

**TOURISM SERVICES NEGOTIATION ISSUES:
IMPLICATIONS FOR CARIFORUM COUNTRIES**

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LIST OF ACRONYMS

ASEAN	Association of South East Asian Nations
ACP	Africa, Caribbean and Pacific group of states
ACS	Association of Caribbean States
CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Community
CARIFORUM*	Caribbean Forum
CAREC	Caribbean Epidemiological Centre
CAST	Caribbean Action for Sustainable Tourism
CBERA	Caribbean Basin Economic Recovery Act
CDB	Caribbean Development Bank
CHA	Caribbean Hotel Association
CHARMS	Caribbean Hotel Association Reservation Management System
CIDA	Canadian International Development Agency
CPC	United Nations Central Product Classification Code
CRS	Computer Reservation System
CSME	CARICOM Single Market and Economy
CTO	Caribbean Tourism Organisation
COTED	Council for Trade and Economic Development
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
FTAA	Free Trade Area of the Americas
GATS	General Agreement on Trade in Services
GDS	Global Distribution System
IFTO	International Federation of Tour Operators
MFN	Most Favoured Nation
MIF	Multilateral Investment Fund of the Inter-American Development Bank
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
PUCMM	Pontificia Universidad Católica Madre y Maestra
QTC	The Quality Tourism for the Caribbean programme
SME	Small and Medium Sized Enterprise
TSA	Tourism Satellite Account
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
US	United States
USVI	United States Virgin Islands
UWI	University of the West Indies
WPDR	Working Party on Domestic Regulation (at World Trade Organisation)
WTO	World Trade Organisation
WTO-OMT	World Tourism Organisation
WTTC	World Travel and Tourism Council

* The following are CARIFORUM member states: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, The Dominican Republic, Grenada, Haiti, Guyana, Jamaica, St Christopher and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

EXECUTIVE SUMMARY

This report sets out a regional negotiating strategy on tourism services in external trade negotiations, and proposes negotiating recommendations to execute this strategy.

The member states of CARIFORUM¹ are currently engaged in five sets of trade negotiations that have a services component: the multilateral trade negotiations at the World Trade Organisation (WTO) under the General Agreement in Trade in Services (GATS), the negotiations for a Free Trade Area of the Americas (FTAA), the negotiations with the European Union (EU) for Economic Partnership Agreements (EPAs), the bilateral CARICOM-Canada and CARICOM-Costa Rica negotiations. All apart from the EU negotiations are set to conclude by 1st January 2005, which is also the deadline for the establishment for the regional services market under the CARICOM Single Market and Economy (CSME).

A. The Diversity of Tourism Within CARIFORUM States

One of the main challenges facing regional negotiators seeking to develop a regional negotiating position on tourism services is the diversity of the industry within CARIFORUM states. Although the sector is led by the hotel and accommodation sub-sector, a typical tourism experience in a CARIFORUM destination can involve an almost infinite number of direct and indirect services transactions across many economic sectors. These can include transactions with airlines, hotels, guesthouses or private villas, car rental companies, water and electricity services, restaurants, retail outlets, local taxis, water-sports companies, yacht charter companies, marine transport companies, entertainers, tour guides, laundry service providers, food suppliers, local banks, and telecommunications service providers. The ability of CARIFORUM tourism destinations to compete internationally will depend on whether the entire range of these services can be provided efficiently, at low cost and in a manner that exceeds the expectations of incoming tourists.

From a public policy perspective, tourism cuts across many economic sectors, and many ministerial portfolios. The sector's diversity and fragmented nature complicates tourism public policy planning at the national and regional levels. Tourism's crosscutting nature also means that trade negotiations in a whole range of goods and services sectors will have an impact on the industry.

CARIFORUM states are a mix of emerging and developed tourism destinations. The pace of growth among them also differs considerably. Tourism growth in the Dominican Republic has outpaced its CARICOM neighbours, not least because of the lower operating costs that make it the most price competitive destination within CARIFORUM. In contrast, tour operator generated business in the Eastern Caribbean has been steadily declining. Different tourism sub-sectors are also growing at different speeds across CARIFORUM. For example, cruise tourism has displayed an upward trend in most CARIFORUM states.

In some regional destinations, tourism exhibits many of the characteristics of a commodity industry: extreme price competition and limited ability to differentiate. There is now a

¹ In this report, wherever possible, and according to the terms of reference for this assignment, "CARIFORUM", refers to the member states of the Caribbean Community (CARICOM), and the Dominican Republic. It should be noted that the memberships of both the Caribbean Tourism Organisation (CTO) and the Caribbean Hotel Association (CHA) extend far beyond the CARIFORUM grouping.

widespread recognition that destinations must re-position their tourism sectors by diversifying their traditional “sun, sea and sand” product offerings. Regional destinations are now aiming to achieve differentiation by emphasising their unique cultural, historical or ecological attributes.

The sector within CARIFORUM is characterised by a high degree of foreign ownership, particularly among the larger hotels. The industry is capital intensive, and requires large expenditures both to construct and operate hotels. These levels of capital are usually only available internationally. With a few notable exceptions, the majority of CARIFORUM-owned tourism service suppliers are Small and Medium Sized Enterprises (SMEs). The challenge for regional negotiators is to strike the right balance between encouraging new foreign investment into the sector while maintaining local community involvement in some tourism-related activities.

In general terms, tourism is believed to account for one in every four Caribbean jobs. According to World Travel and Tourism Council (WTTC) statistics for 2002, “tourism and travel economy²” accounted for 47.4% of total employment in the Bahamas, but only 6.1% in Haiti. Its contribution to GDP ranged from 71.7% in Antigua and Barbuda, 50.6% for St Lucia but only 4.8% for Haiti.

An important distinction needs to be made between “inbound tourism” – foreign tourists coming to the Caribbean - and “outbound tourism” – CARIFORUM nationals visiting countries outside the region for tourism purposes. The level of CARIFORUM outbound tourism is small compared to inbound tourism, and mostly caters for CARIFORUM nationals visiting friends and relatives abroad. However, its importance should not be over-looked as many locally owned travel agents and smaller tour operators supply this market.

B. The Context for the Proposed Negotiating Strategy

The trading challenges currently facing the CARIFORUM tourism sector are numerous. They include lack of adequate incoming air service due to low traffic density; the high operating costs in most CARIFORUM states; variable levels of product quality and the reliance on foreign direct investment (FDI) to improve this; low rates of return on investment which discourages new FDI; the high cost of marketing in tourism generating countries; lack of control over the product distribution channels for CARIFORUM tourism products which are nearly all foreign-owned; and lack of access to affordable financing. These challenges were exacerbated by recent global developments beginning with 9/11, but not caused by them. A review of the performance record of CARIFORUM destinations in the period preceding 9/11 reinforces the view that tourism growth in some states was stagnating even before the external events began to undermine global tourism demand and confidence in air travel.

To suggest that international trade negotiations on services can resolve all these issues would be an exaggerated claim. However, participation in services trade negotiations should be an important element of the regional tourism sector’s strategy to address these issues as outlined in the June 2002 Caribbean Tourism Strategic Plan. Surprisingly, this regional master plan for the tourism sector made no reference to participation in external trade negotiations. It is therefore recommended that the Plan be amended to refer to participation in external trade

²The WTTC’s “travel and tourism economy” statistics measure the broader economy-wide impacts, direct and indirect, of travel and tourism.

negotiations as many of the negotiating recommendations proposed in this report could help the region to achieve the Plan's ten principal objectives. These are set out in an Annex to this report.

C. The Objectives of the Proposed Strategy on Tourism Services

Given the increasingly intense levels of global competition for the tourism dollar, this report recommends that any CARIFORUM strategy on tourism services in international trade negotiations must be driven by the *general* objective of gaining competitive advantage for CARIFORUM tourism destinations over competing international destinations.

Besides this, the strategy seeks to attain the following *specific* objectives:

- i. Increasing the value derived from tourism by CARIFORUM service suppliers,
- ii. Enhancing the capacity of small services suppliers to participate in the tourism sector;
- iii. The removal of restrictions imposed by the third countries on their residents visiting the Caribbean to consume tourism services;
- iv. Increasing the direct market access of CARIFORUM services suppliers to the main tourist originating markets: the EU, US and Canada.
- v. Reducing the costs of tourism inputs, in terms of the goods and services that the tourism sector consumes.
- vi. Promoting the sustainable development of the tourism industry;
- vii. Encouraging a pro-competitive international trading environment for CARIFORUM tourism.

D. Drawing a Distinction Between WTO Negotiating Strategy and Strategy for Regional and Hemispheric Services Trade Negotiations

This report recommends that a clear distinction should be made between the negotiating strategy on tourism services at the multilateral WTO level, and in regional or hemispheric trade negotiations on tourism services (e.g. the EPA negotiations with the EU, the FTAA negotiations and the Canada-CARICOM negotiations).

At the WTO multilateral level, the Most-Favoured Nation (MFN) principle means that CARIFORUM states will be unable to negotiate specific concessions on tourism services for their sole benefit. In practical terms, the MFN principle means that any market opening to any WTO member must automatically be extended to all other WTO members. For this reason, the report recommends that CARIFORUM's more ambitious negotiating requests should be reserved for regional and hemispheric negotiations (e.g. FTAA³, negotiations with the EU, Canada-CARIFORUM), rather than multilateral trade negotiations on tourism services under the GATS.

³ Securing concessions for the Caribbean alone will be possible in the negotiations with the EU and Canada respectively. Whether this is possible within the FTAA, however, will depend on whether, and how, a "regional MFN" will be applied among the FTAA signatories. This issue has yet to be resolved in the FTAA negotiations, but CARICOM negotiators have been pushing for differential treatment for small states as a fundamental principle in the final agreement. If this succeeds, CARICOM could submit negotiating requests to the US, for example, for its sole benefit. An alternative would be to negotiate some of the negotiating requests in a side-deal to the FTAA agreement (e.g. a Hospitality Service Providers Programme under Mode 4).

E. A Mix of Defensive and Offensive Negotiating Recommendations

The proposed strategy is also a mix of *defensive* and *offensive* negotiating recommendations. A major defensive element of the proposed strategy is the preservation of some tourism related activities for regional service suppliers. Every CARIFORUM state preserves at least some tourism-related services for national companies and local service suppliers. In some countries, the preservation of some tourism sub-sectors for nationals is enshrined in national legislation for tourism development. In others, this is unwritten policy. These services are usually those that are within the investment capacity of CARIFORUM nationals. They include small hotels of 75 rooms or less, water-sports services, diving services, tour guide services, ground handling services, ground transport and marine transport services, entertainment services, travel agent services, speciality restaurant services, and destination management companies.

Some within the tourism sector have argued that service efficiency, rather than nationality, should be the determinant of who provides these services. But preserving some tourism activities for regional suppliers should be viewed as a response to the vertical integration of developed country tourism service providers in CARIFORUM markets, which poses an increasing threat to community involvement in the sector. It is no secret that tour operator business strategy is now to control every transaction with the tourist, thereby maximising margins and revenues.

It is therefore recommended that a list of tourism services that are currently preserved for regional service suppliers be compiled, by Mode of Supply, to guide services negotiators. Tourism is generally considered to be a sector where the linkages to other economic sectors are low, and the leakages of tourism profits high. Reaching agreement on which tourism services should be preserved for regional services suppliers could be a starting point for a regional strategy to maximise the linkages between tourism and other economic sectors, and for a strategy to ensure that the leakages of tourism profits does not accelerate.

A further defensive element to this strategy is to safeguard a measure of policy flexibility for national governments to regulate their tourism sectors in the national interest. It is a paradox that despite the liberalised nature of the tourism sectors of CARIFORUM states, government remains at the heart of all decision-making regarding new entrants to the tourism market. Although the preamble to the GATS recognises the right of developing countries in particular to regulate their services sectors to meet national policy objectives, two current areas of negotiation at the WTO could significantly constrain the policy space available. These are the negotiations in the WTO Working Party on GATS rules to agree multilateral disciplines for services subsidies, and the negotiations in the WTO Working Party on Domestic Regulation (WPDR) to agree guidelines for domestic regulations for services. It is recommended that both are monitored closely.

F. CARIFORUM Tourism Services Exports According to Mode of Supply, and The Regulatory and Commercial Barriers They Encounter

In terms of the export profile of CARIFORUM tourism services suppliers, most regional tourism services suppliers export their services through a combination of Modes 1, cross-border supply (e.g. through Internet reservation systems, via a GDS, or through a tour operator), and Mode 4, by visiting these markets to meet clients (e.g. at international tourism trade fairs). Only a handful of companies sell their services by establishing a “commercial

presence” in overseas markets via Mode 3. Of these, none have reported any regulatory Mode 3 barriers in the EU, US or Canada.

Because most CARIFORUM tourism services suppliers “export” their services only when foreign tourists enter CARIFORUM markets, they also rely heavily on Mode 2 trade, “consumption abroad”. Proposals to remove the remaining Mode 2 restrictions that the EU, US and Canada impose on their outgoing residents such as travel taxes and duty free limits - which as “frontier formalities” are not currently within the scope of the GATS - are included in a later section of this report.

The report also assesses the regulatory barriers for CARIFORUM tourism exporters seeking to enter the EU, US and Canadian markets, as recorded in the GATS schedules of commitments of these WTO members. For most tourism services suppliers, the *commercial* barriers to entry in these markets are just as onerous, if not more so, than the *regulatory* barriers as recorded in GATS schedules of commitments of WTO members. Commercial barriers include the high cost of marketing and advertising, which is beyond the means of all but the largest CARIFORUM hotel groups, and the difficulties that CARIFORUM SMEs face in gaining access to the distribution channels that place tourism products on the EU, US and Canadian retail markets (e.g. tour operators, airlines, CRS or GDS systems).

Concerning the regulatory barriers, Mode 4, the movement of service providing natural persons, is the most restricted mode of supply for regional tourism services exporters. In this regard, the report reviews the initial GATS offers of the EU, US and Canada on Mode 4. It concludes that they do not improve access for lesser skilled service providers, a key area of export interest for CARIFORUM states on tourism services, and offer no significant improvement for higher skilled tourism professionals seeking to enter these markets on a temporary basis.

To address this, the report recommends the following approach. Firstly, regional negotiators should request at the WTO that tourism professionals with qualifications from the University of the West Indies (UWI), the Pontificia Universidad Católica Madre y Maestra (PUCMM) in the Dominican Republic, and the national hospitality training institutes within CARIFORUM are included within the EU’s category of Contractual Service Suppliers (CSS); within Canada’s list of “Professionals”; and within the US horizontal commitments on Mode 4. Secondly, the report recommends that regional negotiators should submit more ambitious Mode 4 requests on tourism services in regional and hemispheric trade negotiations, in the form of requests for Hospitality Service Providers Programmes at both skilled and lesser skilled levels.

G. GATS Negotiating Options for CARIFORUM on Tourism Services at the WTO

CARICOM WTO members have yet to submit any formal proposals or negotiating requests on tourism services within the GATS negotiations, which began in February 2000. As CARICOM, and indeed CARIFORUM, is one of the most tourism-dependent regions of the world, there is a clear rationale for the region to play a leadership role in framing the global rules for the international trade in tourism services. The following three negotiating options are presented:

1. Support the Dominican Republic-led proposal for a new GATS Tourism Annex.

2. Present an amended version of the “Model Request on Tourism and Travel Related Services”. This model, drafted by UNCTAD in 2002 (see Annex), provides CARIFORUM governments with a template that they can adapt to suit the specific export interests of their tourism sector.
3. A “Reference Paper” on Tourism and Travel Related Services that would establish regulatory principles for the multilateral trade in tourism services. This sectoral solution could follow the precedent established by the 1996 Reference Paper on Telecommunications.

Of these options, 2 and 3 are recommended. An enormous negotiating effort would be required to revive the Dominican Republic-led proposal for a new GATS Annex on Tourism. This was discussed, but not endorsed, by WTO members in 2000 and early 2001. A combination of the Model Request and the Reference Paper would achieve the same objectives as the Tourism Annex proposal, but without the expenditure of negotiating capital required to revive it.

H. Competitive Safeguards, Sustainable Tourism, a Regional Definition for Tourism and the Re-Classification of Cruise Ships under the GATS

The Dominican Republic’s proposal for a new Tourism Annex to the GATS highlights three issues worthy of CARIFORUM’s careful consideration: the need for multilateral competitive safeguards to counter anti-competitive practices in the international tourism sector; the need to promote sustainable tourism development in the GATS, and the need to expand the definition of tourism under the GATS agreement. It is recommended that CARIFORUM support the first two issues, but only seek a wider GATS definition of tourism after a regional definition for the sector has been agreed. A brief discussion of these three issues follows.

Anti-competitive practises between tourism services suppliers *within the regional market* can only be addressed once a regional competition policy has been introduced under the CSME. This means that CARICOM states do not yet have the legislative means to implement - in the regional market - any new multilateral WTO provisions on anti-competitive practices in the tourism sector. The potential for anti-competitive practices in the *cross-border trade* of tourism services, between companies in tourist-originating markets and suppliers in tourist-receiving countries, is increasing. This is a consequence of mergers and acquisitions in the European and North-American airline and hospitality sectors. Further market consolidation will concentrate the ownership of the distribution channels for the CARIFORUM tourism product in the hands of an ever-decreasing number of companies in Europe, the US and Canada. CARIFORUM services suppliers are particularly vulnerable to anti-competitive behaviour on account of their weak bargaining power and small size. It is therefore recommended that CARIFORUM WTO members support new multilateral provisions to encourage a pro-competitive international trading environment for tourism, particularly concerning the cross-border trade of tourism services.

On sustainable tourism, the rationale for including sustainable development considerations in the GATS is the imperative of safeguarding the environmental and social assets on which tourism thrives. Both environmental and cultural resources are key factors of production for CARIFORUM tourism exports. They represent a vital asset in terms of the attractiveness and competitiveness of the region’s tourist destinations. The environmental risk from certain tourism related-practices – at sea and on land - points to the need for provisions to promote sustainable tourism development in all international trade agreements. It is therefore

recommended that CARIFORUM support new provisions to promote sustainable tourism development in all services trade negotiations.

Regarding the definition of tourism at the WTO, the GATS uses the Services Sectoral Classification list (MTN.GNS/W/120), within which category 9 on “Tourism and Travel Related Services” consists of the following: A. Hotels and restaurants, including catering, (CPC 641-643); B. Travel agencies and tour operators services (CPC 7471); C. Tourist guides services (CPC 7472); D: Other. Almost every WTO member that has submitted a negotiating proposal on tourism has recognised the inadequacy of this classification. But there is no consensus after two years of discussions on how best to amend this.

CARIFORUM WTO members would be in a stronger position to push for changes to the classification of tourism at the multilateral level if a definition for tourism had been agreed within the region. This should be the starting point on this issue, and the development of a regional definition for tourism is therefore recommended. If possible, this definition should be included in the agreement to establish the regional services market under the CSME. A regional tourism definition would guide public policy tourism planning at the national and regional levels. It would also be useful to guide regional negotiators in all services trade negotiations. Through the development of a regional tourism definition, the tourism sector could also emphasise the diversity of its product offering by including cultural events and heritage tourism (e.g. carnivals and festivals) and other unique selling points.

It has been recently suggested that cruise ships services should be re-classified under the GATS as a “tourism and travel related service”, rather than a “maritime transport service”. The cruise ship sub-sector is believed to be the only economic sector where the Caribbean is the leading global market. The Cruise Lines International Association (CLIA) noted in 2002 that “the Caribbean represents the number one destination with almost 47% of capacity placement”, followed by Europe, the Mediterranean, Alaska, Mexico, Hawaii and South America.

This report recommends that cruise ship services should be re-classified under the GATS as a “tourism and travel related service”, given the increasing importance of cruise ships to Caribbean tourism economies and the impact of their activities on land-based tourism sub-sectors (e.g. hotels, tours, attractions, entertainment etc). Cruise ships compete directly with the land-based hotel and accommodation sub-sector. They also control access to the tourist for many services and goods suppliers in CARIFORUM states (e.g. tour guides, entertainers, arts and crafts salesmen, retail outlets etc.) either by selling goods and services onboard, or by directing passengers to preferred retail outlets or service providers onshore. While there are diverging views on the benefits of cruise tourism to CARIFORUM destinations, it is evident that cruise tourism is a key element of the Caribbean tourism economy. The re-classification of cruise ships will be easier to achieve at the WTO if cruise ships are included within a regional definition of tourism.

However, in regulatory terms, the re-classification of cruise ships under the GATS will have little practical effect on the ability of CARIFORUM WTO members to regulate their activities in the region. Governments are *already* free to include market access or national treatment limitations on cruise ships in their GATS commitments on maritime transport services, should they wish to do so. A further recommendation is that regional negotiators seek clarification at the WTO where the regulatory authority for cruise ships lies, given that

most operate under flags of convenience (some under Caribbean flags of convenience). This highlights the anomalous position of cruise ships within the world trading system.

I. Responding to GATS Negotiating Requests

The Uruguay Round GATS commitments made by CARIFORUM - and other - WTO Members on tourism services had no liberalising impact. They were essentially “standstill commitments” that reflected, or were less than, the actual prevailing level of market access and national treatment for foreign services suppliers. But this is now changing. WTO members, including the US, are now making negotiating requests to CARIFORUM WTO members for improved commitments that go beyond the prevailing level of liberalisation.

The report recommends an approach to guide CARIFORUM WTO members as they respond to the sectoral negotiating requests on tourism services received from their trading partners in the GATS negotiations. Whereas the EC has presented tailored negotiating requests to each CARIFORUM state taking into account their varying levels of commitments on tourism services, the US has presented a standardised request to all CARIFORUM states. The EC⁴ requests are the more benign of the two.

