



CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

CUBA:

The Great Disruption for the Good of the Caribbean ***The Caribbean Hotel and Tourism Association states its views***

June 18, 2015

The biggest and most disruptive pebble to be dropped into the Caribbean pool in fifty years will arrive with the opening of travel to Cuba for United States citizens. The Caribbean Hotel and Tourism Association (CHTA) has extensively discussed the implications of this momentous event and the following is a summary of its views.

The CHTA expects that those islands and countries nearest to Cuba will feel the greatest ripple effects and believes it would be wise for them to begin planning ways to mitigate those effects now. As for the other destinations in the Caribbean, the CHTA is of the view that the consequences might be more muted but in the end the total Caribbean travel landscape will be changed forever.

There is ample time and opportunity for the net effects to be positive for the Caribbean as a whole. But as for the individual effects by country, those will depend on both individual and collective action in avoiding the longstanding Caribbean malaise of “business as usual”.

The Caribbean, the most tourism dependent region in the world could use a good shaking up. For decades, with few exceptions, it has relied on its natural advantages of sun, sand, sea, welcoming populations and, more than anything else, its relative proximity to the United States, the largest economy on earth, for much of its success. For decades, many Caribbean governments appear to have grudgingly accepted the employment and foreign exchange benefits delivered by their tourism economies but have not provided the kind of attention and support to tourism that could further reduce the crushingly high and debilitating levels of unemployment and national debt which often plague their countries.

Relatively little effort has been spent on turning the most tourism dependent region in the world into the most tourism competent. The coming Cuban disruption just might be the tonic that the countries need individually and collectively to build the kind of strategic approaches to tourism development that will yield sustainable results for its citizens.

Travel and tourism are no longer fickle frivolities of the rich and famous. Travel and tourism have long been seen as “rights” for growing populations of the world as evidenced by the rapid recovery of travel and tourism after the recent Great Recession.

CUBA NEEDS MORE INCOME FROM TOURISM

Many believe that a large part of the reason for the rapid embrace of the US initiatives by the Cuban Government is the latter’s desire to replace declining income from oil revenues to the steady and less fickle



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income from US travelers visiting Cuba. The impact was described in detail in a recent article, 'Cuba Hopes to Replace Venezuelan Oil with American Tourists' by Venezuelan journalist Franciso Toro.

Cuba has learned from their success in attracting investments and tourists from non-US markets that tourism presents the fastest opportunity to generate foreign revenue, stimulate employment and address budget shortfalls.

International trade and investment agreements have been signed with the Latin American Integration Association (ALADI), the Caribbean Community (CARICOM), the Bolivarian Alliance for the Peoples of Our America (ALBA), the Common Market of the South (MERCOSUR), the European Union (EU), and the World Trade Organization (WTO).

Through the years, the Governments of the Caribbean have shown an almost religious fervor and preference for revenues from commodities and agricultural produce to revenues from tourism. Cuba has long recognized that the great advantages of tourism are that it not only brings much needed foreign exchange but also delivers a deep and broad range of employment, establishes deeper linkages to other parts of the economy, depletes few if any natural resources and it is sustainable over a very long period of time. The country that many regard as the least capitalistic in the region is about to teach the capitalists and free market adherents a lesson.

CUBA'S TOURISM SECTOR OWES ITS CURRENT SUCCESS TO THE LOSS OF SUBSIDIES FROM THE SOVIET UNION

The modern roots of Cuba's tourism history can be tracked to the collapse of the Soviet Union in 1991 and the end of subsidies for sugar. The need for hard currency allowed for the development of policies and the investment of over \$3 billion in the industry, including the development of new enclave plant as well as the restoration of key parts of the country's historical sites. Cuba recognized then, and continues to recognize now, that services such as tourism can move more of its citizens into the middle class faster than agriculture and the exportation of niche products, even high value ones such as cigars. They recognize that tourism brings consumer export products such as art, agriculture and cigars to their doorstep and no shipping is required. This has made tourism a high priority area of the government and the resulting attention given to the tourism plant in Cuba is largely unmatched in the rest of the Caribbean.

SHORT TERM IMPACTS ARE ALREADY BEING FELT

Clearly there are a number of short term impacts being felt already. Cuba has already experienced an immediate increase in visitors from all around the world. Due to a "time capsule effect" there are a number of tourist that are motivated to see Cuba before development changes the Cuban character that has been protected for many years. Cultural and Adventure travelers are already making their way to Cuba in ever increasing numbers. Being the first in your neighborhood to visit Cuba with the accompanying bragging rights is also motivating travelers to see Cuba.

Investment interest into Cuba is already happening. Recognizing the need for diversification, Cuba has already undertaken an aggressive campaign to attract more foreign investments with an emphasis on tourism. In 2013 tourism represented 42 percent of all foreign investments in Cuba, followed by 13% in energy and mining, with other sectors sharing less than 10% each of the foreign investment pie.



