourism product likely to benefit in the short term from development in the Caribbean.