The following approach is recommended for CARIFORUM WTO member states when responding to negotiating requests on tourism services from WTO trading partners:

- i. Make full GATS commitments (i.e. schedule “none”) in areas where further investment is required from trading partners such as large hotels, or where access to high quality services is required by the tourism sector. For example, the former could be achieved by listing “none” for Mode 3 commitments for hotels. One example of the latter is environmental services, a key area of offensive negotiating interest for the US and EC in the GATS. Access to these services is essential for sustainable tourism development, and CARIFORUM has limited capacity in this services sector.
- ii. Make “defensive” GATS commitments in tourism services sectors that are currently preserved for national or - after 2005 and the launch of the CSME - regional services suppliers. This will involve listing additional market access and national treatment limitations for five sub-sectors included in the GATS classification list for Tourism and Travel services (W/120, 9 A-D): travel agent and tour operators services, the construction and development of small hotels, certain types of restaurants, and tourist guide services. CARICOM states are removing restrictions on these services to liberalise the trade in services on a regional basis within the CSME by 2005. Any early market opening to suppliers from third countries such as the EU, US and Canada would deny regional tourism services suppliers a transition period to first adapt to increased competition within CARICOM.

⁴The EU is more aggressive in its horizontal requests to CARIFORUM states (e.g. the request that Barbados “eliminate” the Property Transfer Tax that foreign investors must pay when disposing of or acquiring an asset).

J. “Offensive” Negotiating Recommendations for CARIFORUM on Tourism Services in the FTAA, EU and Canada-CARICOM Negotiations

It is assumed that the final agreements on services resulting from the FTAA, CARIFORUM-EU and CARICOM-Canada negotiations will contain two elements: a set of guidelines and priorities between the contracting parties; and a schedule of specific commitments. In all cases, regional negotiators should seek to insert language that recognises tourism’s development potential for small economies in particular, and that positions the industry as a recipient of technical and financial assistance under EDF, USAID or CIDA funding facilities.

Concerning the scope of these negotiations, it is recommended that CARIFORUM urgently assess the costs and benefits of including negotiations on air transport services, including route rights for scheduled airlines and charter services, within the EU and CARICOM-Canada negotiations respectively. The rationale for this recommendation is that lack of incoming airlift is one of the major constraints to the sustainable growth of CARIFORUM tourism. The inclusion of route rights – normally negotiated within bilateral “open skies” agreements -- within a multi-sector trade negotiation could be beneficial for the regional tourism sector if it resulted in enhanced airlift into the region, and better route rights to Europe and Canada for regional carriers. Credit could also be sought in the negotiations for the incentives, such as financial incentives and seat guarantees, offered by some CARIFORUM governments to European and Canadian carriers to provide incoming services. Given the relatively advanced status of the GATS and FTAA services negotiations, it may be too late to introduce a discussion on passenger rights in these negotiations.

The following negotiating recommendations are proposed. They are grouped into horizontal requests, sectoral requests, requests to implement GATS Article IV, development assistance requests, and other requests to address specific trading problems.

a. Horizontal Requests Affecting Tourism Services

1. Reduce costs and facilitate access to visas for the temporary entry of CARIFORUM tourism professionals wishing to enter the EU, US and Canadian markets to supply services.
2. Include tourism professionals, with tertiary level hospitality qualifications from UWI, PUCMM and national hospitality institutes, within criteria established for the temporary entry of “professionals” or “business visitors”.
3. Establish programmes within the EU, US and Canada to recognise tourism professional qualifications and credentials developed in CARIFORUM states.

b. Sector Specific Requests on Tourism Services

4. Review EU, US and Canadian legislation relating to health and safety standards in the hospitality sector that are applied to CARIFORUM hoteliers – a Mode 1 request.
5. Introduce tax incentives for EU and Canadian businesses holding conferences or conventions in CARIFORUM countries – A Mode 2 request.
6. Reduce travel taxes imposed on EU, US, and Canadian tourists travelling to CARIFORUM states to consume tourism services. A Mode 2 request.
7. Increase duty-free exemptions for EU, US and Canadian returning residents, and make information available to all tourists, including cruise ship passengers, making purchases in CARIFORUM states for personal or household use. A Mode 2 request.

8. The negotiation of regional Hospitality Service Providers Programmes with the EU, US and Canada - A Mode 4 request.
9. Facilitate visas for CARIFORUM tourism students entering the EU, US and Canada on hospitality internships or stagier programmes – A Mode 4 request.

c. Negotiating Requests to Implement Article IV of the GATS

10. The introduction of market access contact points for the Mode 4 export of CARIFORUM tourism services in the European, US and Canadian markets.
11. Provide small airline carriers from tourism-dependent regions with affordable access to European and US Computer Reservations Systems (CRS) and Global Distribution Systems (GDS).
12. Enhance interface possibilities of CARIFORUM reservation systems - such as *CHARMS* and the *Go Caribbean* online booking engine - with GDS and online reservation systems, and increase their visibility in the tourism Internet marketplace.
13. The establishment of Web sites to identify market access opportunities in tourist-generating markets for small hoteliers and tourism services suppliers.
14. Establish government-to-government consultation mechanisms to ensure that CARIFORUM governments are consulted prior to the issuance of travel warnings.

d. Development Assistance and Technical Cooperation Requests

15. A programme of assistance for Internet marketing strategies for small hotels.
16. Technical and financial assistance to CARIFORUM states to introduce Tourism Satellite Accounts (TSA).
17. Provide technical support to CARIFORUM services providers wishing to establish commercial presence in the EU, US and Canadian markets
18. Encourage partnership programmes between CARIFORUM hospitality training institutes and their counterparts in the Europe, the US and Canada.

e. Other Requests to Address Some Specific Trading Problems

19. Establish a programme with unallocated EDF resources to increase air services to small, tourism-dependent states within CARIFORUM⁵.
20. Request that the US exercises stronger oversight control over US exports of food and other inputs for the CARIFORUM tourism industry to ensure that old stocks are not being dumped on CARIFORUM markets.
21. Introduce specific measures to expand insurance coverage for the CARIFORUM tourism sector, and to reduce costs.
22. Request that EU, Canada and the US approve the portability of health insurance policies in order to cover spa, rehabilitation, and chronic care services provided to their nationals in CARIFORUM states (request on health tourism services).

⁵This builds on a World Tourism Organisation (WTO-OMT) proposal to address “aviation market failure, and with it tourism market failure” in Least Developed Countries, submitted to the Worldwide Air Transport Conference in Montreal, Canada (24-29, 2003). The WTO-OMT referred to existing national and regional programmes in the EU and US to strengthen “distressed market failure regions,” such as the US Essential Air Services System. These were based on the provision of substantial central funds for “supplemental payment to airlines willing to operate under special licenses to such regions”. It is discussed in more detail in Part Four of the report.

K. Priority Actions to Promote the Tourism Sector within CARIFORUM

The tourism sector is the major consumer of goods and services in many CARIFORUM states. The industry is dependent on a range of inputs of goods and services, including both public infrastructure services (e.g. airports, transport and public utilities), and privately traded services (e.g. hotels and restaurant services, insurance services). Further liberalisation of some of services inputs into the tourism product could help the industry to achieve cost efficiencies, a prerequisite for increasing competitiveness.

Compared with the global competition, CARIFORUM destinations – apart from the Dominican Republic – are now considered high cost destinations. As the President of the Caribbean Development Bank (CDB) recently stated, “To put it starkly, CARICOM destinations are pricing themselves out of the market”⁶. From a services trade negotiating perspective, the CARIFORUM tourism sector would support further liberalisation in the following services, all of which are major inputs into the tourism product, if this leads to more efficient services at lower cost:

- i. Electricity services – further energy market liberalisation is supported by the tourism private sector if it results in lower utility costs, particularly for electricity.
- ii. Telecommunications services – the increasing importance of Internet reservation systems and online marketing highlights the importance of low-cost telecommunications and Internet services for the future development of the CARIFORUM tourism sector. Access to low cost telecommunications services is particularly important for tourism SMEs.
- iii. Environmental services - Gaining access to higher quality and lower cost environmental services would help meet the objective of “minimising the adverse impacts on the socio-cultural and natural environment and other touristic assets”, as proposed by the 2002 Caribbean Strategic Tourism Plan.
- iv. Insurance services - A recent World Bank⁷ study recommended that “restrictions on foreign insurance companies be eliminated” in the Caribbean. CARIFORUM negotiators should consider whether further liberalisation will reduce the costs of insurance for the CARIFORUM tourism sector, and increase capacity.

Concerning goods, tariff reductions on the following tourism inputs have been identified as being of particular benefit in lowering the operating costs of the hotel and restaurant sub-sector: furniture and linen, pasta, wines and spirits, bar and kitchen equipment (e.g. chillers and freezers) and specialty meats, fish and shellfish.

It is also important to note that the design of the regional services market under the CSME affects the negotiating recommendations in a number of ways. One example is that CARICOM requests for greater Mode 4 market access for lesser skilled service providers in the tourism sector – a key area of competitive advantage for CARIFORUM states - may be constrained by the scope of the CSME Protocol II provisions on the free movement of labour. These provide for the temporary movement of only qualified labour within CARICOM states. As a result, CARICOM requests for enhanced Mode 4 market access for lesser skilled

⁶ *Some thoughts on tourism*, address by Dr. Compton Bourne, President, Caribbean Development Bank (CDB), October 21st, 2002.

⁷ *Catastrophe Insurance Market in the Caribbean Region: Market Failures and Recommendations for Public Sector Interventions*, P. Auffret, World Bank Policy Research Working Paper 2963, January 2003.

tourism workers persons may be rejected by trading partners on the basis that CARICOM states do not permit this type of movement within their own regional integration process.

The report has also sought to identify some policy recommendations for CARIFORUM states to support the future growth of the tourism sector. These are:

- i. The development of a regional policy towards cruise ships and the tourism sector.
- ii. The development of a regional definition for tourism, to be agreed before 1st January 2005 and to be included within the CSME.
- iii. The need to upgrade the statistical capacity of CARIFORUM member states to measure the impact of tourism on national economies.
- iv. The need to facilitate the movement of tourists within CARIFORUM, and of international tourism professionals entering the market on a temporary basis.
- v. The need to treat tourism as an export industry, including within national taxation.

Finally, the report identifies the following actions whereby regional negotiators could seek to promote the tourism sector within services trade negotiations:

- i. Promote the tourism sector as a recipient of donor funded development assistance by negotiating specific language to this effect in all services trade negotiations.
- ii. Encourage the participation of both tourism public and private sectors in external trade negotiations on services, through the formation of a public/private tourism negotiating committee in the region to execute the proposed strategy.
- iii. The inclusion of CARIFORUM tourism ministers and officials in COTED discussions relating to the international negotiations to liberalise trade in services.

L. Timing

Despite the fact that international trade negotiations normally move at only a glacial pace, urgent action is now required by tourism stakeholders to promote the industry's interests. The GATS and FTAA negotiations have now reached advanced stages. The deadlines for completing most of the trade negotiations that CARIFORUM states are engaged in are colliding around 1st January, 2005. This is also the date for the launch of the regional services market under the CSME. What this means is that there is now little time to execute the recommendations outlined in this report. A successful outcome will require a significant commitment from both the public and private sectors for the next three years. It will be greatly facilitated if a public-private consensus can rapidly be reached on the objectives of the proposed recommendations.

PART I AN OVERVIEW OF CARIFORUM TOURISM

Some brief highlights of the recent performance of the industry are presented in this introductory section, and areas of growth and decline are highlighted. Finally, a brief summary of the global context and regional responses to the current crisis in international tourism is presented.

I.1 Tourism in CARIFORUM is a Mix of Developed and Emerging Destinations

The Caribbean is regarded as the most tourism-dependent region of the world, and the industry is believed to account for one in every four jobs. Some CARIFORUM destinations are well established in the international market place, such as Antigua, Jamaica and St Lucia. Others, such as Belize, Guyana, Suriname, and Trinidad and Tobago, have only recently begun to aggressively promote tourism as a source of economic growth and development. As one would expect tourism's importance to national economies differs greatly across CARIFORUM states.

The pace of tourism sector growth differs substantially across CARIFORUM states. In recent years it has been the Hispanic Caribbean, led by Cuba and the Dominican Republic, that have seen the rapid expansion of the tourism sectors through an aggressive pursuit of the mass tourism market principally through "all-inclusive" packaged holidays. Tourism growth in the Dominican Republic has outpaced its CARICOM neighbours. A relative latecomer to tourism, annual international arrivals to the Dominican Republic grew at three times the Caribbean average at 10%, between 1995 and 2000⁸. The Dominican Republic is the most price competitive destination with significantly lower operating costs than its CARICOM neighbours, particularly labour costs.

The OECS states have seen little new investment in their hotel and accommodation sector during the last decade, as well as a reduction in tour operator generated business. According to the Caribbean Strategic Tourism Plan, "Major tour operators have all but ceased operating to the Caribbean, other than Cuba the Dominican Republic and Jamaica. The Eastern Caribbean countries have been the major casualties of these developments."⁹

I.2 The Leading Markets for CARIFORUM Tourism

The three leading markets for CARIFORUM tourism are the US, Europe and Canada. In 2002, Europe was the leading source of tourists for Antigua and Barbuda, Barbados and the Dominican Republic. In the same year, the US was the principal market for the Bahamas, Belize, Cayman Islands, Guyana, Jamaica, St Lucia and Trinidad and Tobago. Grenada and St Vincent and the Grenadines attracted almost equal amounts of European and US tourists. In all CARIFORUM tourism destinations apart from Guyana, Canada is the third largest market after either Europe or the US¹⁰. Whereas the European market is highly packaged, the "Free, Independent Traveller", who is more inclined to package his/her own vacation

⁸ Source: World Tourism Organisation, http://www.world-tourism.org/market_research

⁹ Source: *Caribbean Tourism Strategic Plan*, Revised Draft Report, June 10, 2002.

¹⁰ CTO Latest Statistics 2002. April 11, 2003.

experience after thorough research using the Internet and other information sources, is accounting for an increasing share of the US and Canadian markets.

According to CTO, the growth in intra-Caribbean tourism slowed in 2001, but this market remains particularly important for Dominica Guyana, St. Christopher and Nevis, St Vincent and the Grenadines, Trinidad and Tobago. In these countries, the Caribbean market accounted for as much as half of the total tourists in 2001.

I.3 Structural Differences Across CARIFORUM Tourism Destinations

There are also important structural differences across CARIFORUM tourism destinations, not least in relation to the size of the industries. For example, in 2001 just over two-thirds of all tourist arrivals to CARICOM countries (66.5%) were to three countries: the Bahamas, Barbados and Jamaica¹¹. The issue of scale is further emphasised by a comparison of the hotel and accommodation tourism sub-sectors within CARIFORUM, particularly room capacity. In the Bahamas, one foreign owned-hotel has the same number of rooms (2,500) as the total room inventories of St. Christopher and Nevis (1,754) and Guyana (730) combined. Yet the Bahamas also contains a small number of locally owned hotels and private villas. In Belize, the average size of hotel is no more than ten rooms: Belize's room inventory consists of 4,000 hotel rooms spread between 400 hotel and lodging establishments.

Levels of foreign ownership within the hotel and accommodation sub-sector also vary considerably across CARIFORUM, although most larger hotels - more than seventy-five rooms - have significant levels of foreign capital. Tourism is capital intensive, and requires large expenditures both to construct and operate hotels. These levels of capital are usually only available internationally and CARIFORUM companies – with one or two Jamaican and Dominican exceptions – have difficulty raising these funds in international markets.

In recent years, most CARIFORUM destinations have sought to diversify their product offerings beyond the traditional “sun, sea and sand” beach tourism. Some destinations place a stronger emphasis on attracting business tourism (e.g. Trinidad and Tobago) or eco-tourists (e.g. Guyana, Suriname, Belize) while others are more oriented to all-inclusive holiday experiences packaged by tour operators (e.g. Bahamas, Dominican Republic, Jamaica). However, this characterisation is too simplistic as many CARIFORUM destinations currently offer multifaceted tourism experiences that often combine beach tourism with eco-tourism, heritage and cultural tourism (e.g. carnivals), and sports tourism (e.g. golf, scuba diving).

I.4 Areas of Future Growth for CARIFORUM Tourism

The growth of cruise tourism to many CARIFORUM states has recently outstripped the growth of land-based tourism. For example, Belize experienced a staggering 564% increase in cruise passenger arrivals in 2002 compared to 2001¹². In contrast, both Antigua and Barbuda and St Lucia experienced a decline in the number of cruise passenger arrivals in 2002 of 25% and 21% respectively. The importance of cruise tourism also differs markedly across CARIFORUM member states. In 2001, the Bahamas received 17.1% (2.552 million arrivals) of the total number of arrivals of all of Caribbean Tourism Organisation (CTO)

¹¹ CTO statistics for 2001.

¹² Source: Belize Tourist Board. This figure compared to a 1.8% increase in tourist arrivals.

member states, whereas St Vincent and the Grenadines and Trinidad and Tobago accounted for 0.5% and 0.6% of the totals respectively.

As competition intensifies in the international tourism marketplace, CARIFORUM states are combining their traditional product offer of “sun, sand and sea” with more specialised niche marketing in newer areas such as casino and gaming tourism, spa and health tourism, eco-tourism, business and incentive tourism, adventure tourism, destination weddings, event-focused cultural tourism (including carnivals and festivals, and major sporting events such as the cricket world cup), heritage tourism, sports tourism (e.g. golf, diving and yachting), visitor attractions and multi-destination tourism.

While some CARIFORUM states have already developed gaming tourism sub-sectors (e.g. Antigua and Barbuda¹³, Bahamas, Dominican Republic), others are considering carefully the impact of gaming on local societies and the response of religious communities. The Association of Caribbean States (ACS) has recently formed a consultative committee on Multi-destination tourism in the Greater Caribbean¹⁴, chaired by the Caribbean Tourism Organisation (CTO) and multi-destination programmes will be developed in collaboration with small hotels, regional airlines and regional tour operators.

Cultural tourism, including festival and carnival tourism, is also considered as area of potential growth for some CARIFORUM destinations. Many CARIFORUM states (e.g. Jamaica) are already marketing their destinations on the basis of annual programmes of events relating to the arts, music festivals, and religious festivals. The Trinidad Carnival received 35,000 visitors in 2003, the highest ever inflow of tourists for a Caribbean festival.

I.5 Areas of Decline within CARIFORUM Tourism

There is a widespread acceptance that Caribbean tourism now needs to be re-positioned through a more diversified and higher quality product offering. In some CARIFORUM states, room rates have remained static for at least five years. This points to a lack of sustainability, particularly in tour-operator led business. The island destinations within CARIFORUM supply a specific segment of the global tourism demand: sun, sand and beach tourism. The lower value, mass-market end of this sector of the global tourism market has many of the characteristics of a commodity industry: extreme price competition and limited ability to differentiate. Tour operators also have a clear interest in the standardisation of this type of tourism products, as it enables them to switch supplier destinations while maintaining the integrity of their brands. Tour operators can exert dominant market power in some

¹³ In late March 2003, the Government of Antigua and Barbuda requested WTO consultations with the US on proposed measures, contained in the “Leach Bill”, affecting the cross-border supply of gambling and betting services. The Bill would criminalise the use of financial instruments, such as credit and debit cards, for debts incurred in Internet gambling. It would enable state and federal attorneys to request that injunctions be issued to any party, such as a financial institution or Internet service provider, to prevent this type of crime. Officials in Antigua and Barbuda maintain that the Leach Bill, if adopted, could result in the closure of 40 Internet casinos and some 800 job losses, as well as a loss of \$2.2million in annual licensing fees. The dispute could escalate into the first ever WTO challenge under the GATS agreement. (*US threatened with WTO Dispute case over online gambling restrictions*, International Trade Daily, March 24, 2003L; *United States: Measures affecting the cross-border supply of gambling and betting services (Brought by Antigua and Barbuda)*: 27 March 2003, World Trade Organisation (WTO), WT/DS285/1 S/L/110).

¹⁴ Report on the ACS Consultative Committee on Multi-destination tourism in the Greater Caribbean, Port of Spain, Trinidad and Tobago, February 27th 2003.

CARIFORUM tourism markets as they account for a large share of total tourism demand. They can also drive down prices where the product is easily substitutable, and because many CARIFORUM hotels have no alternative means of generating volume bookings.

The “commoditisation” of the tourism product in some CARIFORUM destinations – whereby destinations offer standardised sun, sand and sea tourism products with limited differentiation - has led to a vicious downward spiral. Hotels that face increasing competition typically discount prices¹⁵ to maintain occupancy rates and guarantee volume bookings for the forthcoming season. As a result of declining margins, expenditure on quality control and maintenance is reduced. As the quality of the product deteriorates, tour operators move on to new hotels. In this way, hotels can experience a cycle of initial boom, popularity and high occupancy rates, followed by price discounting, and eventual decline as newer and better quality accommodation emerges elsewhere¹⁶.

It should be noted, however, that international tour operators also face strong competitive pressures in their own markets, and it is the highly competitive consumer markets for package holidays that drive them. So much so that it has been estimated that if prices to one destination increase in relation to its competitors by 1%, then bookings to that destination will fall by 3-5%¹⁷. As the table below shows for selected EU states, profit margins for tour operators are not high. In response, major tour operators have been buying into all elements of the tourism value chain so as to maximise margins and revenues through vertical integration. Against this background, the only route for CARIFORUM hotels to obtain greater control over pricing is to develop a higher quality product and move out of the commodity tourism market.

Box 1.1: Breakdown of Average EU Tour Operator Package Prices¹⁸			
	BELGIUM	GERMANY	UK
Travel Agents Commission	11%	12%	12%
Airline Costs	37%	30%	37%
Hotel Costs	36%	45%	37%
Destination Costs	7%	6%	6%
Overheads	7%	5%	6%
Profit Margin	2%	2%	2%

¹⁵ The hoteliers of one resort in the Dominican Republic, *Bayahibe*, have devised a collective negotiating strategy in response to pressure from tour operators to lower prices. They have agreed not to lower prices below specific rates. This collective approach to pricing is probably unique within CARIFORUM.

¹⁶ For a discussion of tour operator-led tourism development, see *Competitividad del Turismo en Republica Dominicana*, Vial, Brown and Seward, August 2002.

¹⁷ *The changing structure of international trade in tourism services, the tour operator perspective*. Alain Flook, Secretary General of the International Federation of Tour Operators (IFTO). Presentation delivered to the WTO Symposium on Tourism Services, Geneva 22-23 February 2001.

¹⁸Ibid.

I.6 Tourism: A Sector Characterised By Low Linkages and High Leakages

Tourism is generally considered to be a sector where the linkages to other economic sectors are low, and the leakages¹⁹ of tourism profits high. Estimates vary but tourism leakages have been reported to be as high as 85 percent for African Least Developed Countries (LDCs), 80 percent in the Caribbean, 70 percent in Thailand, and 40 percent in India (UNEP)²⁰. Yet even this situation also differs from country to country within CARIFORUM. Some destinations have had more success than others with integrating tourism with other sectors of their economies and retaining tourism rents. Jamaica has made some progress in linking domestic agricultural production with the local market created by international tourism. All chicken products, fruits and vegetables for tourism consumption are sourced locally in Jamaica. However, CARIFORUM states have yet to devise a regional strategy to minimise the high levels of foreign exchange leakage from tourism caused by the levels of foreign ownership of the sector.

I.7 All CARIFORUM Destinations Preserve Some Tourism Activities for Local Companies

As well as structural differences among destinations, there are also some commonalities among CARIFORUM tourism sectors. The most important for the purposes of this report is that every CARIFORUM state preserves at least some ancillary services for national companies and local service suppliers. In some countries, the preservation of some tourism sub-sectors for nationals is enshrined in national legislation for tourism development. In others, this is unwritten policy.

These services are generally those within the investment capacity of CARIFORUM nationals. The most common that are preserved for nationals include water-sports services, diving services, tour guide services, ground handling services, ground transport and marine transport services, entertainment services, travel agent services, restaurant services, destination management companies, some retail services related to tourism, and hotel development services for hotels of 75 rooms or less.

It is not always the same services that are preserved for national suppliers in each country. For example, not all CARIFORUM states share Trinidad's interest in preserving marina developments of 100 berths or less for Trinidadian nationals, which reflects Trinidad's recent success in developing a reputation for yacht repair and maintenance services. More commonly, many CARIFORUM states preserve travel agent services, ground transport services and tour guide services for local companies. Most CARIFORUM travel agencies deal with out-bound tourism, including the important "VFR" market (CARIFORUM nationals visiting friends and relatives), rather than the much greater in-bound tourism market.

¹⁹ According to UNCTAD (1998) "Leakages are a major obstacle to the positive contribution of tourism to development. Leakage is a process whereby part of the foreign exchange earnings generated by tourism, rather than being retained by tourist-receiving countries, is either retained by tourist-generating countries or remitted back to them. Leakages can take the form of profit, income, and royalty remittances; payments for the import of equipment, materials, and capital and consumer goods to cater for the needs of international tourists; the payment of foreign loans; various mechanisms for tax evasion; and overseas promotional expenditures".

²⁰ *Using Cluster-based Economic Strategy to minimise tourism leakages*, Golub, Hoiser and Woo., 2002.

Paragraph 25. Paper prepared for World Tourism Organisation (WTO-OMT) Working Group on Liberalisation.

The preservation of some tourism-related services, by mode of supply, for regional service providers is a major defensive element of a negotiating strategy for tourism services. CARIFORUM governments should refrain from making market access and national treatment commitments for these services, particularly on Mode 3 “commercial presence”, in any services trade negotiation. At the regional level, it will be important for a list of such services to be compiled in order to ensure that these services are not liberalised further in international trade negotiations. The CARICOM Services Working Group could take the lead in this initiative. The aim of this proposal is to ensure local community involvement in the tourism sector, a fundamental pillar of sustainable tourism development.

The recent trend towards vertical integration – of developed country companies in CARIFORUM markets – poses a direct challenge to the involvement of local companies and communities in tourism activities, and increases the leakage of tourism profits from CARIFORUM states. A regional strategy is required both to counter the effects of this trend, and to reduce the levels of foreign exchange leakage from tourism. A starting point would be to identify which tourism-related services should be preserved for regional suppliers.

I.8 Nearly All CARIFORUM Tourism Companies are SMEs

With a few notable exceptions, the majority of CARIFORUM service suppliers are Small and Medium Sized Enterprises (SMEs). CARIFORUM SMEs provide services to the regional tourism sector (e.g. entertainers, ground and marine transport companies, water-sports and dive operations, accounting services, security services, plumbing and maintenance services, garden and pool maintenance services) and also represent a substantial percentage of the small hotels and lodgings sub-sector. A United States negotiating proposal on “Small and Medium-Sized Services Enterprises” in the GATS negotiations (TN/S/W/5 of 1 October 2002) defines small services enterprises as having up to a hundred employees, total assets of up to US\$3million and total sales of up to US\$3million. Against this definition CARIFORUM-owned tourism services suppliers would be classified as either “micro” enterprises or “very small”.

Paragraph 3 of the Guidelines and Procedures for the GATS services negotiations (S/L/93) at the WTO states that “due consideration should be given to the needs of small and medium-sized service suppliers, particularly those of developing countries”. It is up to the CARIFORUM tourism sector to respond to this opportunity by formulating trade negotiating requests that would take advantage of the willingness of WTO members to address the needs of SMEs in the GATS negotiations.

I.9 CARIFORUM Destinations Have Little Control over the Product Distribution Channels

A major issue for the industry is that the distribution channels for the CARIFORUM tourism product are controlled by a limited number of international companies. The number of intermediaries who control these channels has been steadily decreasing due to mergers and market consolidation in the main markets for CARIFORUM tourism: Europe, the US and

Canada. This is true for tour operators in Europe²¹ (e.g. Airtours, Tui, Kuoni), cruise operations (e.g. Carnival, Norwegian, Royal Caribbean Cruises), Computer Reservation Systems (Amadeus, Sabre, Galileo, Worldspan²²) and even online booking engines and Internet portals (Hotels.com, Expedia, Travelocity). This limits the region's control over the future development of the sector, and has created significant imbalances in negotiating power between CARIFORUM companies and the intermediaries on whom they depend for access to market.

As a consequence, most CARIFORUM tourism service providers have only indirect market access through wholesalers or intermediaries to the principal tourist generating markets. This is a major constraint to the increase of tourism exports via Mode 1, "cross-border supply". Although the Internet has provided an alternative and cheaper distribution channel for the supply of tourism services, where better prices can be obtained by cutting out commissions to intermediaries and wholesalers, the number of online bookings by foreign tourists is still small compared to tourism products packaged by international tour operators.

Increasing the direct market access of CARIFORUM service providers to tourist-generating markets is a common objective throughout the regional tourism sector. Both CTO and CHA have been working to address this issue in the hotel and accommodation sector particularly, through the CHA's "Go Caribbean" online booking engine, and through the Caribbean Hotel Association Reservation Management System (CHARMS) which aims to provide small properties with affordable access to GDS systems.

I.10 Tourism is the Most Liberalised Sector in CARIFORUM Economies

Tourism is already the most liberalised economic activity within CARIFORUM states. Governments have introduced a wide range of incentives and concessions to attract foreign investors (e.g. duty free exemptions for certain tourism inputs, tax holidays etc). These government incentives go far beyond the commitments required under the GATS agreement. They also mean that in some cases, larger international investors receive more preferential treatment from government, in the form of incentives, than smaller locally owned companies: an inversion of the normal situation regarding "national treatment".

It is a paradox that despite the liberal nature of the sector, government remains at the heart of all decision-making regarding new entrants into the CARIFORUM tourism sector. The sector is heavily regulated in CARIFORUM states. Governments control the entry of new foreign companies into CARIFORUM markets through the issuance of licences or permits (e.g. in Trinidad and Tobago, any investment over one acre requires a licence), or other forms of regulatory control such as economic needs tests. Within a WTO context, many of these restrictions have *not* been inscribed in the GATS schedules of CARIFORUM WTO members.

A review of the GATS commitments of CARIFORUM WTO members also shows that CARIFORUM states did not adopt a common regional approach to scheduling in the Uruguay Round services negotiations. CARIFORUM WTO members have also made

²¹ This has led to calls for the development of a regionally-owned tour operator or wholesaler. However, serious doubts have been expressed about the viability of this proposal.

²² According to ICAO, "There were more than a dozen major CRS vendors in 1993, now there are only four mega-CRSs" (Source: ICAO presentation at WTO Symposium on Tourism Services, 22-23 February 2001).

differing levels of GATS commitments on tourism services, meaning most CARIFORUM countries have different starting points in the current services negotiations under the GATS.

I.11 The Global Context for Caribbean Tourism and the Regional Response

Recent global developments have emphasised the fragility of the Caribbean tourism sector to external economic shocks. The WTTC suggested that September 11th alone caused a loss of 365,000 jobs in the Caribbean. Levels of global insecurity increased again during the build-up to the war in Iraq and the terrorist attacks in Kenya and Bali, two leading developing country tourism destinations. These events have further undermined global confidence in air travel, with disastrous consequences for international airlines and the tourism industries that they service, including the Caribbean. In parallel, weak economic growth, recession and stagnating equity markets in the United States, Europe and Canada have continued to dampen the demand for Caribbean tourism in the main tourist-generating markets.

The response of the Caribbean tourism industry to the sequence of external shocks that began with 9/11 has been to cut costs, discount rates - and margins - and accelerate the introduction of promotional campaigns such as *'Great Places of the Caribbean'* and *'Life needs the Caribbean'*. Efforts have also been made to market the region as a safe tourism destination in the hope that this will offset the downturn.

At a public policy level, the major regional response was the agreement on a new regional Caribbean Tourism Strategic Plan. The plan was mandated by CARICOM Heads of Government at the December 2001 Regional Summit on Tourism in The Bahamas. At that Summit, Heads of Government and the regional private sector recognised the need for a ten year (2002-2012) Caribbean Tourism Strategic Plan to re-position the Caribbean hospitality industry through a combination of priority short-term recovery actions and long-term development measures with appropriate funding. A key element of the Plan was an agreement to market the Caribbean as a single destination. The objectives of the Plan are listed in an Annex to this report.

Surprisingly, the Caribbean Tourism Strategic Plan made no mention of international trade negotiations on services, including tourism services. As this report will show, this may have been an oversight given that many of the negotiating recommendations proposed on tourism services could help to attain the ten agreed objectives.

PART II TOURISM AND THE GATS SERVICES NEGOTIATIONS AT THE WORLD TRADE ORGANISATION (WTO)

The WTO negotiations on services under the GATS Agreement began in February 2000. The “request-offer” process began with the deadline of 30 June 2002 for the submission of negotiating requests by WTO members. The deadline for making initial offers in response to these requests was 31st March 2003. However, these deadlines have been missed by a majority of the WTO membership. By early April 2003, only 30 developing countries had presented their services requests. None had presented offers.

During the initial phase of the GATS services negotiations (January 2000 – June 2002), several WTO members presented general negotiating proposals on tourism services. Almost all recognised the inadequacy of the current definition of tourism under the GATS. The GATS uses the Services Sectoral Classification list (MTN.GNS/W/120). Category 9 of this defines “Tourism and Travel Related Services” as: “A. Hotels and restaurants (including catering), CPC 641-643”; “B. Travel agencies and tour operators services, CPC 7471”; “C. Tourist guides services, CPC 7472”; and “D: Other”.

This section of the report is divided into four parts: a summary of the negotiating proposals of WTO members in the GATS negotiations; an overview of the responses of WTO members to the Dominican Republic’s GATS tourism Annex proposal; an assessment of the some of the issues raised by the Annex proposal; the negotiating options for CARIFORUM on tourism in the GATS negotiations.

II.1 A Summary of the GATS Proposals on Tourism Services

The following is a summary of these proposals, beginning with the Dominican Republic-led proposal for a new GATS Annex on Tourism, and the EC’s response to this.

a. The Dominican Republic Proposes a New GATS Annex

Towards the end of the preparatory process for the Seattle WTO Ministerial Conference, the Dominican Republic, El Salvador and Honduras tabled a proposal on “the need for an Annex on tourism” on 14th October 1999 (WT/GC/W/372, S/C/W/127). The proposal noted that the World Tourism Organisation (WTO-OMT) had called for a GATS Annex on Tourism “that could better handle the specificities of the sector during and after the next round of services negotiations”. The co-sponsors submitted a draft text for a new GATS Annex on tourism. In addition, the following rationale was provided:

- the current GATS definition made it impossible to deal with tourism as a cluster in line with the wider definitions of tourism adopted by the United Nations and WTO-OMT;
- it was not possible to monitor liberalisation nor compliance with commitments to meet GATS Article IV on “Increasing Participation of Developing Countries”;
- a GATS “request-offer approach would fail to eliminate the barriers to the trade in tourism services especially in related services areas such as transportation services and travel distribution services;
- new GATS provisions were needed to deal with the trade implications of anti-competitive conduct in the tourism sector.

The delegations also attached a list of services comprising the “tourism cluster”. This categorised over two hundred different services as either “tourism characteristic services”, “tourism connected services” or “tourism non-specific services”. The co-sponsors also attributed each of these services to the relevant sectoral headings of the existing GATS Services Sectoral Classifications headings (e.g. for “Business Services” and “Communications Services”).

b. The EC Preferred a “Checklist” Rather than a GATS Tourism Annex

The European Communities (EC) (S/CSS/W/5 of 28 September 2000) was the only WTO member to formally submit a reaction to the proposed Annex. Although the EC stated its support for “the main intentions” of the proposal, it did not explicitly endorse the establishment of a new Tourism Annex to the GATS. The EC agreed with the treatment of tourism as a cluster “so long as the cluster approach is seen as a “checklist” to be used in the negotiations to assist negotiators in identifying optimum proposals for effective and complementary liberalisation related to the sector”.

The EC therefore attached a shorter “tentative checklist” to its submission entitled “Core Tourism and Tentative Tourism Checklist”. This listed thirty-two services sectors, in addition to the four “core tourism sectors and sub-sectors” which are the existing GATS classification for tourism (W/120, Chapter 9). It suggested that WTO members should use this as an Aide Memoire to guide them in the GATS negotiations. The EC viewed the listing of sectors put forward by the sponsors of the Annex proposal as “too broad”. It also noted that air transport services was currently excluded from the GATS negotiations, and that some of the issues raised by the sponsors could be better addressed in the WTO’s Working Party on Domestic Regulation (WPDR).

The EC did suggest, though, that two issues raised by the sponsors should be further considered: tourism and sustainable development, and competitive safeguards. On competitive safeguards, the EC suggested assessing the “basic telecommunications additional commitments” and their relevance to the “core tourism sector”. On sustainable tourism development, the EC stressed the importance of access to high-quality environmental services – a key offensive negotiating interest for the EC (and US) in the GATS negotiations.

c. The Dominican Republic Defended its Proposal...

The Dominican Republic, El Salvador and Honduras responded to the comments received (S/CSS/W/9 of 27th October 2000), and expanded on several areas of their proposal. On competitive safeguards, they defended their proposal by referring to the “bewildering series of mergers and take-overs of tour operators and airlines” that had placed tourism destinations “at the mercy of abuse of a dominant position”. They were proposing a “sectoral solution closely based on the precedent set by basic telecommunications”. On sustainable development, the sponsors re-affirmed their proposal that WTO members take binding commitments to apply internationally agreed standards on sustainable tourism development.

The sponsors also noted that “a large number of delegations have expressed concern at the extensive sectoral coverage” that was proposed. In response, the Dominican Republic, joined by El Salvador, Honduras, Panama and Nicaragua (S/CSS/W/19), submitted a further communication two months later entitled “The Cluster of Tourism Industries”. This listed

only “tourism characteristic products” as agreed by the United Nations, and as defined in the Tourism Satellite Account (TSA)²³. They proposed that WTO members use this definition “to avoid lengthy discussions on classification”.

d. ...and Proposes a Revised Tourism Annex with New Co-Sponsors

Almost two years after the original proposal had been tabled, the Dominican Republic, El Salvador and Honduras were joined by new co-sponsors Bolivia, Ecuador, Panama, Peru and Venezuela in tabling a revised proposal for a “Draft Annex on Tourism” (S/CSS/W/107 of 26 September 2001). The Appendix to the proposal was entitled “The Tourism Industries”. Again the list of ninety-four “tourism characteristic products” was set out, this time with their United Nations Central Product Classification Codes (CPC).

New emphasis was placed on safeguards to prevent anti-competitive practices such as the discriminatory use of information networks, abuse of dominance through exclusivity clauses, or misleading or discriminatory use of information.

e. The US Tabled a Narrow Proposal on Tourism and Hotels

The United States tabled a negotiating proposal on “Tourism and Hotels” (S/CSS/W/31) on 18 December 2000. The focus of the US proposal was to “focus on ways to help generate investment for tourism by removing obstacles to the establishment and operation of hotels and other lodging places; and by reducing the problems faced by organisers of international conferences and conventions”. The US invited WTO members to inscribe in their schedules “no limitations” on market access and national treatment under “A. Hotels and Restaurants”. The proposal also suggests that all WTO members should “consider undertaking additional commitments relating to travellers and international conferences”. The US also proposed that “a reference paper” be drafted to “address problems faced by travellers and organisers of international conferences and conventions to make it easier for travellers to visit and make purchases in other countries; and to reduce the problems faced by organisers of international conferences and conventions”.

The main body of the US proposal is a list of thirty obstacles to the trade in tourism and hotel services. The first obstacle listed is “overly burdensome exit fees or fees, or similar restrictions on the departure of outbound travellers”. Others listed include: “unavailability of information for travellers on applicable duty-free allowances for returning residents”; “limitations on the purchase or rental of real estate for this sector”; “lack of national treatment for financing arrangements for construction and operation of hotels and lodging places”; “denial of access to government programs available to domestic service providers”; “denial of full consumer access to electronic means for making hotel reservations”; “lack of means to facilitate temporary entry and exit of event organisers and specialised skilled personnel needed to conduct international conferences and conventions efficiently”.

²³ The Tourism Satellite Account (TSA) attempts to measure tourism-related activity by determining what percentage of each industry is accounted for by tourism. Under the TSA, “tourism characteristic products” are defined as those for which the level of consumption would be significantly reduced in the absence of tourists. Four intergovernmental organizations developed the standards contained in the Tourism Satellite Account or TSA: the United Nations; the World Tourism Organization; the Organization for Economic Cooperation and Development (OECD) and the European Commission. The United Nations Statistical Commission approved the TSA on 1st March 2000.

f. The EC Focuses on Eliminating Restrictions to FDI in the Tourism Sector

The European Communities (EC) tabled a proposal on “GATS 2000: Tourism Services” (S/CSS/W/40) on 22nd December 2000. The EC placed particular emphasis on eliminating restrictions to foreign direct investment. The EC noted that the “few classifications problems arising from the current GATS classification are not obstacles to dealing with the tourism sector in a comprehensive way”. However, the proposal also recognised that “the classification does not reflect the broad dimension of this sector”. To address this, the EC proposed “a cluster regrouping all tourism related services which could be used as a checklist”.

The EC also identified “exceptions” that may be accepted. These relate to the “protection of areas of particular historic and artistic interest”, as well as retaining controls for consumer protection purposes. Finally, the EC identified horizontal restrictions affecting the tourism sector: unspecified approval requirements, unspecified economic needs tests, limitations on the purchase or rental of real estate, restrictions on equity holdings and residency requirements.

g. Japan Indicates Interest in Tourism but Offers Little Detail

Japan also included a proposal on “tourism services” within a general communication on “The Negotiations on Trade in Services” (S/CSS/W/42 of 22 December 2000). This proposal was short and lacked detail. It mentions the importance of liberalisation of hotels and restaurant services, but otherwise focused on commitments in tourist guide services.

h. Colombia Supports Revision of Tourism Classification in the GATS

Colombia submitted a negotiating proposal (S/CSS/W/122) on 27th November 2001. Colombia proposed that all WTO members should take full commitments under the consumption abroad and commercial presence modes of supply – Modes 2 and 3 – as a means to promote “two-way” tourism. A further proposal was that market access conditions for service providing persons in the tourism sector should be improved in order to facilitate the temporary entry of natural persons supplying services in this sector.

Colombia also proposed that the “competent authorities should take account of professional qualifications related to tourism services acquired in the territory of another Member, on the basis of equivalency of education and using qualification recognition methods”. The Colombian proposal noted that “anti-competitive behaviour by dominant operators can result in imbalances in the framework of liberalised trade in services”, but suggested that this should be dealt with “in a general manner” if competition is added to the Doha Agenda. Lastly, Colombia supported the revision of the “existing classification of trade in tourism and travel-related services” to include “all services characteristic of this sector”.

i. Canada also Supports the Development of a Tourism “Checklist”

Canada submitted an “Initial negotiating proposal on Tourism and Travel-Related Services” (S/CSS/W/54/Rev.1) on 4th May 2001. Canada described tourism as “an amalgam of parts of a number of separate industries”, including recreation and entertainment services. It noted that the tourism sector attracted more commitments by WTO members than any other services

sector at the end of the Uruguay Round, but that significant restrictions still remain, such as “economic needs tests, size limitations for establishments, restrictive licencing practices and fixed equity limits.”

Canada proposed that WTO members focus negotiations on the W/120 (existing) classification of Tourism and Travel related services “with the objective of liberalising remaining restrictions to the extent possible. It also proposed that, in order “to accommodate the cross-cutting, multi-industry nature of Tourism services”, WTO members should “create and utilise their own tailored checklists to assist in the negotiation of tourism related sectors that are of particular interest to them”.

j. *Switzerland Suggests Creative Use of Sub-Sector “D. Other”*

Switzerland also presented a proposal (S/CSS/W/79) entitled “GATS 2000 : Tourism Services” on 4th May 2001. The introduction recognised that “since tourism is extremely labour intensive, the developing countries have a strong potential comparative advantage”. Switzerland also commented that “it is difficult to define with any precision what the tourism services sector actually covers”, and that “the Tourism Satellite Account has shown that many services which initially appear not to be specific to tourism can, in fact, be included in the tourism sector, at least partially.” Switzerland proposed that restrictions under Modes 1-3 should be removed but Mode 4 restrictions only “evaluated”.

The Swiss proposal invited WTO members to reflect on the commitments they wish to make under “D. Other”. The proposal notes that some WTO members have made commitments under “D. Other” in areas such as “tourism management services”, “tourism transport services”, and “tourism convention services”. Switzerland suggest that the range of commitments under “D. Other” could be widened to include services mentioned in the “cluster” proposal of the Dominican Republic, El Salvador and Honduras. Switzerland also suggests that “it is not the right moment to draw up multilateral disciplines concerning competition-related issues” but that “it is important to ensure that the principles of sustainable development of tourism are respected”.

k. *MERCOSUR Proposes Full Liberalisation of Tourism Sector*

The MERCOSUR negotiating proposal on “Tourism Services” (S/CSS/W/125) of 29 November 2001 is among the most aggressive tabled in the GATS negotiations. Mercosur proposes that, without prejudice to “the continuing analysis in the WTO of tourism characteristic products, all WTO members make specific commitments on market access and national treatment “without limitations” in the sub-sectors included in W/120.

The purpose of MERCOSUR’s proposal was to “promote the liberalisation of this important sector in order to increase developing countries’ revenues from tourism services and to contribute to increasing the participation of developing countries in trade in services”. Mercosur noted that the World Tourism Organisation is not satisfied with the current classification of tourism services, and would like it revised in the GATS negotiations. Mercosur listed examples of the type of trade restrictions that still exist in the tourism sector, such as the requirement of establishment or commercial presence in particular for tour operators, licensing, economic needs tests and barriers to the presence of natural persons under Mode 4.

l. Costa Rica Supports List of “Tourism Characteristic Products”

Costa Rica tabled a negotiating proposal on “Tourism Services” (S/CSS/W/128) on 30 November 2001. This included a request that the Services Council evaluate the effect of September 11th as part of its mandated review of trade in services. Costa Rica also asked the WTO Secretariat to update its background paper on “Tourism Services” (S/C/W/51 of 23 September 1998). The proposal also highlighted the obstacles that “limit the sector’s potential and diminish the benefits of tourism service providers, and developing countries in particular”. These included: restrictions on foreign direct investment, immigration control, documentation requirements, restrictions on currency movements and lack of transparency.

Costa Rica supported the development of a “list of services characteristic of or related to tourism, in order to evaluate progress and achievements in the negotiations from a global perspective”. It referred to the proposals of the EC (S/CSS/W/5) and the Dominican Republic (S/CSS/W/107) as “extremely useful starting points” for these discussions. Costa Rica also proposed that WTO members undertake broader and more in-depth commitments across all modes of supply, in particular Modes 2 and 3, and that the negotiations must include additional commitments “regarding disciplines on the prevention of anti-competitive practices, consumer protection, and access to and use of information”.

m. Cuba Supports Main Thrust of Dominican Republic’s Proposal

Cuba tabled a negotiating proposal (TN/S/W/1) on “Tourism and Travel-Related Services” on 14th May 2002. Cuba aligned itself with the main elements of the Dominican Republic’s proposal, such as improving access to distribution channels and the prevention of anti-competitive practices, specifically the “elimination of discriminatory oligopolistic practices by groups of major tour operators”. Cuba also emphasised that the liberalisation of tourism services “should not give rise to contradictions with national policies with regard to environmental preservation”.

Furthermore, the Cuban proposal underlined that “the natural dovetailing of local culture with the provision of international tourism services should be respected”. Under “expected outcome of the negotiations”, Cuba proposes that developed countries make commitments which allow for the effective implementation of Article IV; that developing countries should make commitments in line with Article XIX.²⁴; and that the negotiations on market access and national treatment should take place on the basis of the outcome of the assessment of trade in services “which demonstrates developing countries that they will directly benefit from any commitments to be made”.

II.2 The Responses to the GATS Proposal for a New Tourism Annex

The proposal for a new GATS Tourism Annex was discussed at length in Geneva from early 2000 until the end of 2001. Although widely welcomed by WTO members, it failed to gain the support of a majority – or even substantial minority – of WTO members. Much of the

²⁴ Article XIX of the GATS is entitled “Negotiation of Specific Commitments”. Paragraph 2 states that “The process of liberalisation shall take place with due respect for national policy objectives and the level of development of individual Members, both overall and in individual sectors. There shall be appropriate flexibility for individual developing country Members for opening fewer sectors, liberalising fewer types of transactions, progressively extending market access in line with their development situation....”

impetus for the Annex Proposal was lost when its main proponent, the Dominican Republic's Ambassador to the WTO, returned to capital in early 2002.

Within the "Quad" of WTO members, only the EC offered qualified support for enhanced treatment for tourism under the GATS. Both the US and Japan opposed the Annex proposal. In their formal negotiating proposals, both the EC and Canada proposed tourism "checklists" of tourism-related services to guide individual WTO members in services liberalisation negotiations at the WTO. Importantly, these "checklists" would be used for reference purposes and would not imply any amendments or additions to the text of the GATS.

In addition to the nine co-sponsors, only Morocco, Kenya and Sri Lanka expressed outright support for the proposal. One of the main concerns of other WTO members was the "cluster approach" to services liberalisation that was originally proposed by the co-sponsors of the Annex proposal. A common developing country view was that the "clustering" of various tourism-related service sectors could lead to pressure for accelerated liberalisation. Several developing country WTO members feared that the "cluster approach" would signal a move to a "negative list" approach to liberalisation, thereby reducing the ability of developing countries to undertake no or minimal liberalisation in specified service sectors, as is permitted under the "positive list approach"²⁵.

In late 2001, one CARICOM WTO member also voiced concern that the proposed "cluster approach" was too comprehensive, and could hamper the ability of CARICOM WTO members to negotiate on a sector-by-sector basis. In general terms, developed country WTO members showed more enthusiasm for the negotiating in services "clusters", as for them this would be a means to achieve more rapid liberalisation in areas of strategic interest to them. In this respect the EC, US and Australia all highlighted energy and environmental services.

In response to developing country concerns regarding the proposed "cluster approach", the Dominican Republic removed all references to the "tourism cluster" in its revised proposal of September 2001. Instead they proposed the same list of services but under a different title, "tourism characteristic products".

Throughout the discussions on the Annex proposal, the Dominican Republic maintained that the Annex "was the only way to ensure equitable trading conditions for the trade in tourism services, consistent with Article IV and XIX and with the needs of sustainable development"²⁶. The Dominican Republic stressed that while the volume of tourists entering developing countries was increasing, the revenues per tourist retained by the receiving countries were decreasing, largely as a result of anti-competitive practices.

The most controversial element of the proposed Annex were the provisions to prevent anti-competitive practices in the tourism sector, particularly regarding air transport services. Air transport services – including the so-called "hard rights" or passenger rights – are currently outside the scope of the GATS Annex on Air Transport. Almost every developed country WTO member objected to the inclusion of references to anti-competitive practices in the air

²⁵ The "positive list" approach to services liberalisation under the GATS is viewed by most developing countries as offering more flexibility in making commitments. Countries are free to make commitments in any services areas of interest to them, rather than having to make commitments in all services areas except those specifically excluded, as in the "negative list" approach.

²⁶ S/CSS/W/107 of September 26, 2001. Point 2.35.

transport sector. Within a wider context, the provisions on anti-competitive practices²⁷ also became caught up in the politics of whether competition policy would be added to the WTO negotiating agenda.

Within the tourism industry, the World Tourism Organisation (WTO-OMT)²⁸ has strongly supported the proposed Annex on Tourism. Both the WTO-OMT and UNCTAD were instrumental in the drafting of the draft Annex. The proposal has received qualified support from the World Travel and Tourism Council (WTTC), and provoked a strong negative response from the International Air Transport Association (IATA), who maintained that the proposed Tourism Annex “would eviscerate the GATS Annex on Air Transport.”²⁹

II.3 An Assessment of the Issues in the Tourism Annex Proposal

There are three particular issues raised in the Annex proposal that warrant greater analysis before CARICOM can make a determination whether to support the proposal. These relate to: competitive safeguards; sustainable tourism development; and the classification of tourism services under the GATS.

a. Are GATS competitive safeguards required for tourism?

The Dominican Republic highlighted the following anti-competitive practices, in addition to those related to air transport services, which it believed require WTO members to introduce competitive safeguards:

- Discriminatory use of information networks (including through unreasonable access charges), ancillary services to air transport, predatory pricing, or the allocation of scarce resources.
- Abuse of dominance through exclusivity clauses, refusal to deal, tied sales, quantity restrictions, or vertical integration; and
- Misleading or discriminatory use of information by any juridical person.

The first important consideration is that CARICOM has yet to develop a regional competition policy. Article 30 of Protocol VII (Protocol Amending the Treaty establishing the Caribbean Community) on “Competition policy, Consumer Protection, Dumping and Subsidies” envisages the establishment of a regional Competition Commission. However, it is unclear when this will be operational. Until this is in place, CARICOM states will not have the legislative means to implement, on a regional basis, any new multilateral WTO provisions on anti-competitive practices in the tourism sector.

The second important consideration is the extent to which CARIFORUM tourism services providers are victims of anti-competitive practices. In this respect, there is certainly anecdotal evidence within CARIFORUM that some major service suppliers (e.g. cruise ships, tour operators) do engage in activities related to “tied sales”, “predatory pricing” and “refusal to deal”. For example, industry observers have indicated that some cruise ships operating within

²⁷ There are already provisions on anti-competitive practices in two WTO Agreements: the “Reference Paper on Telecommunications” and the TRIPS Agreement.

²⁸ The 141 members of the World Tourism Organisation includes only three CARIFORUM states: Dominican Republic, Haiti and Jamaica. (Source: www.world-tourism.org/frameset/frame_members.html)

²⁹ Source: IATA’s (Richard Smithies) presentation on *Airline views on the proposed Tourism Annex to the GATS*, WTO Symposium on Tourism Services, 22-23 February 2001.

CARIFORUM direct their passengers only to those retail outlets where they will receive a negotiated percentage of the sales. There are also concerns that some CARIFORUM hotels linked to international tour operators are discounting rates below market value in order to guarantee volume bookings. This represents unfair competition for CARIFORUM's small, independent hotels.

What is certainly true is that the potential for anti-competitive practices in the tourism sector is increasing as a result of acquisitions and mergers in a fiercely competitive international marketplace. Industry experts predict that this trend will continue as weak equity markets combined with a global tourism downturn reduce the share prices of tourism and travel companies below asset values. Further market consolidation will concentrate the ownership of the distribution channels for the CARIFORUM tourism product in the hands of an ever-decreasing number of developed country companies in Europe, the US and Canada. This reinforces the need for competitive safeguards at the multilateral WTO level to counter the potential anti-competitive effects of this trend.

According to Souty (2002)³⁰, the development of multiple-retailer systems and chains in the 1990s brought a new category of business conduct to the attention of competition policy authorities and analysts: situations of abuse of buying power or abuse of a situation of dependency of a seller from its buyer. In a tourism context, a similar situation would arise when a small hotel is confronted with the market power of major operators and has to accept the pricing policies of the tour operators or be "black-listed". This scenario will be familiar to many CARIFORUM hoteliers. Souty notes that a 1999 OECD Roundtable, attended by all the major competition agencies of the world, "remained ambiguous to a large extent because there is no unanimity among these agencies about how to deal with these alleged abuses". He later emphasised that "the presence of monopolies and dominant firm positions in markets is not illegal *per se* almost anywhere".

Despite this, it is in CARIFORUM's interest to have the existence of anti-competitive practices in the tourism sector recognised multilaterally at the WTO. The WTO "Reference Paper on Telecommunications" provides a precedent for the introduction of competitive safeguards on a sectoral basis. It may be that just the recognition of the existence of such practices may act as a strong incentive to companies to behave in a pro-competitive manner. The absence of a multilateral mechanism to counter the negative cross-border competition effects on supplier destinations of mergers and market consolidation, cartels and collective dominance is clearly a major bottleneck in the world trading system. In this respect, the Dominican Republic is correct in its assertion that under the existing provisions of the GATS, "it is not possible to deal with the trade implications of anti-competitive conduct" in the tourism sector.

³⁰ *Passport to Progress: Competition Challenges for World Tourism and Global Anti-competitive Practices in the Tourism Industry*, Francois Souty, 2002.

Box 1.2: The consolidation of the European tour operator market: Has this produced anti-competitive effects for CARIFORUM tourism services suppliers or European consumers?

The European Commission, whose competition policy is highly focused on protecting consumer interests within Europe, demonstrated its concern about the impact of the consolidation of the European tour operator market on the European consumer when it blocked the takeover of First Choice by Airtours in September 1999. The EC Mergers Commission ruled that the “takeover would create a market structure [within the short-haul package holidays subsector] in which the remaining three vertically integrated companies would collectively have a dominant position.” (*Commission prohibits Airtours takeover of First Choice in UK leisure travel sector*, EC Spokesman Service -Midday Express, 22nd September 1999). However, the EU Court of First Instance overruled this decision in June 2002. The Court found that the Commission had failed to prove that a “collective dominance” would be created. Competition policy experts suggest that this has cleared the way for a further acceleration of market consolidation within Europe. Recent UK newspaper reports have indicated that the consolidation of the European tour operator market may continue as Thomas Cook and Kuoni have entered merger talks to create the world’s largest holiday company (*Thomas Cook and Kuoni plan merger*, Sunday Telegraph June 15th, 2003). Therefore, the potential for anti-competitive practices seems set to increase, rather than decrease.

The impact of the consolidation of EU tour operators on developing country tourism suppliers, rather than EU consumers, has never been explored, and could be raised in either the WTO or CARIFORUM-EU negotiations. One approach, informally suggested by a leading WTO trade lawyer consulted for this assignment, is that CARIFORUM destinations could argue that the consolidation of the European tour operator market has restricted European consumer choice by limiting the number of hotels that are presented in tour operator brochures.

b. Sustainable Tourism Development in the GATS

Competition is not the only area where the proposed Tourism Annex goes beyond the current coverage of the GATS. The other is sustainable development. Article 2.56 of the revised proposal is entitled “Co-operation for sustainable development of tourism”. The provisions urge WTO members to encourage and support co-operation efforts for the sustainable development of tourism, and to encourage all persons in the tourism industries to comply with environmental and quality standards established by relevant international organisations.

Both environmental and cultural resources are key factors of production for CARIFORUM tourism exports. They represent a vital asset in terms of the attractiveness and competitiveness of the region’s tourist destinations. At present, the GATS deals only vaguely with environmental concerns under “general exceptions” and “exhaustible natural resources” under Articles XIV and XX. New provisions to promote the sustainable development of tourism within the GATS are clearly in CARIFORUM’s interest. The rationale for including sustainable development considerations in the GATS is the imperative of safeguarding the environmental and social assets on which tourism thrives. The importance of this issue was recognised at the regional level when the 2002 Caribbean Tourism Strategic Plan listed as an objective the need to “minimise the adverse impacts [of tourism] on the socio-cultural and natural environment and other touristic assets.”

The major asset of the CARIFORUM tourism product is perhaps the Caribbean sea itself. In this respect, some tourism activities have recently caused concern within the regional industry, such as the environmental practices of cruise ships and anchor damage to coral

reefs. During the past few years, several cruise ships have been found to be polluting the oceans in which they sail. In one of the most recent cases in 2002, engineers aboard Carnival ships were found to have repeatedly discharged into the Caribbean and other waters waste fluids from machinery, engines and shipboard operations that had illegally high concentrations of oil.

The environmental risk from certain tourism related-practices reinforces the need for provisions to promote sustainable tourism development in all international trade agreements. Unlike the competition issues previously discussed, CARIFORUM states are already party to a regional policy platform on sustainable tourism development. The Convention on Sustainable Tourism Zone of the Caribbean³¹ (STZC) was signed at the 3rd Ministerial Conference of the Association of Caribbean States (ACS) in December 2001, in Margarita, Venezuela. The ACS grouping could also form a ready-made coalition of twenty-six WTO members in support of the inclusion of provisions relating to sustainable tourism development within the GATS. The elements of the Dominican Republic's Annex proposal relating to sustainable tourism development were not opposed by WTO members.

Box 1.3: An example of how GATS may undermine sustainable tourism development

Of all the countries that have made market access commitments on tourism, only Egypt has noted that some tourism sites may not have an infinite capacity for commercial activity. Egypt states that tours down the Nile river are subject to the river's carrying capacity. However, the EU has requested that Egypt "remove licensing requirements and limitations on the total number of service operations" for "Hotels and Restaurants" in the GATS negotiations. As Font and Bendell (2002) have noted "it is very questionable whether such a request is in line with the commitments of all states mentioned, including those of the EU, at international fora such as the Commission on Sustainable Development (CSD)."

Source: *Standards for Sustainable Tourism for the purpose of Multilateral Trade Negotiations*, Xavier Font, Jem Bendell, 2002.

c. *Should the GATS Classification of Tourism be Amended?*

The Dominican Republic-led initiative to have the WTO membership recognise the "specific and heterogeneous nature" of tourism demonstrated how difficult it is to define tourism adequately. As one might expect, WTO members quickly became bogged down in detailed definitional discussions. The problem is that an almost infinite list of services can, at least partially, be attributed to tourism. The proponents of the Annex argued that the definition of "tourism characteristic products", as defined by the Tourism Satellite Account (TSA), had been agreed multilaterally by the United Nations Statistical Commission. Despite these efforts, WTO members did not reach agreement on whether the GATS definition of tourism should be expanded.

CARIFORUM WTO members would be in a stronger position to push for changes to the definition of tourism at the multilateral level if they had agreed an expanded definition for tourism within their own region. This would be a better place to start. While the rationale for a precise tourism definition at the regional level is clear – namely to ensure coherent public policy planning that recognises the diversity of the sector, it is less clear for the purposes of

³¹ The text of the Convention establishing the Sustainable Tourism Zone of the Caribbean (STZC) can be located at www.acs-aec.org

multilateral trade negotiations that have as their aim the full liberalisation of the international trade in services. The danger is that CARIFORUM WTO members, by seeking an expanded definition of tourism at the WTO that cuts across many economic sectors, will come under increased pressure to liberalise all tourism-related services sectors.

One negotiating option worth considering would be for CARIFORUM states to propose a “Reference Paper” on Tourism Services, similar in purpose to the Telecommunications Reference Paper that was agreed in April 1996. Attached to this would be a list of “tourism-characteristic products” to ensure that the crosscutting nature of tourism is adequately recognised at the WTO level, without having to re-classify some of these services as Tourism and Travel Related Services. Within the Reference Paper, CARIFORUM could also refer to GATS Article XIX:2 – which enables developing countries to open fewer sectors – to ensure that this action does not lead to pressure for increased liberalisation across all tourism characteristic products. Indeed, many of the services listed as “tourism characteristic products” are among the services that CARIFORUM states currently preserve for local or – once the CSME is implemented – regional services suppliers.

Achieving multilateral recognition that tourism consists of more than the four sub-sectors within the current classification would be in CARIFORUM’s interest, given the region’s increasing dependence on the sector. It would also help to inform tourism policy planning at the regional and national levels within CARIFORUM states. The Reference Paper approach would appear to be the most realistic means to achieve this.

d. Should Cruise Ship Services be Re-Classified as a Tourism Service?

Within the CARIFORUM private sector there have been recent calls to change the classification of cruise ships services under the GATS from “maritime transport services” to “tourism and travel-related services”. This report recommends that cruise ship services should be re-classified under the GATS as a “tourism and travel related service”, given the increasing importance of cruise ships to Caribbean tourism economies and the impact of their activities on land-based tourism sub-sectors (e.g. hotels, tours, attractions, entertainment etc).

Cruise ships compete directly with the land-based hotel and accommodation sub-sector. They also control access to the tourist for many tourism services and goods suppliers in CARIFORUM states (e.g. tour guides, entertainers, arts and crafts salesmen, retail outlets etc.) either by selling of these goods and services onboard or directing passengers to preferred retail outlets or service providers onshore. While there are diverging views on the benefits of cruise tourism to CARIFORUM destinations, it is evident that cruise tourism is a key element of the Caribbean tourism economy. The re-classification of cruise ships as a tourism and travel related service is therefore recommended.

The cruise ship sub-sector is the only economic sector where the Caribbean is the leading global market. The Cruise Lines International Association (CLIA) noted in 2002 that “the Caribbean represents the number one destination with almost 47% of capacity placement”, followed by Europe, the Mediterranean, Alaska, Mexico, Hawaii and South America. CTO statistics³² for 2002 show the leading destinations for cruise arrivals in 2002 were the Bahamas (2.8 million arrivals, up 9.8% from 2001), the Cayman Islands (1.57 million, up 29.6% from 2001) and Jamaica (0.86 million, up 3% from 2001).

³² *Latest Statistics 2002*, Caribbean Tourism Organisation, April 11, 2003.

It should be noted, however, that in regulatory terms, the re-classification of cruise ships under the GATS will have little practical effect on the ability of CARIFORUM WTO members to regulate their activities in the region. WTO officials have indicated that CARIFORUM WTO members are *already* free to include market access or national treatment limitations on cruise ships in their GATS commitments on maritime transport services, should they wish to do so. The benefits of this re-classification appear more definitional rather than enhancing the capacity of CARIFORUM states to regulate cruise ship activities. This re-classification will be easier to achieve at the WTO if cruise ships are included within a regional definition of tourism. Later in this report, the development of a regional policy on cruise tourism is also recommended.

In addition to seeking the re-classification of cruise ships services under the GATS, CARIFORUM could seek to clarify in the current negotiations where the regulatory authority for cruise ships lies. This is a complex issue as many cruise ships choose to register or “flag” their ships outside their country of origin. The CARIFORUM land-based tourism industry has indicated that this allows them to reduce tax liabilities, use non-domiciled and often non-unionised crews, and compounds problems with environmental monitoring and control.

A recent US court case involving a cruise ship demonstrates the anomalous situation of cruise ships within the world trading system. In March 1998, during a criminal trial in Miami concerning the falsification of records and the intentional bypassing of pollution control equipment, Royal Caribbean Cruises Ltd argued that the US lacked jurisdiction in the case because the *Sovereign of the Seas* was flagged in Liberia. Royal Caribbean attorneys produced a diplomatic note from the Liberian Embassy in the US asserting that Liberia had primary jurisdiction³³. The US court rejected Liberia’s claim on that occasion.

³³ See Ocean Conservancy report, Cruise Control, page 8. This issue is complicated by the fact that five CARIFORUM states currently offer flags of convenience: Antigua and Barbuda, Bahamas, Barbados, Belize and St Vincent and the Grenadines.

PART III NEGOTIATING OPTIONS ON TOURISM SERVICES FOR CARIFORUM WTO MEMBERS IN THE GATS NEGOTIATIONS

CARICOM WTO members have yet to submit any formal proposals on tourism services within the GATS negotiations.

III.1 The three negotiating options for CARIFORUM on tourism services

As CARICOM, and indeed CARIFORUM, is one of the most tourism-dependent regions of the world, there is a clear rationale for the region to play a leadership role in framing the global rules for international trade in tourism services. The following three negotiating options are proposed:

a. Support the Dominican Republic-led proposal for a new GATS Tourism Annex.

Given the failure of a majority of WTO members to endorse the Annex proposal during almost two years of discussions within the WTO's Council for Trade in Services, reviving this proposal would be a difficult negotiating objective. Furthermore, WTO members are unlikely to respond differently to the same proposal even if it had the additional support of CARICOM WTO members. Despite this, the Annex does highlight several issues that are in the interests of the CARICOM tourism industries, namely competitive safeguards, sustainable tourism development, and the definition of tourism under the GATS.

b. Present an amended version of the "Model Request on Tourism and Travel Related Services".

In late 2002, the Dominican Republic – with the assistance of UNCTAD – drafted a "Model Request on Tourism and Travel Related Services". This aimed to provide "a mechanism for effective implementation of Articles IV and XIX:2 of the GATS". The Model Request aims to secure specific GATS commitments from other WTO members – under the "additional commitments" column of their schedules – in areas that are in CARICOM's interest. These are "A. Strengthening the competitiveness of developing countries, "B. Liberalisation of market access to developing country suppliers", and "C. Cooperation for the Sustainable Development of Tourism".

The Model Request also offers CARICOM WTO members a template that they could tailor to suit the specificity of the export interests of the regional tourism sector. For example, the Dominican Republic has listed "fishing licence services" and "hunting services" and "spa services" under "D. Other". CARICOM states could list any services sectors of particular interest to them, such as entertainment services or water-sports services. CARIFORUM could also list specific measures to strengthen SMEs in order to further their participation in tourism originating markets. However, CARIFORUM should exercise caution when requesting full commitments without limitations in Mode 4, as proposed by the Model Request from the EC, US, and Canada. A more realistic approach may be to request that specific types of tourism professional be included within the Horizontal commitments of these three WTO members.

A further benefit of following the template established by the “Model Request” would be that it would achieve many of the same objectives of the Annex, without the expenditure of negotiating capital that would be required to revive the Annex proposal.

- c. *A “Reference Paper” on Tourism and Travel Related Services that would establish regulatory principles for trade in tourism services.*

In 2000, the US proposed that a “reference paper” be proposed to address the problems by travellers to, and organisers of, international conferences. The purpose of the 1996 Reference Paper on Telecommunications was to provide WTO members with a series of regulatory principles for a specific services sector. This amplified and clarified some of the provisions of the GATS as they applied to this sector. Over 60 WTO members have now attached it to their GATS schedules of commitments, making adherence to its regulatory principles legally binding.

A Reference Paper on tourism can seek to ensure that WTO members recognise the crosscutting nature of tourism in the national regulations, by including the list of “tourism characteristic products”. It could also emphasise the elements of the international tourism trade that are particularly important for developing countries, such as sustainable tourism development and the need to implement GATS Article IV in the tourism sector. Lastly, the Reference Paper could propose specific measures to address the problems of SMEs in the tourism sector, principally the difficulties they have in gaining direct market access to consumers in tourist-generating markets. Special emphasis could be placed on increasing the export opportunities of SMEs in the tourism sector, a priority according to the GATS negotiating guidelines (Paragraph 3 of S/L/93). These could include regulatory measures to address the difficulties tourism SMEs have in gaining direct market access to consumers in tourists-generating markets. This option would require CARICOM/CARIFORUM to engage in coalition-building at the WTO, possibly through the establishment of a “Friends of Tourism Services” informal working group. A “Friends of Energy Services” working group already exists in Geneva.

Box 1.4: The 1996 WTO Reference Paper on Telecommunications: a model for tourism?

The WTO's Reference Paper on Telecommunications set out a series of principles for WTO members to follow in order to create the conditions for a fair and liberalised telecommunications market. These are legally binding only for those WTO members who have included the Reference Paper in their GATS schedules of commitments. So far, over half of the WTO membership have done so. The principles cover: Competitive safeguards, Interconnection, Universal Service, Public Availability of Licensing Criteria, Independent Regulators, and the Allocation and Use of Scarce Resources. The Reference Paper also includes a section on “definitions”. The Paper was the first effort by WTO members to adopt a set of regulatory principles for one specific services sector, telecommunications. A similar approach could be followed for tourism.

III.2 How should CARIFORUM respond to the requests received from WTO members?

All CARIFORUM WTO members have received requests³⁴ from other WTO members as part of the “request-offer” stage of the GATS negotiations. In at least one case, a WTO member - the EC – have presented tailored requests to each CARIFORUM WTO member taking into account the varying levels of CARIFORUM commitments on Tourism and Travel-Related Services.

The EC’s sectoral requests to CARIFORUM states on Tourism and Travel Services are relatively benign. Most simply request that CARIFORUM WTO members “take commitments” in areas where they have not yet done so. In some cases, the EC requests clarification of existing GATS commitments. The EC is not requesting that CARIFORUM WTO members eliminate existing restrictions for Tourism and Travel Related Services, or even suggesting that CARIFORUM states “consider taking full commitments, i.e. schedule none under MA and NT”, as it is requesting in other services sectors (e.g. news agency services). Therefore, CARIFORUM states would be able to satisfy the EC’s requests on tourism services easily by simply listing in their schedules additional market access and national treatment limitations in the four sub-sectors of Tourism and Travel Related Services. Doing so would not imply any legislative changes or further liberalisation in the tourism sector.

Box 1.5: Responding to GATS negotiating requests: to commit or not to commit?

The GATS is the newest WTO agreement, coming into force in 1995. The first scheduled commitments made by WTO members represented standstill commitments rather than liberalisation. WTO members merely recorded in their schedules some of the market access and national treatment limitations that they were applying at that time. Initial GATS commitments by CARIFORUM states on Tourism and Travel Related Services followed this trend. There is no evidence that these have constrained the ability of CARIFORUM governments to regulate their tourism sectors. In other words, the impact of CARIFORUM GATS commitments in the tourism sector has, so far, been negligible. However, the GATS aims to achieve “progressively higher levels of liberalisation” (Article XIX:1), and some CARIFORUM states have made relatively few commitments on tourism. Therefore CARIFORUM states should expect any additional limitations on market access and national treatment that they include in their schedules during the current GATS negotiations to be targeted in future rounds of multilateral services negotiations.

In many services sectors, the actual market environment of WTO members is significantly more liberal than indicated by their GATS schedules of commitments. The developed countries, led by the US and EC, are hoping that the GATS negotiations will be a means of locking in these levels of liberalisation across all services sector. The effect of making a legally binding and irreversible GATS commitment is that it limits policy flexibility for governments in the future. According to UNCTAD, *“Because markets are not perfect...it is important to preserve a “policy space in the new international environment. They [developing countries] should, for instance, keep room for manoeuvre when negotiating international investment agreements in order to ensure that they are able to further national economic interests”* (UNCTAD, 2000, p26-7).

WTO officials counter this argument by pointing out that increased policy flexibility has a price. They note that the existence of GATS commitments in tourism-related sectors can help promote both domestic and foreign direct investment, by ensuring greater stability and predictability of government regulations and policies affecting tourism. They argue that if a market access or national treatment measure is bound in a Member’s GATS Schedule, investors will realise that sudden policy changes are far less likely. But the importance of GATS commitments to investment decisions is often overplayed by WTO officials: the existence of GATS commitments is just one of many factors that will encourage a foreign investor to enter the market. Arguably more important factors are return on investment, political risk, currency fluctuations, foreign exchange controls and the ability to repatriate profits, revenue per available room (RevPAR) and operating costs, security, labour costs and productivity, national taxation, and incentives offered by governments.

The US has presented standardised negotiating requests on Tourism and Travel Services to all CARIFORUM WTO members. These are more ambitious than those submitted by the EC. In addition to noting that the “coverage of tourism services needs to be decided in WTO”, the US negotiating request states:

“We request full commitments for market access for tourism and travel services in Modes 1, 2 and 3”.

It is presumed that by asking for “full commitments”, the US is requesting that CARIFORUM WTO members enter “none” under the Market Access and National Treatment columns of their schedules for all four sub-sectors of Tourism and Travel Related Services. The US is effectively asking for full liberalisation of these sectors across Modes 1, 2 and 3. CARIFORUM states should not comply with this request as at least five sub-sectors areas under the classification list for Tourism and Travel services (W/120, 9 A-D) are currently preserved for national or regional services suppliers. CARIFORUM WTO members are therefore advised to refrain from taking full commitments in these areas. They can do this by specifying the market access and/or national treatment limitations that apply. In this way, CARIFORUM’s offer should improving its commitments, but stop short of the “full” commitments requested by the US.

The following approach is advised for CARIFORUM WTO members states when responding to negotiating requests from WTO trading partners:

- i. Make “full” commitments (i.e. schedule “none”) in areas where further investment is required from trading partners such as large hotels, or where access to high quality services is required by the tourism sector. For example, the former could be achieved by listing “none” for Mode 3 commitments for hotels. One example of the latter is environmental services, a key area of offensive negotiating interest for the US and EC. Access to these services is essential for sustainable tourism development, and CARIFORUM has limited capacity in this services sector.
- ii. Make “defensive” commitments – in the form of listing additional market access and national treatment limitations – in tourism services sectors that are currently preserved for national or, after 2005 and the launch of the CSME, regional services suppliers. These include five sub-sectors included in the GATS classification list for Tourism and Travel services (W/120, 9 A-D): travel agent and tour operators services, the construction and development of small hotels, certain types of restaurants, and tourist guide services.

A further important consideration relates to the CARICOM regional market for trade in services under the CSME, which is due to come into force on 1st January 2005. The CSME will mean that CARICOM states will no longer be able to preserve tourism sub-sectors for nationals and local companies. Instead, they will be opened to regional suppliers from CARICOM member states signed up to the CSME. In this way, the CSME is providing the regional tourism sector with its first trade-related adjustment through the creation of a single market for the trade in services within CARICOM. CARICOM states are currently committed to the removal of existing restrictions to liberalise the trade in services on a regional basis within the CSME. Any premature market opening to suppliers from third countries such as the EU, US and Canada would deny regional tourism services suppliers a transition period to first adapt to increased competition within CARICOM.

The CARICOM Secretariat lists the following national restrictions on tourism services that CARICOM members are seeking to remove before the establishment of regional services market under the CSME by 1st January 2005:

Box 1.6: The removal of restrictions on tourism services within CARICOM for the CSME³⁵

Barbados	Restaurant Services (Modes 3&4), Lodging and Food and Beverage Services (Modes 1-4), Car Rental Services (Modes 3&4), Taxi Services (Modes 3&4), Travel Agency Services, Tour Operator Services, Tourist Guide Services (Modes 1-4), Watersports Services (Modes 3&4)
Dominica	Travel Agency Services (Modes 3&4)
Grenada	Hotel and Motel Lodging Services (Modes 3&4)
Jamaica	Lodging Services of Hotel and Motels (Modes 3&4), Travel Agency Services and Tour Operator Services (Modes 3&4), Tourist Guide Services (Modes 3&4)
St Lucia	Hotel and Lodging Services (Mode 3)
St Vincent and G.	Hotel Services (Mode 3), Amusement Park Services (Modes 3&4)
Trinidad and Tobago	Accommodation Services under 21 rooms (Modes 3&4), Tour Operator Services (Modes 3&4), Destination Management Services (Modes 3&4)

III.3 The barriers to market entry in the EU, US and Canada

This section of the report will discuss the regulatory barriers faced by CARIFORUM tourism services exporters in the EU, US and Canada. The basis for this analysis is the restrictions listed in the GATS schedules of those WTO members, and their initial GATS offers. The most restricted Mode of Supply within these markets is Mode 4, when CARIFORUM nationals seek to enter these markets to sell tourism services. All three WTO members retain significant “horizontal” restrictions on this mode of supply, which are discussed below. Also discussed below are the sectoral restrictions specifically in place for Tourism and Travel Related Services in these markets across all modes of supply.

However, it should be noted that the commercial barriers to entry in these markets are just as onerous, if not more so, than the regulatory barriers as recorded in GATS schedules of commitments. These include the high cost of marketing in these markets, which is beyond the means of all but the largest CARIFORUM hotel groups, and the difficulties that CARIFORUM tourism suppliers have in gaining access to the distribution channels that place tourism products on the EU, US and Canadian markets (e.g. tour operators, airlines, CRS or GDS systems).

In terms of the export profile of CARIFORUM tourism services suppliers, only a handful of companies sell their services by establishing a “commercial presence” in overseas markets, Mode 3. During the consultations undertaken for this assignment, there were no suggestions that any regulatory barriers (Mode 3) have been encountered by CARIFORUM tourism companies in the EU, US or Canada. Most sell their services through a combination of Modes 1, cross-border supply (e.g. through Internet reservation systems, via a GDS, or through a tour operator), and 4, by visiting these markets to meet clients (e.g. at international tourism trade fairs). Because most CARIFORUM tourism services suppliers “export” their services

³⁵ Source: *Programmes for Removal of Restrictions-Protocol II, CARICOM Secretariat, 2002*. It should be noted this document does not contain all the restrictions currently applied within CARICOM. For example, Belize currently restricts tourist guide services for Belizean nationals, yet this is not included here.

only when foreign tourists enter CARIFORUM markets, they rely heavily on Mode 2, “consumption abroad”. Proposals to remove the remaining Mode 2 restrictions such as travel taxes and duty free limits - which as “frontier formalities” are not currently within the scope of the GATS - are included in a later section of this report.

a. *Mode 4 restrictions in the EU, US and Canada*

III.18) Within the sectoral Mode 4 commitments on Tourism and Travel Related Services(W/120, 9 A-D), these three WTO members have marked their schedules “unbound, except as indicated in the horizontal section”. In their initial GATS offers – presented in the GATS services negotiations between March 31 and April 31, 2003 - the EU, US and Canada have repeated this. The following is a brief summary of the Mode 4 horizontal commitments contained in their initial offers:

- i. The **EU** has three types of service provider that are able to enter the market on a temporary basis: (i) Intra-Corporate Transferees (ICTs) which can be either (a) Managers, (b) Specialists or, a new category, (c) graduate trainees. Entry and stay is limited to a maximum of three years in the case of (a) and (b), and to 12 months for (c). The second category (ii) is Business Visitors (BV) who are permitted to stay for up to 90 days in any 12 months, The EU has expanded the third (iii) category: Contractual Service Suppliers (CSS) in its offer. These can be either (a) Employees of Juridical Persons (EJP) or (b) Independent Professionals (IP), for which “numerical ceilings”, or in other words quotas, will be established. To enter under category (iii), persons must have a university degree or equivalent. Under the EJP category, the EU presents a list of “activities” for the performance of “service contracts” including “Travel Agencies and Tour Operator Services” although this is left unbound for seven EU member states, including the UK. Entry and stay is a maximum of 12 months under this category. It should also be noted that regulatory authority regarding Mode 4 entry remains with EU member states, and not with the European Commission.
- ii. The **US’s** initial offer on Mode 4 contains four types of persons who are allowed to enter the market on a temporary basis. Firstly, Services Salespersons, who are allowed to enter the market for 90 days. For Intra-Corporate Transferees such as “Managers”, “Executives” and “Specialists”, entry is limited to 3 years that may be extended for a further 2. Personnel Engaged in Establishment must present proof of their acquisition of physical premises within one year of their entry to the market, thereby confirming a link between Mode 4 access and Mode 3 (a link that developing countries have sought to break). Finally, a quota of 65,000 Fashion Models and Specialty Occupations are permitted entry for a maximum of three years.
- iii. **Canada’s** initial GATS offer contains four types of natural persons who are permitted temporary entry to the market. Canada has offered to extend entry for Business Visitors from 90 days to 6 months. Intra-Corporate Transferees such as “Executives”, “Managers” and “Specialists” must have been employed by a juridical person in another WTO member state for at least a year. For the first two sub-categories, entry and stay is for “an initial period equivalent to the period of the transfer”, for “Specialists” it may not exceed 5 years. Canada also includes an amended list of nine “Professionals” who require work permits and who are permitted entry for a maximum period of one year. No tourism-related profession is included within this

list. Canada has also added a new category, Spouses and Common law partners of Intra-Corporate Transferees or Professionals in its initial GATS offer.

The first important observation regarding the initial GATS offers of the EU, US and Canada is that they do not improve access for lesser skilled service providers, a key area of export interest for CARIFORUM states. All three offers demonstrate a general bias towards qualified labour. This report proposes that CARIFORUM negotiators seek to submit ambitious Mode 4 requests on tourism services – in the form of Hospitality Service Providers Programmes at both skilled and lesser skilled levels - in regional and hemispheric trade negotiations rather than at the WTO. There would be little value in pursuing this request in multilateral negotiations as the benefits of such programmes would be lost if developed countries introduced them on an MFN basis (i.e. open to all WTO members). However, it would be in CARIFORUM's interest to request at the WTO that qualified tourism professionals from UWI, PUCMM and the national hospitality training institutes within CARIFORUM are included within the EU's category of Contractual Service Suppliers (CSS), within Canada's list of "Professionals", and within the US horizontal commitments on Mode 4.

Early clarification should be sought from the EU, US and Canada of the criteria for refusing entry to persons on the basis of security concerns. This threatens to become a non-tariff barrier for the temporary movement of CARIFORUM hospitality service providers to these markets. With the heightened level of security in the US, many CARIFORUM tourism professionals have increased difficulties in entering the US market. Some have commented that this market is essentially "closed" for the time being. Finally, CARIFORUM professionals have not encountered regulatory difficulties in obtaining visas to enter the EU or Canadian market to attend trade fairs or to meet with clients as "business visitors". However, in all three markets, CARIFORUM hospitality trainees or students have been denied visas when seeking to enter these markets to gain work experience within the hotel and accommodation sectors.

b. Sectoral restrictions on tourism services in the EU, US and Canada

Compared to other economic sectors, there are relatively few limitations on market access or national treatment in GATS schedules of the EU, US and Canada for Tourism and Travel Related Services. In particular, there are no limitations on market access and national treatment under Modes 1³⁶ and 2. Below, the most important limitations are highlighted.

i. Hotels and Restaurants.

The EU's commitments on Tourism and Travel Related Services include limitations on Mode 3 market access in three states for "A. Hotels, Restaurants and Catering", where "authorisation can be denied to protect areas of particular historic and artistic interest" in three member states. Canada has offered to remove some limitations on Mode 3 market access in the form of residency requirements for the sale of liquor under "A. Hotels and Restaurants", but has also retained some (e.g. in Québec). Also, Canada has maintained a Mode 3 national treatment limitation for non-residents who are required to pay a 20% land

³⁶ The EU has left Mode 1 "unbound" for Hotels and Restaurants because, according to the EU, "a commitment on this mode of supply is not feasible".

transfer tax for the “purchase of recreational property”. The US has no limitations on market access or national treatment in the Hotels and Restaurants sub-sector.

ii. Travel Agencies and Tour Operator Services

III.23) Canada has not offered to remove its Mode 1 limitation on market access in Ontario and Québec, where these services must be supplied through commercial presence. Ontario and British Columbia will also retain residency requirements under Mode 1. The US has not offered to remove a Mode 3 market access limitation that “official tourism offices with diplomatic status are not permitted to operate on a commercial basis” under Mode 3. The EU has offered to eliminate a Mode 3 market access limitation on non-EU nationals wishing to establish travel agencies in the territory of the EU. This limitation was present in three countries only.

iii. Tourist Guide Services

Canada has not committed this sector. The US’s initial offer maintains a Mode 3 market access limitation that “the number of concessions available for commercial operations in federal, state and local facilities is limited”. The EU retains Mode 4 limitations on market access in this sector, in the form of nationality requirements in five member states³⁷.

III.4 The WTO negotiations to agree on disciplines for services subsidies

Negotiations are also ongoing within the WTO Working Party on GATS Rules to agree on new multilateral rules for services subsidies. These negotiations – which are outside of the mandate of the Doha Round – are scheduled to be completed by “prior to the conclusion of the services market access negotiations”. For CARIFORUM, it will be important to monitor these negotiations so that any new rules for services subsidies are sufficiently flexible to permit CARIFORUM states to offer their tourism sectors with a wide range of incentives. The worst-case scenario is that the new GATS disciplines on subsidies will make some of the subsidy and incentives currently offered by CARIFORUM governments to the tourism sector “GATS-incompatible”. A list of some of the subsidy measures that WTO members – including CARIFORUM states - have introduced for tourism is attached in an Annex to this report.

III.5 WTO negotiations to agree on guidelines for domestic regulations

A further essential issue that requires careful monitoring is the WTO negotiations within the Working Party on Domestic Regulation (WPDR). Article VI:4 of the GATS calls on the WPDR to develop disciplines to ensure that domestic regulations relating to licensing requirements and procedures, technical standards and qualification requirements and procedures do not constitute unnecessary barriers to the trade in services. Paragraph 7 of the GATS negotiating guidelines states that work under Article VI:4 should be finished before negotiations on specific commitments are concluded, which is the deadline for the overall round of 1st January 2005. Of particular relevance for the CARIFORUM tourism sector are

³⁷ France places restrictions on European tour guides who are trained in other member states. The European Commission recently publicly stated that it believes the French restrictions contravene the rules for the freedom of movement in Europe

the discussions regarding “measures regulating” the entry of natural persons into, or temporary stay in, a WTO members territory. CARIFORUM negotiators should monitor these negotiations closely to ensure that the final outcome – in the form of multilateral disciplines – do not constrain CARIFORUM states’ ability to regulate their tourism sectors.

PART IV “OFFENSIVE” NEGOTIATING REQUESTS FOR CARIFORUM FOR THE EU, FTAA AND CANADA-CARICOM SERVICES NEGOTIATIONS

IV.1 The scope of regional and hemispheric negotiations on tourism

It is assumed that the final agreements on services resulting from the FTAA, CARIFORUM-EU and CARICOM-Canada negotiations will contain two elements: a set of guidelines and priorities between the contracting parties; and a schedule of specific commitments. Of these, the FTAA negotiating process is by far the most advanced and is scheduled to conclude by January 2005. Within the Draft FTAA Chapter on Services (FTAA.TNC/W/133/Rev.2 of November 2002), tourism is only mentioned twice, and on both occasions in footnotes.

Within the CARIFORUM-EU negotiations, regional negotiators should seek to establish a Chapter on Tourism that includes both a set of guidelines and some priority areas for development assistance utilising European Development Fund (EDF) resources. Similarly, regional negotiators should also push for specific language on tourism to be included in the respective services chapters of the FTAA and Canada-CARICOM agreements. This language needs to recognise the importance of the industry to the economic development of smaller economies in particular, and also position tourism as a recipient for technical cooperation activities.

a. Should air transport passenger rights be included in the EU and Canada negotiations?

One of the major constraints to the sustainable growth of CARIFORUM tourism is the lack of incoming airlift. This problem is particularly acute for the OECS destinations. Low air traffic density, which reduces the profitability on “thin” routes, and insufficient demand in tourist-generating markets have both been contributory factors. As a result, some CARIFORUM governments are now in the enviable situation of having to offer incentives – often in the form of seat guarantees – to scheduled airlines and air charter companies. As one CARIFORUM transport official stated “if we want an additional charter service, we have to pay for it”. That CARIFORUM governments are now contributing to the profits of developed country air transport service providers in the EU and US– and therefore indirectly to developed country treasuries – is an issue that should be raised in international trade negotiations³⁸.

Passenger rights, so-called “hard rights”, are currently excluded from the WTO and FTAA services negotiations on air transport services³⁹. Given the relatively advanced status of these negotiations, it may be too late to introduce a discussion on passenger rights. However, CARIFORUM could propose to the EU and Canada that negotiations on air transport

³⁸ Further consideration is needed to assess whether this issue should be raised within the WTO discussions relating to “credit” for autonomous services liberalisation.

³⁹ The GATS Annex on Air Transport Services covers only aircraft repair and maintenance, computer reservations systems, and selling and marketing by airlines. The current GATS negotiations on Air Transport Services are taking place on these three issues. Some WTO members, such as the EU, have also been seeking to negotiate on two additional areas: ground handling services and airport management services.

services, including route rights for scheduled airlines and charter services, be included within the EPA and CARICOM-Canada negotiations respectively. The inclusion of route rights – normally negotiated within bilateral “open skies” agreements -- within a multi-sector trade negotiation could be beneficial for the regional tourism sector if it resulted in enhanced airlift into the region, and better route rights to Europe and Canada for regional carriers. Credit could also be sought in the negotiations for the incentives offered by some CARIFORUM governments to European and Canadian carriers to operate services to CARIFORUM countries.

The “Community of Interest Principle”, as established in Article 83bis of the ICAO Chicago Convention, could be used for CARIFORUM/CARICOM to negotiate on behalf of regional carriers. The 1998 CARICOM Multilateral Air Services Agreement (MASA) has also created a regional policy platform for CARICOM to negotiate on air transport services. Given the fundamental importance of airlift to the regional tourism industry, this proposal is worth exploring further. A thorough consideration of the costs and benefits is required, as is consultation with regional airlines.

IV.2 The negotiating recommendations for CARIFORUM on tourism services

The following are a series of “offensive” negotiating requests on tourism services that could be submitted by regional negotiators in the FTAA, CARIFORUM-EU or CARICOM-Canada negotiations. These requests deliberately go beyond the scope of negotiating requests being submitted by WTO members in the GATS negotiations, and as far as possible, attempt to resolve the major trading problems of the CARIFORUM tourism sector in international markets. The requests are presented as:

- Horizontal requests affecting tourism services;
- Sector specific requests on tourism services;
- Negotiating requests to implement Article IV of the GATS on “Increasing the participation of developing countries;
- Development assistance and technical cooperation requests; and
- Other requests to address some specific trading problems.

IV.2.1 Horizontal requests affecting tourism services

a. Reduce costs and facilitate access to visas for the temporary entry of CARIFORUM tourism professionals wishing to enter the EU, US and Canadian markets to supply services.

The costs (over US\$100) and time associated with obtaining visas for temporary entry into the EU, US and Canada represent a market access barrier to the export of CARIFORUM tourism services. For example, a Caribbean tourism professional from Barbados wishing to travel to Germany for the ITB trade fair may have to send his/her passport to the German Embassy in Trinidad and Tobago. This is a unique constraint for small-island developing states, many of which are too small to warrant diplomatic representations for the purposes of processing visas.

Although Shengen visas are available to CARIFORUM nationals visiting the EU, they are sometimes not easily accessed for some islands in the Caribbean and the costs are high. This

could be presented as a horizontal Mode 4 request for all services sectors. A possible solution to this would be for developed countries to introduce electronic visas, as Australia has done with the “Electronic Travel Authority System” (ETAs). An “ETA” is equivalent to a visa, and applications are submitted through travel agents or airlines in the country of departure without requiring a visit to an Australian diplomatic office. Such a system would greatly facilitate the temporary business entry of CARIFORUM tourism professionals to key markets such as the EU, US and Canada.

b. Include tourism professionals, with tertiary level hospitality qualifications from UWI, PUCMM and national hospitality institutes, within criteria established for the temporary entry of “professionals” or “business visitors”.

Regional negotiators should aim to ensure that suitably qualified tourism professionals from CARIFORUM are included within the lists of “professionals” or “business visitors” for the purposes of horizontal mode 4 commitments made by the EU, US and Canada in the EPA, FTAA and Canada-CARICOM trade negotiations. Within the NAFTA agreement, “Hotel Manager” is the only tourism “professional” permitted to enter the markets of NAFTA signatories without the necessity of the application procedures commonly required for employment authorisations⁴⁰. CARIFORUM negotiators should ensure that regional hotel managers, and other tourism professionals (e.g. catering specialists) receive at least equivalent treatment in the FTAA and Canada-CARICOM negotiations.

c. Establish programmes within the EU, US and Canada to recognise tourism professional qualifications and credentials developed in CARIFORUM states.

The negotiation of such programmes is an essential precursor for increasing the export of CARIFORUM tourism services via Mode 4. Issuing authorities for visas and work permits in the EU, US and Canada are more likely to facilitate the temporary entry of CARIFORUM tourism professionals if a prior agreement exists to recognise the tourism qualifications obtained in CARIFORUM states.

These programmes could be negotiated as a side-deal or as an integral part of the overall agreements on services. CARIFORUM could request that the following tourism specific-qualifications are recognised in these markets, and granted equivalence with similar programmes in those markets:

- i. Tourism-related Masters and Bachelors degree programmes from the University of the West Indies (UWI) and the Pontificia Universidad Católica Madre y Maestra (PUCMM);
- ii. Qualifications from the national Hospitality Training Institutes within CARIFORUM states, including hospitality and tourism Associate Degree programmes and National Vocational Qualifications (NVQ⁴¹) relating to the tourism sector;
- iii. Industry credentialing programmes such as the “Caribcert” programme being developed by the Caribbean Hotel Association (CHA).

The Caribbean Tourism Human Resource Council (CTHRC), managed by CTO, should be consulted on this issue. The CTHRC brings together key stakeholders from business, labour,

⁴⁰ NAFTA Professional Job Series List. USA Immigration Services website (www.uais.org)

⁴¹ A reciprocal recognition agreement already exists for all National Vocational Qualifications within the Commonwealth.

government, industry associations and education and tourism related organizations and groups to collectively address the tourism human resource needs of the region.

IV.2.2 Sector specific requests on tourism services.

- a. *Review EU⁴², US and Canadian legislation relating to health and safety standards in the hospitality sector that are applied to CARIFORUM hoteliers (Mode 1).*

Industry representatives have indicated that they fully support the development of appropriate health and safety regulations to protect international consumers of tourism services visiting the region. But they also point out that some standards are inappropriate for the Caribbean climate, and the location, design and architecture of Caribbean hotels. In particular, the huge costs of compliance with EU standards – in the form of national regulations implementing the EU Package Travel Directive⁴³ - are a major issue for CARIFORUM hoteliers.

For example, some CARIFORUM properties have to introduce elaborate evacuation systems more suited to high-rise buildings when they have only two or three floors. These standards need to be refined to suit the Caribbean region. A review of all national consumer regulations within Europe affecting Caribbean hoteliers could help to reduce these costs by avoiding any unnecessary alteration to CARIFORUM properties receiving European tourists. This review should take into account tourism health and safety standards developed within CARIFORUM, such as the *Quality Tourism for the Caribbean* (QTC) programme⁴⁴. Regional negotiators may wish to consult further with the regional tourism sector to assess whether similar issues exist with US and Canadian legislation.

Under the EU Package Travel Directive, the interests of European consumers received special attention. In contrast, the impact of the Directive on the suppliers of tourism products and services – such as CARIFORUM hoteliers – were not considered within the scope of the Directive. For example, there are no provisions to mitigate the impact on tourism suppliers in the event that a European tour operator or travel agent becomes insolvent. Some destinations within Europe – led by Greece – have sought to address this by proposing that the European Commission issues a similar Directive to protect suppliers of tourism products and services. CARIFORUM negotiators could raise this issue with the EU in the EPA, FTAA and Canada-CARICOM negotiations to ensure that adequate provisions are introduced to protect CARIFORUM suppliers if a tour operator or travel agent from those markets enters bankruptcy proceedings.

⁴² In May 2003, the European Commission extended its Eco-labelling scheme to services, with tourist accommodation the first service sector for which ecological criteria has been developed.

⁴³ EU Council Directive 90/314/EEC on Package Travel, Package Holidays and Package Tours.

⁴⁴ The *Caribbean Tourism Health, Safety and Resource Conservation Project* established the QTC programme. It was a joint venture between the Caribbean Alliance for Sustainable Tourism (CAST), the Caribbean Epidemiological Centre (CAREC), and was funded by the Multilateral Investment Fund of the Inter American Development Bank (IDB/MIF), the Caribbean Development Bank (CDB), CAREC and CAST/CHA. The final report was presented in January 2003.

- b. *Introduce tax incentives for EU and Canadian businesses holding conferences or conventions in CARIFORUM countries (Mode 1).*

This proposal would assist in attracting more business visitors to CARIFORUM destinations. Under a provision of the Caribbean Basin Economic Recovery Act (CBERA), US taxpayers are able to deduct legitimate business expenses incurred attending a business meeting or convention in a qualifying CBERA country. A qualifying CBERA country must have a tax information exchange agreement in effect with the US. Within CARIFORUM, the following countries do not benefit from this scheme⁴⁵: Belize, St Christopher and Nevis, St Vincent and the Grenadines, Suriname. CARIFORUM has several excellent facilities to accommodate business meetings and should push for a similar scheme to be introduced by the EU and Canada in the EPA and Canada-CARICOM negotiations. This will increase the export of business convention services, a priority area of future growth for many CARIFORUM destinations. The per capita spending of business visitors is generally higher than for other tourists (although the length of stay is generally lower than leisure tourists).

- c. *Reduce travel taxes imposed on EU, US, and Canadian tourists travelling to CARIFORUM states to consume tourism services (Mode 2).*

For the tourism sector, “consumption abroad” under Mode 2 is arguably the most important mode of supply. GATS commitments under this mode of supply concern the restrictions imposed by WTO members on their own consumers, or in this case tourists, travelling abroad, to consume tourism services. The World Tourism Organisation (WTO-OMT) lists the possible restrictions under Mode 2 for tourism as:

“Exit visa (passport formalities, exit taxes and charges, whether independent or attached to specific services (e.g. airport taxes), currency allowances and means of payment, export of personal effects, including personal vehicles (as well as fuel, spare parts, etc), customs formalities relating to non-personal effects (articles whose character and number exceeds the quantity which may be considered as corresponding to personal use), insurance formalities, health formalities etc”⁴⁶”.

This wide definition of restrictions under Mode 2 currently goes beyond the scope of WTO members’ commitments in the GATS services negotiations. Accordingly, some WTO members have stated “none” under Mode 2 even though the restrictions listed above are in place. This is because the elimination of “frontier formalities” of the type listed above is not currently considered within the remit of the GATS negotiations. CARIFORUM could therefore seek to remove the restrictions listed above under Mode 2 in regional or hemispheric trade negotiations.

The Caribbean Tourism Organisation (CTO)⁴⁷ has recently estimated that US per capita ticket taxes currently amount to US \$42.40 for all persons travelling to and from the US by air (see

⁴⁵ On April 8, 2003 Antigua and Barbuda signed a Tax Information Exchange Agreement with the US and became the latest CBERA country to be considered as part of the “North American area” for the purposes of determining whether US taxpayers may deduct expenses incurred in attending conventions, business meetings and seminars. (<http://www.ustreas.gov/press/releases/js165.htm>).

⁴⁶ *Understanding of Consumption abroad under GATS with respect to tourism*, Revised draft note prepared by the WTO/OMT Secretariat, Working Group on Liberalisation, January 2003

⁴⁷ *Concept Paper, Proposal for Revenue Sharing of Per Capita Ticket Tax on USA originating visitors to the Caribbean*, L. Miller, presented to the CARICOM Joint Meeting of Ministers of Finance and Tourism, 12th February 2003, Port of Spain, Trinidad and Tobago. The CTO has proposed that revenue from US taxes should be re-directed to the region to fund the

table below). Ironically, the US identified “overly burdensome exit fees or taxes, or similar restrictions on the departure of outbound travellers” as a major obstacle in the tourism sector in its WTO negotiating proposal on “Tourism and Hotels” (S/CSS/W/31).

Box 1.7: US fees and taxes on outbound travellers

CODE	NAME	AMOUNT (US\$)
US2	US International Transportation Tax (\$13.40 both directions)	26.80
ZP	Segment Tax	3.00
XY	US Federal Inspection Fee	7.00
XA	US (Animal, Plant Inspection Service) User Fee	3.10
AY	US Security Fee	2.50
TOTAL		42.20

According to the President of the World Travel and Tourism Council (WTTC), the combined taxes on outgoing air travel from Europe is as high as 30% of the total value. It should be noted that each EU member state currently levies different types and levels of taxes on air travel such as Security Charges, Embarkation Taxes, Air Service Charges, Passenger Fees and Departure Charges. Some EU member states are considering the introduction of environmental taxes on departing flights from the EU with differential rates for short-haul and long haul destinations. CARIFORUM could propose that some of the revenue from long-haul flights to the CARIFORUM states be re-directed to a CARIFORUM Sustainable Tourism Fund.

The proposal will have to be considered carefully, in view of the heightened security measures -and their associated costs- currently in place at international airports in the EU, US and Canada. Furthermore, CARIFORUM states should resist any requirements for reciprocity on the basis of their narrow taxes bases and their states as small vulnerable states and as a special and differential treatment measure. Despite this, any reduction on air travel and airport taxes for outgoing flights to CARIFORUM states would provide a much-needed stimulus to international carriers to operate in the region.

- d. *Increase duty-free exemptions for EU, US and Canadian returning residents, and make information available to all tourists, including cruise ship passengers, making purchases in CARIFORUM states for personal or household use (Mode 2).*

The aim of this proposal would be to increase per capita tourist expenditure in CARIFORUM states. This proposal would benefit retailers within airport facilities as well as other regional retailers. Limits on duty free purchases and purchases made by returning residents are another example of restrictions placed by countries on their nationals consumption abroad under Mode 2. The importance of duty free exemptions is evident from the experience of the USVI, where the exemption for returning US from the USVI (US\$1,200 per person) is significantly higher than from other CARIFORUM states (US\$800 per person). Accordingly, US cruise ships normally direct their passengers to make all their purchases in the USVI, rather than other CARIFORUM states, because of the higher duty free exemptions. This has led to the growth of retail tourism in the USVI from cruise ships. The current customs/duty free exemptions are as follows:

Box 1.8: Customs Duty Free exemptions for the EU, US and Canada

Caribbean Tourism Strategic Plan. The rationale for this proposal was that the total revenue to the US could actually increase if the reductions resulted in an increase in the number of persons travelling to the 31-CTO member states. No agreement has been reached between CHA and CTO on this issue.

FOR RETURNING RESIDENTS FROM CARIFORUM STATES	
EU	UK - £145 of all other goods (in addition to separate limits for alcohol, tobacco and perfume products) EU €175⁴⁸ of other goods (in addition to separate limits for alcohol, tobacco and perfume products)
US⁴⁹	US\$ 600* for all Caribbean Basin countries, including exemptions for alcohol and tobacco products. NB. The US duty free exemption rates are US\$ 800 for “anywhere other than a Caribbean Basin country or a US insular possession”, and US\$1200 for US insular possessions (U.S. Virgin Islands, American Samoa, or Guam).
Canada	CDN\$750 including \$200 allowance for tobacco and alcohol products

A variation on this proposal could be that higher limits are introduced for goods produced in CARIFORUM states, such as tobacco products and distilled spirits. Ensuing that information regarding these duty free exemptions are publicised may also stimulate additional expenditure by cruise passengers in CARIFORUM states.

e. The negotiation of regional Hospitality Service Providers Programmes with the EU, US and Canada (Mode 4).

The aim of the Hospitality Service Providers Programmes would be to ensure that CARIFORUM nationals are guaranteed work permits for the purpose of temporary contract work. There is already a demand for the skills of qualified CARIFORUM tourism professionals in the EU, US and Canadian markets. For examples, a UK recruitment agency has recently visited the region to recruit graduates from national Hospitality Training Institutes within CARIFORUM under the UK’s Working Holidaymaker Scheme available to Commonwealth nationals. Similarly, a Canadian hotel chain has been actively seeking to recruit lower skilled hotel workers from CARIFORUM states. At the national level, only Jamaica has a formal mechanism for the temporary export of tourism workers. Jamaica has benefited from the United States Overseas Hotel Employment (H2B) Programme since 1968, managed by the Jamaican Ministry of Labour. The programme operates as a seasonal quota for as many as 4,600 persons per year.

The case for such a programme could be built by matching the labour surpluses in the CARIFORUM hospitality sector (between April and November) with the labour deficits in the EU⁵⁰, US and Canadian hospitality sectors. Further research is needed to achieve this. The programme could cover the temporary movement of both lesser skilled and skilled tourism professionals with appropriate credentials or qualifications. It could be designed to suit the seasonality of the CARIFORUM tourism sector, to ensure there are no labour shortages during the high season (November-April) for CARIFORUM tourism. Gaining direct exposure to the hospitality industries of the EU, US and Canada could raise the service standards and practices of the regional tourism industry, and could enable a transfer of skills and expertise to CARIFORUM hospitality workers. In the case of Canada and the EU⁵¹, these programmes would also facilitate a transfer of language skills.

⁴⁸ *Travelling in Europe 2003*, European Commission.

⁴⁹ US customs service website (<http://www.customs.ustreas.gov/>). Section on Duty Free Exemptions in *Know before you go!* - online brochure.

⁵⁰ The “Hotel and Catering Sector Panel” of the UK’s Home Office concluded in their February 2002 meeting that there was a shortage of kitchen porters, waitresses and waiters, cleaners and chefs of all skill levels in the UK’s hospitality sector.

⁵¹ According to the EU’s list of MFN exemptions under the GATS, a similar programme exists for the EU hotel and catering sectors for seasonal workers from Russia, Ukraine, Belarus, Georgia and Mediterranean countries.

Box 1.9: Should compensation from trading partners be sought for the costs incurred by CARIFORUM hospitality training institutes?

In an interview with Dr George Forde, Principal of the Sir Athur Lewis Community College in St Lucia in April 2003, the issue of compensation was raised. At that time, a British recruitment agency was conducting a series of on campus interviews with recent graduates from the College's Hospitality Institute for employment opportunities with the UK leisure sector. Dr Forde expressed concern about the high cost of training students within the Associate Degree Hospitality Programme, which he estimated to be EC\$10,000 per year. While he supported the idea of negotiating Hospitality Service Providers Programmes to increase the Mode 4 trade in tourism services, he also stressed that recipient countries should offer financial compensation to contribute to the training costs of hospitality institutes that are providing skilled tourism workers to fill labour shortages in the tourism sectors of recipient countries.

The design of such a programme will require careful consideration. The lack of skilled human resources is one of the main overall constraints to CARIFORUM services exports in general. It would be disastrous for the tourism industry if this proposal resulted in the permanent migration of the most highly qualified tourism professionals. It is therefore proposed that these programmes are introduced on a small scale at first.

The design of the programme will also require significant input from the private sector. Some of the larger CARIFORUM hotel groups invest substantial resources in the training of their staff, and may be reluctant to promote the temporary export of tourism services in this way⁵². In the case of the Jamaican programme, there have been complaints that the Jamaican programme actually causes major personnel management problems for local hoteliers. For example, one hotel had to cope with a sudden loss of personnel after fifteen workers decided to leave for the US at short notice during high season. It has been suggested that the programme should begin on the basis of an annual quota, but consultations are needed regarding the whether a public or private agency should manage this. Appropriate measures will also have to be factored in to limit the potential for illegal overstayers. This would also ensure that the temporary movement of tourism professionals to overseas markets does not become permanent, thereby causing a reduction in the levels of human capital in the CARIFORUM tourism sector ("brain drain").

When presenting these negotiating requests to the EU, US and Canada, CARIFORUM negotiators should highlight that tourism, specifically the hotels and catering sub-sector, is one of the main sectors for illegal labour in OECD countries⁵³. In this way, this negotiating request could result in a net gain for all parties, as it would help developed countries to regulate their labour markets more effectively by reducing the amount of illegal labour activity in the tourism sector.

⁵² It has been suggested that the major hotel groups in the region should view training as a business offshoot. For example, if the agency placing the workers within such a programme was a subsidiary of a CARIFORUM hotel chain (e.g. Sandals), they could benefit as for each trainee accepted the placement agency would receive a commission.

⁵³ *Where do illegal migrants work?* OECD Observer, February 24th, 2000.

- f. *Facilitate visas for CARIFORUM tourism students entering the EU, US and Canada on hospitality internships or stagier programmes (Mode 4).*

Within CARIFORUM states, there are several internship programmes for tourism students from national hospitality institutes and the UWI to travel abroad to gain work experience. However, in some cases, the visa issuing authorities in developed countries have denied entry to these students. This recently occurred in the Dominican Republic where the Pontificia Universidad Católica Madre y Maestra (PUCMM)⁵⁴ in Santo Domingo had negotiated an agreement for an internship programme with the Delta Hotels Group in Canada. Under this programme, between fifteen and thirty students from the PUCMM's tourism school would travel to Canada for summer internships. However, the Canadian government rejected the visa applications for these students, with the result that the agreement has never been implemented. CARIFORUM negotiators should therefore request that OECD governments, particularly the EU, US and Canada, introduce streamlined visa approval arrangements to facilitate this type of temporary movement for student internships in the hospitality sector.

IV.2.3 Negotiating requests to implement Article IV of the GATS

The full implementation of GATS Article IV by the EU, US and Canada would greatly assist the development of the CARIFORUM tourism sector. Eight years after its entry in force, it has not been implemented by developed country WTO members. Under Article IV, WTO members committed themselves to increasing the participation of developing countries in the global services trade by strengthening services capacity and competitiveness, improving access to distribution channels and information networks, and facilitating greater market access in areas of special interest. To date, the only response of developed country WTO members has been to introduce "contact points". Although these are intended to facilitate the access of developing country members' service suppliers to information, they contain no information of practical value for CARIFORUM tourism service suppliers. CARIFORUM negotiators could therefore submit the following negotiating proposals *during* the FTAA, ACP-EU and CARICOM-Canada negotiations to implement the Article IV of GATS in the tourism sector.

- a. *The introduction of market access contact points for the Mode 4 export of CARIFORUM tourism services in the European, US and Canadian markets.*

CARIFORUM should propose that "single desk" contact points are established in these markets to provide information on temporary employment opportunities in the hospitality sectors of those markets, monitor hospitality labour market developments, and to facilitate visa processing. The proposal could be implemented on a stand-alone basis, or in parallel to the Hospitality Service Providers Programmes.

⁵⁴ Interview with Dr Guillermo Graglia, PUCMM, Santo Domingo, 2nd May 2003.

- b. *Provide small airline carriers from tourism-dependent regions with affordable access to European and US Computer Reservations Systems (CRS) and Global Distribution Systems (GDS).*

Both Air Jamaica and BWIA use Sabre. The subscription fees for using this service are prohibitively high for small carriers. Negotiators should propose that GDS introduce differential pricing for small carriers from tourist-dependent regions.

- c. *Enhance interface possibilities of CARIFORUM reservation systems - such as CHARMS and the Go Caribbean online booking engine - with GDS and online reservation systems, and increase their visibility in the tourism Internet marketplace.*

The development of “Caribbean storefronts” for all online reservation systems would enhance the visibility of Caribbean tourism products. The above two negotiations requests - 10 and 11 – touch on major areas of debate in the WTO negotiations, such as how to increase developing country access to technology through the WTO Work Programme on Electronic Commerce, and the implementation of GATS Article IV. Even so, it remains to be seen whether trade negotiating requests in government-government services negotiations can change the policies of GDS and online reservation systems. This would require some form of government intervention in the commercial practices of the private companies that control these distribution channels. Despite this, these are critical issues for the CARIFORUM tourism sector and should be raised in external services negotiations, particularly with the EU and US, the origin markets of the main GDS and online booking engines.

- d. *The establishment of Web sites to identify market access opportunities in tourist-generating markets for small hoteliers and tourism services suppliers.*

The aim of these would be to identify new market access opportunities for CARIFORUM tourism suppliers within Europe, the US and Canada on a rolling basis, anticipate new trends in tourist generating markets, and provide information on tourism industry developments. This would encourage the direct Mode 1 supply of tourism services by CARIFORUM SMEs to those markets. One CARIFORUM state, the Bahamas, is currently working to devise strategies to increase direct cross-border sales of tourism services to consumers in tourist generating markets before they travel to the region, rather than rely on intermediaries (e.g. cruise ships) who take a commission on any tours or services provided to their passengers in CARIFORUM states during their vacations.

- e. *Establish government-to-government consultation mechanisms for the issuance of travel warnings.*

This negotiating request would aim to create an obligation on the part of the authorities in the EU, US and Canada to consult CARIFORUM governments prior to the issuance of travel warnings. Since the events of September 11th, 2001, government-issued travel advisory warnings have caused major damage to several tourism destinations in both developed and developing countries. This has led one destination, Kenya, to call for a review of the

international “travel advisory machinery”⁵⁵. Since September 11th, CARIFORUM states have been largely successful in promoting themselves as safe and secure tourism destinations. Given the potentially catastrophic impact on CARIFORUM economies of travel advisory notices⁵⁶ advising against travel to the region, negotiators should urgently seek to negotiate new consultation procedures before any travel advisory is issued by the governments of tourist-supplying countries.

Box 1.10: Information technology and Tourism: CRS, GDS and the Internet

The rapid expansion of information technology has had an immense impact on the tourism and travel industry. IT applications are now fundamental to tourism product marketing and distribution. Computer Reservation Systems (CRS) were the pioneers of computer applications in the 1960s. These are distribution platforms – in the form of a mainframe computer with a massive database attached – through which airlines sell tickets to travellers via traditional travel agents.

CRSs have evolved into Global Distribution Systems (GDS). GDS connect many supplier CRS systems with end users, and are the “macro” version of CRS. Over time, GDS have expanded their operational reach to include airlines, hotels, cruises, car rental companies, tours and other tourism services. Market consolidation has left four main GDS: *Sabre*, *Amadeus*, *Galileo* and *Worldspan*. The Financial Times (*Travel vendors embrace the Internet*, March 13, 2002) recently described GDS ownership as a “cosy oligopoly that has long raised the suspicion of users and anti-trust bodies”. The competition effects of GDS consolidation on supplier destinations such as CARIFORUM have never been explored.

In the past, the four GDS systems were wholly owned by the airlines, but that is now changing. *Sabre* became the first GDS to become completely independent of airline control in 2000, when American Airlines’ holding company, AMR, sold its shares to the public. *Galileo* is now owned by Cendant, a US lodging and car rental group. Three European airlines still have majority ownership of *Amadeus*: Air France, Iberia and Lufthansa. *Worldspan* is the only GDS still completely owned by US airlines: American Airlines, Delta and Northwest.

With the growth of online reservations via the Internet, the owners of GDS feared that they would become “dis-intermediated” by cheaper Internet solutions to tourism marketing and product distribution. To avoid this, some have bought into the online distribution sector. For example, *Sabre*, a US-owned GDS, now owns 70% of *Travelocity*. A further threat to the GDSs central role of commercial intermediary is direct online selling by independent airlines (e.g. *Easyjet*).

CARIFORUM tourism companies have long complained about the high costs of GDS subscription fees, but there is no real alternative if their products are to be widely distributed. This is a major commercial issue affecting the Mode 1 supply of CARIFORUM tourism services. Many of the larger CARIFORUM tourism companies and airlines use *Sabre*. Tourism SMEs are effectively shut out from these distribution channels because of the high fees. Industry experts predict that GDS will be superseded completely by Internet reservation systems within ten years. Even so, the bargaining power of CARIFORUM suppliers with the newer online reservation systems is likely to be as weak as with GDS. This is because smaller tourism suppliers in CARIFORUM states will always face prohibitively high fees due to their inability to generate volume sales.

The CHA has established presences with GDS and online reservation systems to provide access to these distribution channels for their memberships. The CHA Charitable Trust’s *Go Caribbean* online reservation system is currently paying a monthly subscription fee to *Expedia*, owned by *USA Interactive Inc.*, to link into their system. CHA has established a reservation system, *CHARMS*, to facilitate the access of small hotels to GDS systems at a reduced price. *CHARMS* uses *Utell*’s GDS identifier to gain access to GDS, thereby allowing small hotels to benefit from *Utell*’s volume discount for listing. *Utell* is a US reservations service that provides hotel inventory to the GDS systems for their member hotels.

⁵⁵ *Travel warnings are bad for business*, by Stephen Kalonzo Musyoka, Foreign and International Affairs Minister of Kenya, *The Spectator*, 7 June 2003

⁵⁶ In December 2002, the British government warned that Trinidad and Tobago was at increased risk of terrorist attack, prompting one cruise company to cancel visits.

IV.2.4 Development assistance and technical cooperation requests.

Although the public position of the European Commission (EC) is that the EPA negotiations with ACP states will not have a budget attached to them, it is highly likely that CARIFORUM will have the opportunity to present development assistance requests to the EU for European Development Fund (EDF) resources. The following are some initial proposals, pending further consultations between CTO and CHA on the development needs of the CARIFORUM tourism industry.

- a. *A programme of assistance for Internet marketing strategies for small hotels (or 75 rooms or less).*

The Internet is set to dominate tourism marketing, and it has many advantages as a marketing tool for those SMEs that cannot access the main international distribution channels (e.g. tour operators, GDS). As part of this programme, the EU, US and Canada could be requested to encourage partnerships between CARIFORUM tourism SMEs and technology suppliers. It could also promote best practices on new technology applications involving tourism SMEs.

- b. *Technical and financial assistance to CARIFORUM states to introduce Tourism Satellite Accounts (TSA).*

These aim to measure tourism-related activity by determining what percentage of each industry is accounted for by tourism. The establishment of TSAs⁵⁷ in CARIFORUM economies would ensure availability of comprehensive and reliable information on the impact of tourism on CARIFORUM economies. This is currently lacking. TSAs would also facilitate public policy planning for the growth and development of tourism in CARIFORUM states, and would clarify the extent of tourism linkages to ancillary economic sectors. The introduction of TSAs could complement the detailed statistics on the cross-border movement of tourists already being produced by the Caribbean Tourism Organisation (CTO).

- c. *Provide technical support to CARIFORUM services providers wishing to establish commercial presence (Mode 3) in the EU, US and Canadian markets.*

Although only a handful of CARIFORUM tourism services suppliers have established a commercial presence in these markets, this situation may change in the future. The provision of technical support by the EU, US and Canada to facilitate this may stimulate CARIFORUM service providers to increase their participation in this mode of supply.

- d. *Encourage partnership programmes between CARIFORUM hospitality training institutes and their counterparts in the Europe, the US and Canada.*

The objective of this proposal is to share hospitality training best practices, as well as encourage the development of student exchanges between hospitality institutes.

⁵⁷ In April 2003, the CHA signed a three-year cooperation agreement with the WTTC. As part of this agreement, the WTTC will produce a regional Tourism Satellite Account (TSA) for the Caribbean. EU member states are now implementing Tourism Satellite Accounts, with the Commission offering financial support to introduce TSAs (see Commission Communication to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, *Working Together for the Future of European Tourism*, Brussels 13.11.2001 COM (2001) 665 Final.)

IV.2.5 Other requests to address some specific trading problems

Listed below are three further trading issues that are constraining the future development of the CARIFORUM tourism sector. These are the lack of incoming airlift to supply CARIFORUM destinations; the insurance problems facing CARIFORUM hoteliers; and the dumping of US food exports on the CARIFORUM tourism sector. These issues could be raised in regional or hemispheric trade negotiations on services in order that solutions can be identified.

- a. *Establish a programme with unallocated EDF resources to increase air services to small, tourism-dependent states within CARIFORUM.*

This proposal may be particularly relevant for the EPA negotiations with the EU, and CARIFORUM negotiators could propose that unallocated EDF resources be set aside for this purpose. This would ensure that it is European, not CARIFORUM, public funds that support the air services of European carriers to CARIFORUM destinations. Such a programme could be designed in a similar manner to the US Essential Air Services System (see Box 1.11), with EDF resources providing payments to airlines willing to provide services on “thin routes” under special licences. The proposal could also be raised in the Canada-CARICOM negotiations.

- b. *Request that the US exercises stronger oversight control over US food exports for the CARIFORUM tourism industry to ensure that old stocks are not being dumped on CARIFORUM tourism markets.*

Two CARIFORUM destinations, Jamaica and the Dominican Republic, believe that old stocks of US food items are being dumped on the tourism markets of these two countries. Many hoteliers have found that food imports, particularly perishable items, have a very limited shelf life. CARIFORUM negotiators should therefore request in the FTAA.

Box 1.11: A proposal to increase incoming airlift into CARIFORUM states

At the Worldwide Air Transport Conference in Montreal, Canada (24-29, 2003), the World Tourism Organisation tabled a proposal to address “aviation market failure, and with it tourism market failure”, in the world poorest countries, the Least Developed Countries (LDCs). The WTO-OMT called for “any practical measures to increase air transport service levels and decrease price levels in developing state markets”. The proposal referred to existing national and regional programmes in the EU and US to strengthen “distressed market failure regions,” such as the US Essential Air Services System. These were based on the provision of substantial central funds for “supplemental payment to airlines willing to operate under special licenses to such regions”. The proposal emphasised that the aim of this was “to increase services, not to support airlines”. CARIFORUM should propose that a similar system be introduced in the EU negotiations, using unallocated EDF resources. *Source: Liberalisation with a human face: The Aviation Dimension*, presented by the World Tourism Organisation (WTO-OMT) at the Worldwide Air Transport Conference, 24-29 March, 2003. (ATCONF/5-WP/32).

- c. *Introduce specific measures to expand insurance coverage for the CARIFORUM tourism sector, and to reduce costs.*

The costs of insurance policies for CARIFORUM hoteliers and tourism service suppliers has been increasing in recent years, not least for coverage against natural disasters such as

hurricanes. Another recent trend is that international tour operators and cruise lines are now transferring liability and risk to local operators for personal injury claims. This began after US cruise lines were sued in US courts for injuries sustained by passengers while engaging in onshore activities (e.g. riding on jet skis). Rather than taking on the costs of insurance themselves, the cruise lines are passing these on to local operators and, in some cases refusing to deal with them unless they have specific types of insurance coverage.

Similarly, many of the contracts between CARIFORUM hoteliers and international tour operators contain a clause indemnifying the tour operator from any compensation claims for personal injuries sustained by tourists while on property. Tourists usually chose to pursue those claims in the courts of the country where they reside. This means that CARIFORUM hoteliers have to purchase insurance policies with worldwide -rather than local – jurisdiction. This massively inflates the premiums for these policies. So much so, that the cost of insurance with worldwide jurisdiction for one Barbados hotelier is US \$250,000 per year whereas insurance with Barbados cover would cost US \$25,000⁵⁸.

CARIFORUM negotiators could raise these issues in external negotiations on services, and request that trading partners support the settling of such cases in local courts. CARIFORUM negotiators could argue that the necessity to buy insurance policies with global jurisdiction is a trade barrier. However, an informal legal opinion sought for this assignment has indicated that it would be difficult to challenge an individual's right to pursue a claim in their own jurisdiction. Also, the issue of cruise ships only dealing with operators who have certain kinds of insurance policies also appears to be a commercial issue, that once again reflects the weak bargaining power of CARIFORUM services suppliers in the tourism market. Despite this, negotiators should consider raising this issue in the negotiations with the EU, US and Canada.

d. Request that EU, Canada and the US approve the portability of health insurance policies in order to cover spa, rehabilitation, and chronic care services provided to their nationals in CARIFORUM states

A recent study⁵⁹ commissioned by the CRNM identified as a major trade objective the need to increase the flow of health tourists to the region by extending insurance coverage and by improving standards. The study recommended that international portability of insurance, recognition of professional and hospital standards should be considered priority areas for discussion and future work. It further proposed that Caribbean countries may wish to examine the possibility of pursuing under GATS Art. VI. 4 the question of standards and portability of insurance as barriers to trade.

⁵⁸ Telephone interview with William Tomlin, General Manager of CGM Insurance Brokers Ltd, May 7th 2003.

⁵⁹ *Health Tourism and Related Services: Caribbean development and international trade*, Gonzales, Brenzel and Sancho, 2001.

PART V PRIORITY ACTIONS AT THE CARIFORUM LEVEL TO PROMOTE THE TOURISM SECTOR IN SERVICES TRADE NEGOTIATIONS

V.1 The liberalisation of tourism inputs in CARIFORUM states

The CARIFORUM is both a consumer and provider of goods and services. The tourism product consists of many inputs including both publicly traded services – such as transport, electricity and water supply – and privately traded services, such as hotel and accommodation, catering services and visitor attraction services. The ability of a tourism destination to compete⁶⁰ internationally will depend on whether the entire range of these goods and services are provided efficiently and at low cost. This means that both the public and private sectors have a role to play in building competitiveness.

Compared with the global competition, CARIFORUM destinations – apart from the Dominican Republic – are now considered high cost destinations. As the President of the Caribbean Development Bank recently stated, “CARICOM destinations are pricing themselves out of the market”⁶¹. The industry would support further liberalisation in local infrastructure services, particularly electricity and telecommunications services, if this leads to these services being provided more efficiently and at lower cost. However, if privatisation leads to the replacement of a public monopoly with a private one, any benefit in terms of lower operating costs will be lost. In this regard, the economies of CARIFORUM may have a natural handicap given that small market size can result in limited competition – as CARIFORUM markets are not large or attractive enough to attract many service providers – and the continual presence of monopolies.

From a trade negotiating perspective, the CARIFORUM tourism sector would support further liberalisation in the following services, all of which of major inputs into the tourism product, if this leads to more efficient services at lower cost:

- i. **Electricity services:** The tourism private sector places particular importance on lowering utility costs, especially for electricity. It therefore supports further energy market liberalisation if it can reduce operating costs and improve the efficiency of supply.
- ii. **Telecommunications services:** The growing importance of Internet bookings highlights the importance of low-cost telecommunications and Internet services for the future development of the CARIFORUM tourism sector. Telecommunications liberalisation can reduce the costs to SMEs of providing services to foreign markets via online channels. The lack of a cost-competitive information and communication technology infrastructure to support the cross-border supply of services currently limits the Mode 1 supply of tourism services.
- iii. **Environmental services:** CARIFORUM negotiators should consider the full liberalisation of environmental services market. Gaining access to higher quality and

⁶⁰ Two CARIFORUM states, Antigua and Barbuda and Grenada, currently rank among the bottom five tourism destinations in the Price Competitiveness Index of the World Tourism and Travel Council's (WTTC). This Index uses data and indices that include hotel price index, power parity index, adjusted consumer price index and taxes on goods and services.

⁶¹ *Some thoughts on tourism*, address by Dr. Compton Bourne, President, Caribbean Development Bank (CDB), October 21st, 2002.

lower cost environmental services would help the industry attain its sustainable development objectives. The June 2002 Caribbean Tourism Strategic Plan spoke to the need to “minimise the adverse impacts on the socio-cultural and natural environment and other touristic assets”.

- iv. **Insurance services:** There is a shortage of reinsurance capacity in the region, and the costs of property and liability insurance are extremely high for CARIFORUM hoteliers. A recent World Bank study⁶² found that “high insurance penetration and low quantities of risk transfer indicate that the prices of catastrophic insurance in the Caribbean region are high”. The same study also proposed a “recommendation for public sector intervention” that “restrictions on foreign insurance companies be eliminated”. CARIFORUM negotiators should consider whether further liberalisation will reduce the costs of insurance for the CARIFORUM tourism sector, and increase capacity.

Concerning goods, tariff reductions on the following tourism inputs have been identified as being of particular benefit in lowering hotel operating costs: furniture and linen, pasta, wines and spirits, bar and kitchen equipment (e.g. chillers and freezers) and specialty meats fish and shellfish.

V.2 Policy recommendations to support the growth of tourism

As a result of the consultations with public and private sector officials in CARIFORUM states and desk research conducted for this assignment, the following policy recommendations are proposed to promote the growth of tourism in CARIFORUM states.

a. *The development of a regional policy towards cruise tourism.*

The costs and benefits of cruise tourism to CARIFORUM tourism economies is a highly divisive issue between, and among, the public and private sectors engaged in tourism. Many public sector officials – particularly those within the Port Authorities of CARIFORUM states – point to the upgrading of port facilities, paid for by passenger head taxes, as a key benefit of cruise tourism. However, one senior CARIFORUM tourism public sector official has emphasised that external trade negotiations should provide the stimulus for a regional policy on cruise ships. The aim of this policy should be to increase the collective bargaining power of destinations in the negotiations with cruise ships and to maximise on-shore expenditures by cruise ship passengers. It should also establish environmental standards for cruise operations, and mechanisms to increase the economic benefits of cruise activities to national economies. It is important to note that the proposal for a common regional passenger head tax⁶³, as advocated by the Caribbean Association of Industry and Commerce (CAIC) and others, may not be feasible given that the costs of operating port facilities differs greatly from island to island. CARIFORUM trade negotiators could seek to raise this issue at COTED.

⁶² *Catastrophe Insurance Market in the Caribbean Region: Market Failures and Recommendations for Public Sector Interventions*, P. Auffret, World Bank Policy Research Working Paper 2963, January 2003.

⁶³ Earlier this year, Bermuda insisted that cruise operators hire more Caribbean nationals, contribute US\$1.5million to an education fund, introduce US\$50 vouchers to be distributed to every cruise passenger to be spent onshore on local businesses, and raise the passenger head tax to US\$60.

b. The development of a regional definition for tourism, to be included within the CSME.

If CARIFORUM states are to be “demandeurs” on tourism services in services trade negotiations, which they should be as the world’s most tourism dependent region, it is essential that they adopt a regional definition of tourism. This would assist tourism planning at the national and regional levels, but also would inform the positions on regional negotiators in all services trade negotiations. As previously noted in this report, the development of a regional tourism definition is an essential first step to achieving a wider definition of tourism under the GATS and in all other regional and hemispheric services negotiations. It is recommended that a regional tourism is developed rapidly, using the list of “Tourism Characteristic Products” set out in the Annex to the GATS negotiating proposal entitled “Draft Annex on Tourism” (S/CSS/W/107 of September 2001) submitted by the Dominican Republic and its co-sponsors. Those services – such as “ski field operation services” – that are not relevant for CARIFORUM tourism should be omitted, and replaced by emphasis on cultural events and heritage and other unique selling points for CARIFORUM tourism.

c. The need to upgrade the statistical capacity of CARIFORUM member states to measure the impact of tourism on national economies.

An essential prerequisite for successful public policy planning on tourism, and participation in external trade negotiations on services, is the availability of accurate data on the impact of tourism on national economies. The statistics produced by the CTO are thorough and extensive, and focus on the movement of tourists and cruise passengers, occupancies and expenditures. The national statistical accounting systems do not accurately measure the impact of tourism on national economies: in many cases, tourism is not even disaggregated from general services statistics. The introduction of Tourism Satellite Accounts (TSA) would improve the understanding of tourism and its value to national economies. Without the upgrading of the regional statistical capacity for tourism, the industry will have to continue to rely on external research organisations, such as the WTTC, to provide this data. The introduction of the TSAs will also facilitate the agreement of a regional definition for tourism for the first time.

Box. 1.12: The 2002 ASEAN Regional Tourism Agreement: a model for CARIFORUM?

In November 2002, ASEAN (Association of South East Asian Nations) governments signed a Regional Tourism Agreement¹ which extended visa-exemption arrangements, harmonised visa procedures for international travellers, and put in place a timetable for the phasing out of travel levies and taxes on ASEAN nationals visiting other ASEAN member states. This comprehensive regional tourism agreement contains a range of policy measures to promote the growth of tourism in ASEAN states. Within the agreement, the ASEAN states – leading competitors of CARIFORUM destinations – emphasised the strategic importance of tourism as a means for accelerating the regional integration process.

Source: ASEAN Tourism Agreement signed at Phnom Penh, Kingdom of Cambodia, 4th November 2002.

d. The need to facilitate the movement of tourists within CARIFORUM, and of tourism professionals.

CARICOM nationals do not require a visa for travel for tourism purposes within the regional grouping. Even so, the development of the intra-regional tourism sub-sector would be facilitated if regional governments agreed to phase out travel levies and taxes on CARICOM

nationals vacationing in other CARICOM states (see Box 1.12). Most CARICOM states currently have differential levels of departure taxes for CARICOM nationals and nationals from other tourist-generating countries. CARIFORUM/CARICOM governments should also consider the introduction of a single visa for international travellers. This would greatly facilitate multi-destination tourism or “island-hopping” tourism within the region. In this regard, it should be noted that the regional private sector would support the introduction of streamlined visa and work permit procedures to facilitate the temporary entry of highly qualified tourism personnel into CARIFORUM markets.

e. Tourism is not viewed as an export industry, and is not treated as such in national taxation policy.

There is still a reluctance to view tourism as an export industry in public policy planning in CARIFORUM states. The industry has emphasised that this is much more than just an esoteric discussion. They point to the fact that the tax burden of the tourism sector is far greater than any other economic sector. For policymakers, taxing Travel & Tourism is attractive because the bulk of the tax burden is perceived to fall on the shoulders of non-constituents, i.e. foreign tourists. However, the increase of the tax burden on tourism destinations can have a direct impact on competitiveness. UNCTAD (1998) noted that, “Fiscal policy in many developing countries places a heavy tax burden on tourism service suppliers (particularly small and medium-sized enterprises). While most governments provide for tax and duty drawback paid by exports of goods, this is usually not applied to exports of tourism services⁶⁴”.

The issue of tourism taxation at the national level is outside the scope of this report unless foreign and domestic services suppliers are not similarly taxed (i.e. foreign suppliers do not receive “national treatment”). But national taxation is essential in any discussions regarding the competitiveness of the CARIFORUM tourism sector. A recent World Bank study highlighted the price elasticity of tourism in the Caribbean, and emphasised that “anything that makes an island more expensive relative to competition will lead to a substantial fall in total revenues⁶⁵”. This report recommends that CARIFORUM governments consider making a commitment not to increase tourism taxation beyond current levels. This would greatly increase investor confidence in CARIFORUM tourism.

f. How the design of the CSME limits the scope of negotiating requests on tourism services.

Finally, the design of the CSME may constrain the scope of CARIFORUM negotiating requests in two areas: proposals for disciplines to prevent anti-competitive disciplines in the tourism sector, and Mode 4 requests on the temporary exports of tourism services supplying nationals. Firstly, as noted previously in this study, CARIFORUM states will only be able to implement, in the regional market, any new multilateral disciplines regarding anti-competitive practices once a regional competition policy has been introduced. Secondly, the potential to increase the temporary export of hospitality labour to developed country markets may be limited due to the CSME provisions on the movement of natural persons. A recent

⁶⁴ Report of the expert meeting on strengthening the capacity for expanding the tourism sector in developing countries, UNCTAD, 7 July 1998 (TD/B/COM.1/17)

⁶⁵ Demand for Tourism, W.F. Maloney and Gabriel V. Montes Rojas, The World Bank, August 21st 2001 (Draft).

study on the temporary movement of natural persons⁶⁶ concluded that Commonwealth countries would derive substantial economic benefits if developed countries liberalised the unskilled rather than the skilled end of their labour markets. The Protocol II provisions of the CSME have a bias towards qualified labour, and they aim to facilitate only the movement of qualified professionals with UWI qualifications. As a result, developed countries may seek to reject any CARIFORUM Mode 4 request to facilitate the temporary export of lesser skilled hospitality labour on the basis that CARIFORUM states do not permit this type of movement within their own regional integration process.

V.3 Actions to promote the tourism industry in services trade negotiations

Beyond pursuing the negotiating requests outlined previously, the following actions would serve to promote the interests of the tourism industry in services trade negotiations:

a. Promote the tourism sector as a recipient of donor funded development assistance

There has been a marked reluctance on the part of the donor community to embrace tourism as a means of addressing poverty alleviation and promoting sustainable economic development. This is partly due to concerns about the legitimacy of the sector as a recipient of public resources, particularly as the level of foreign ownership in the sector is so high. Given tourism's status as the leading source of income and employment in most CARIFORUM states, CARIFORUM negotiators should seek to negotiate specific provisions in all services trade negotiations that recognise the industry as a recipient of development assistance. The aim should be to negotiate specific funding facilities within EDF envelopes, and USAID and CIDA funding mechanisms. The CARIFORUM tourism sector urgently needs support to be targeted at the following areas: hospitality training and the upgrading of industry human resources, finance for the upgrading of hotels and tourism infrastructure, the enhancement of regional marketing programmes, and the encouragement of tourism's integration with the rest of CARIFORUM economies. In the case of the EPA negotiations with the EU, it is likely that substantial compensatory funds will be negotiated to support a transition away from traditional agriculture (e.g. sugar) to newer services industries. It is essential that regional negotiators position the tourism sector as a recipient of any EDF programmes aimed at restructuring and economic transition.

b. Encourage a greater level of participation of both public and private sector in external trade negotiations on services.

In order to pursue the strategy outlined in this report, the increased involvement of both public and private sector tourism officials in external trade negotiations is required. A small trade negotiating committee could be established to include representatives from both CTO and CHA under the leadership of a senior CARIFORUM tourism minister to ensure that the interests of the regional tourism sector are adequately defended in all current external trade negotiations. That minister could be called upon to represent industry interests in formal negotiating fora as and when required.

⁶⁶ *Negotiating the liberalisation of the Movement of Natural Persons*, Commonwealth Secretariat, 2002. Winters et al.

- c. *The inclusion of CARIFORUM tourism ministers in COTED discussions relating to services trade negotiations*

From an institutional perspective, it may also be necessary to facilitate the participation of tourism ministers in COTED meetings where discussions on services trade negotiations are scheduled. As tourism is now becoming an important issue on the region's trade negotiating agenda, it could be beneficial if tourism ministers and officials were party to COTED discussions on negotiations affecting the trade in services. Given the unique complexity of tourism as an economic sector, the successful participation in external negotiations on services will require inputs from both the trade and tourism ministries of CARIFORUM states. Finally, a further recommendation is that the ten-year Caribbean Tourism Strategic Plan for the tourism sector should be amended to include participation in international trade negotiations as an integral element of the achieving the sustainable growth of tourism in CARIFORUM states.

V.4 Areas where further research is required

Further consultation with the regional tourism sector is required to identify the areas where further research may be required. The following could be used as a basis for this consultation:

- i. Research into the costs and benefits of including air transport services in the services negotiations with the EU and Canada.
- ii. Research into whether trade negotiations on insurance services can be used to increase insurance capacity and reduce costs for the tourism industry.
- iii. A study on the competition policy issues affecting CARIFORUM tourism services suppliers within the regional market and in cross-border tourism services transactions.
- iv. The impact of external services negotiations on sustainable tourism development in the CARIFORUM region.
- v. Research into the hospitality labour markets of CARIFORUM states and OECD states for the purposes of negotiating Hospitality Service Providers Programmes.
- vi. An assessment of the impact of market consolidation of the EU, US and Canadian hospitality and airline sectors and its impact on the CARIFORUM tourism sector, including the competitive effects of this consolidation.
- vii. A study on Internet marketing strategies to increase direct cross-border trade of CARIFORUM tourism services suppliers, particularly SMEs.
- viii. Research to tailor the GATS Model Request on Tourism and Travel Related Services to suit the specificity of the CARIFORUM tourism sectors.

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ANNEX I

MODEL REQUEST ON TOURISM AND TRAVEL RELATED SERVICES.

Proposal by [Bolivia, Cuba], Dominican Republic, [Ecuador, El Salvador, Guatemala, Honduras, MERCOSUR, Nicaragua, Panama, Peru, Venezuela]...

The following request develops the proposals, concepts and ideas presented in the following documents:

- 1) S/CSS/W/107, "Draft Annex on Tourism" – Communication from Bolivia, Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Panama, Peru and Venezuela, dated 26 September 2001;
- 2) S/CSS/W/122, "Tourism and Travel Related Services" – Communication from Colombia, dated 27 November 2001;
- 3) S/CSS/W/125, "Tourism Services" – Communication from MERCOSUR⁶⁷, dated 29 November 2001;
- 4) S/CSS/W/128, "Tourism Services" – Communication from Costa Rica, dated 30 November 2001; and
- 5) S/C/W/149, "Conclusions and Recommendations of the Expert Meeting on Tourism" – Communication from the Paradisus Group⁶⁸, dated 23 May 2000.

The co-sponsors present a request for specific liberalization commitments and for the withdrawal of horizontal measures and MFN exemptions applicable to tourism and travel related services. Adoption by Members of this model request should serve to "ensure the effective implementation of Articles IV and XIX:2" as provided for in paragraph 15 of the Guidelines and Procedures for the negotiations on Trade in Services, in order to increase the participation of developing countries in services trade.

⁶⁷ Argentina, Brazil, Paraguay and Uruguay.

⁶⁸ Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

MODEL REQUEST ON TOURISM AND TRAVEL RELATED SERVICES (continued)

As a mechanism for the effective implementation of Articles IV and XIX:2 of the GATS.

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons.

Sector or Subsector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
II. SECTOR-SPECIFIC COMMITMENTS.			
9. TOURISM AND TRAVEL RELATED SERVICES.			
A. <u>Hotels and restaurants</u> (CPC 641-643)	(1), (2), (3), (4) None	(1), (2), (3), (4) None	Desiring to implement Articles IV and XIX:2 in order to facilitate the increasing participation of developing countries in trade, [Member] agrees to adopt these principles ¹ : 1. Strengthening the competitiveness of developing countries; 2. Liberalization of market access for developing country suppliers; and 3. Cooperation for the sustainable development of tourism.
B. <u>Travel agencies and tour operator services</u> (CPC 7471)	(1), (2), (3), (4) None	(1), (2), (3), (4) None	
C. <u>Tourist guides services</u> (CPC 7472)	(1), (2), (3), (4) None	(1), (2), (3), (4) None	
D. Other <u>Fishing license services</u> (CPC 91131) <u>Hunting license services</u> (CPC 91131) <u>Spa services</u> (CPC 97029)	(1), (2), (3), (4) None	(1), (2), (3), (4) None	

¹ **A. Strengthening the competitiveness of developing countries.**

1. Prevention of anticompetitive practices.

Adequate measures shall be adopted to prevent these practices in the tourism industries, to address, *inter alia*, the following:

- i) Discriminatory use of information networks, predatory pricing or the allocation of scarce resources;
- ii) Abuse of dominance through exclusivity clauses, refusal to deal, tied sales, quantity restrictions or vertical integration; and
- iii) Unfair use of information, including through travel warnings.

2. Access to technology.

Members shall encourage the transfer of technology on commercial basis to firms in tourist destinations through joint ventures and other forms of partnership with foreign firms.

3. Small and Medium Enterprises.

Members shall support positive measures to strengthen Small and Medium Enterprises and to further their participation in tourism originating markets.

B. Liberalization of market access to developing country suppliers.

1. Horizontal commitments.

Under horizontal commitments, Members:

- i) Withdraw measures affecting commercial presence in the tourism industries or make explicit reference that they *do not apply* to the tourism industries; and
- ii) Ensure that conditions for purchase, lease or use of real estate are not applied in such a manner as to nullify or impair the benefits accruing to any Member under the terms of specific commitments in tourism and travel related services.

2. Exceptions to Articles II.1

Members shall ensure that measures inconsistent with paragraph 1 of Article II of the GATS pertaining to the supply of tourism and travel related services and/or are of horizontal application *do not apply to tourism and travel related services*.

3. Specific Commitments.

Members, in their specific commitments in tourism and travel related services:

- i) Shall not require compliance with economic needs tests;
- ii) Shall provide access on a commercial basis to computer reservation systems/global distribution systems according to transparent, reasonable and objective criteria;
- iii) Shall endeavor to ensure that their migration authorities facilitate the movement of tourists;
- iv) Shall not place limitations on the participation of foreign capital nor requirements to establish specific types of legal entities; and
- v) Shall facilitate the temporary entry of natural persons supplying services in this sector with respect to visa and temporary residency provisions. The competent authorities shall take account of professional qualifications related to tourism services acquired in the territory of another Member, on the basis of equivalency of education and using qualification recognition methods.

C. Cooperation for the Sustainable Development of Tourism.

1. Financing.

Members endorse and encourage the participation of developed and developing countries and their suppliers of network-related, business and environmental services in international, regional, sub-regional, bilateral and private financing programs in support of the sustainable development of tourism.

2. Trading conditions.

Members shall ensure equitable and pro-competitive trading conditions for the sustainable development of tourism through the implementation of these commitments.

3. Standards.

Members encourage compliance with environmental and quality standards applicable to the tourism industries, as established by relevant international organizations.

ANNEX II

The objectives of the 2002 Caribbean Tourism Strategic Plan (2002-2012)

- i. Increase annual tourist expenditures by at least 5% per annum over the next 10 years.
- ii. Increase stay-over arrivals by at least 1% above the world average growth as estimated by the World Tourism Organisation (WTO-OMT).
- iii. Achieve the optimal rate of development of cruise tourism and increase the conversion of cruise tourists to stay-over tourists.
- iv. Enhance the linkages between tourism and other sectors of the economy, in particular through increasing the purchases of supplies, services, food and beverage, etc by the cruise sector.
- v. Increase the level and range of employment opportunities for Caribbean nationals in the industry and provide the requisite levels of tourism education and training.
- vi. Improve the range and level of professional skills and so enhance the quality of service throughout all areas of the industry.
- vii. Minimise the adverse impacts on the socio-cultural and natural environment and other tourism assets, while maximising the benefits to the wider community.
- viii. Achieve the highest levels of technological expertise needed to compete in an information-driven industry in the information age.
- ix. Improve return on investment both for private and public sectors.
- x. Enhance the supporting infrastructure.

The Plan sets out a vision for Caribbean tourism to the year 2012: *“The further development of a Caribbean tourism industry that is fully understood and embraced by the peoples of the region and which, through co-operative action among Governments and with the private sector, makes a significant and sustainable contribution to development in both mature and emerging destinations”.*

The Plan was approved by the board of the Caribbean Tourism Organisation (CTO) in 2002. It has also been endorsed by the private sector Caribbean Hotel Association (CHA). CTO and CHA are currently in discussions to resolve outstanding questions regarding the Plan’s marketing and funding elements.

ANNEX III

TERMS OF REFERENCE

BACKGROUND PAPER ON TOURISM SERVICES NEGOTIATION ISSUES: IMPLICATIONS FOR CARIFORUM

Background

1. Within CARIFORUM countries⁶⁹, tourism provides significant employment, earns foreign exchange needed to pay for large quantities of imports across many sectors, stimulates investment in construction of tourism and other national infrastructure, and provides government revenue to finance social services. In recent years, however, there has been growing concern about the competitiveness and level of innovation of tourism services in some CARIFORUM countries.

2. The tourism sector is perhaps the most open service sector in CARIFORUM. It has had to make many concessions to secure investment. But many tourism dependent countries, with very narrow resource bases, depend on taxes from tourists and duties from the wide variety of imported inputs needed to service the industry.

3. From a public policy perspective, one of the major challenges facing CARIFORUM countries has been to transform a situation of foreign management within their own borders across the many sub-sectors of accommodation, amenities and attractions. Additionally, the distribution system serving the tourism industry from the marketplace is almost entirely foreign owned. It employs many foreign advertising experts and tourism consultants. Foreign carriers dominate the air lanes and provide serious competition for national carriers.

4. CARIFORUM member states are currently participating in several sets of multilateral and bilateral trade negotiations dealing, *inter alia*, with tourism services. These are:

- (a) The World Trade Organization/General Agreement on Trade in Services (WTO/GATS);
- (b) Free Trade Area of the Americas (FTAA);
- (c) African, Caribbean and Pacific - European Union (ACP-EU) negotiations for Economic Partnership Agreements (EPAs); and
- (d) CARICOM – Canada enhanced trade agreement.⁷⁰
- (e) CARICOM – Costa Rica Free Trade Agreement.

For those involved in these negotiations, it will be necessary to strike the right balance between enhancing the participation of local service suppliers in tourism activities and encouraging foreign investment to increase the competitiveness of the Caribbean tourism product.

5. In the GATS negotiations, there have been several proposals on tourism services. One of the most interesting is the notion of a Tourism Annex.⁷¹ There is also the related question of

⁶⁹ CARIFORUM consists of the countries of the Caribbean Community (CARICOM), including Suriname and Haiti, and the Dominican Republic.

⁷⁰ The Dominican Republic is not involved in the CARICOM – Canada negotiations.

negotiating in services "clusters." In the case of tourism, this might include transportation, tour operators, restaurants, hotel construction, insurance, etc. This is an issue that needs to be researched and analysed in terms of its relevance to CARIFORUM states. Tourism depends on a range of other services, many of which Caribbean governments are not keen to liberalize.

6. Given the critical importance of the tourism industry to CARIFORUM states and the many inter-sectoral linkages with other sectors – both goods and services – the special interest shown in tourism to date in the GATS negotiations requires careful study. Tourism may also become a critical issue in the FTAA and ACP-EU negotiations.

Objective

7. The general objective of this consulting assignment is to enable the tourism industry and governments in CARIFORUM countries to develop a better understanding and appreciation of the trade-related challenges that lie before them. The specific objective is to assist the Caribbean Regional Negotiating Machinery (CRNM) in advising CARIFORUM Governments of the best negotiating options for the Region. This requires in-depth and careful analysis of the issues relating to tourism and the GATS and other negotiations (FTAA, ACP-EU) and their implications for CARIFORUM. The CRNM requires a consultant to prepare a background paper in accordance with the terms of reference detailed below.

Scope of Work

8. The consultant shall:

- (a) Present an overview of the nature of the tourism industry in CARIFORUM states in terms of the extent of diversity of tourism products and services. Identify the areas of greatest growth, potential growth, and areas of decline;
- (b) Present a succinct review of the proposals on tourism in the GATS negotiations to date and assess the areas that are in CARIFORUM's interest;
- (c) Examine the proposal regarding an Annex on Tourism in the GATS and assess whether it is a feasible concept and whether it is in the interest of CARIFORUM to endorse it;
- (d) Examine the classification of Tourism Services in the GATS and assess whether it should be amended to better reflect the new nature of tourism in recent years. The cruise ship industry, for instance, is classified as maritime transport but is now a major tourism sub-sector with an increasing segment of the tourism market in the Caribbean;
- (e) Identify the barriers to tourism suppliers from CARIFORUM in all modes of supply in major overseas markets (eg. the EU, United Kingdom, United States, Canada) and suggest mechanisms to reduce them (for instance, in commercial presence (mode 3) to set up offices in the US, UK, etc.). Also examine barriers to temporary entry (mode 4) through which Caribbean tourism firms would like to do trade shows, advertise, meet with clients, etc.;

⁷¹ Dominican Republic and others.

- (f) Identify any trade-related policies and practices in the CARIFORUM region that inhibit the further growth and development of the tourism industry;
 - (g) Identify the goods and services sectors in CARIFORUM in which further tariff reductions will benefit the tourism industry;
 - (h) Identify any negotiating issues in tourism that are of strategic importance to CARIFORUM and recommend negotiating options, in particular the Region's offensive interests;
 - (i) Review and assess any requests made to CARIFORUM states in the tourism sector in the context of the WTO and provide recommendations regarding requests that CARIFORUM states should make to other WTO Members in respect of tourism services;
 - (j) Recommend how CARIFORUM governments should best promote the development of the tourism sector through trade negotiations in each of the forums identified at paragraph 4 above; and
 - (k) Identify critical areas for further research.
-