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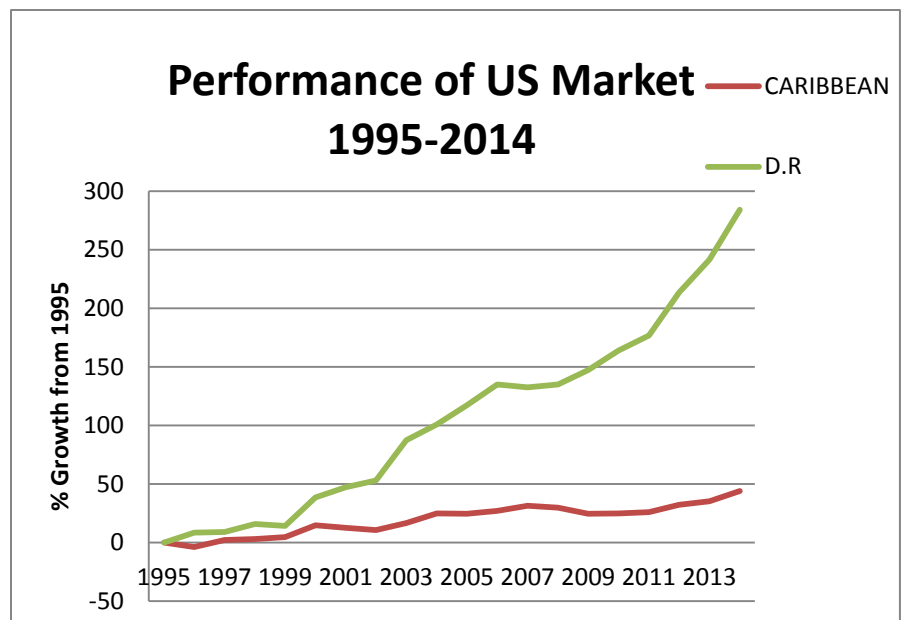
Media coverage is already happening. The trade press is touting the potential investment opportunities by Americans and pointing to the pending changes in the tourism landscape. The consumer press is appealing to the imagination and sense of adventure as the stage is set for unrestricted travel by Americans. This media exposure is already resulting in an unprecedented increase in travel by Americans to Cuba.

CUBA RECEIVED MORE THAN THREE MILLION TOURISTS IN 2014

In 2014 Cuba received 3,001,958 stopovers, of which 1,174,972 were from Canada, 730,304 from Europe and 1,096,682 from other countries (mostly South America). **Cuba is already one of the largest tourism destinations in the Caribbean and is second only to the Dominican Republic in visitor arrivals.** Whilst it is hard to get an accurate number it has about 62,000 hotel rooms already and it has been announced that another 15,000 hotel rooms will be constructed in the next couple of years.

So those countries whose focus has been on the United States as their primary source market and who have not felt any competition from Cuba in the United States and who might have been lulled into believing that Cuba is a greenhorn at tourism, will be surprised at how sophisticated and effective the Cuban marketing machine has become. When those competing countries turn to other markets to replace whatever effect Cuba will have had on their US business, they will find well-entrenched and fully-established Cuba promotional programs.

Some believe that the relatively recent emergence of the Dominican Republic as a predominant tourism power is a good example of the effects that Cuba will have on the region. But the Dominican Republic was never closed to the biggest source of visitors for the Caribbean: the United States. So most people now come to the conclusion that the effects of Cuba on Caribbean tourism will be unprecedented.



According to the Caribbean Tourism Organization, Cuba's stopover arrivals increased 5.3% over 2013. This is without commercial airlift from the United States. By contrast, the Dominican Republic attracted a record-setting 5,141,377 arrivals in 2014, with nearly 1.8 million of them coming from the United States, representing a jump of more than 12% over 2013.

IT'S DÉJÀ VU ALL OVER AGAIN

Indeed it is Cuba's success in using the economic development tool of tourism to replace the loss of its income from sugar that gives the country the confidence that tourism can also replace the estimated loss of \$3 billion in income from oil sales to add to the \$2.6 billion tourism revenues it is said to have received from tourism in 2014. So in the not too distant future, Cuba expects tourism to deliver nearly \$6 billion in



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visitor expenditures. So far, none of the other Caribbean countries that have weaned themselves off the agricultural subsidies from Europe has been as successful as Cuba in replacing those subsidies with tourism expenditures.

FOR SOME DESTINATIONS IT MEANS A REVERSAL OF FORTUNE....

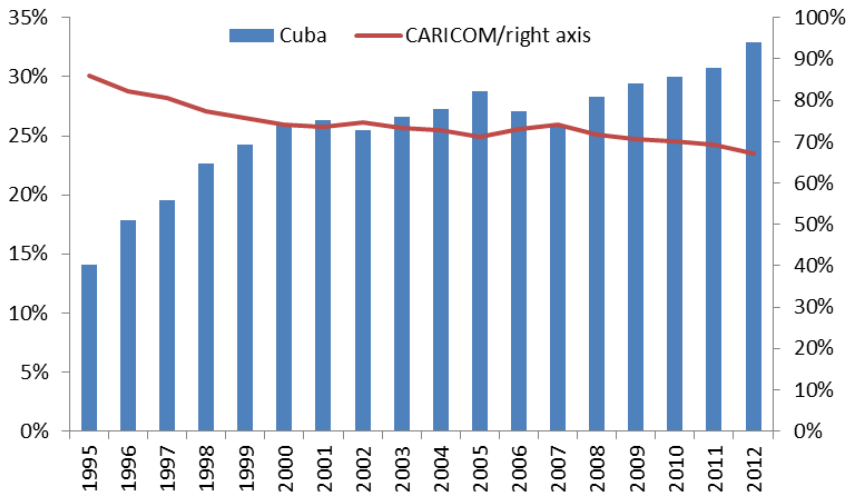
There are several destinations within the Caribbean that owe much of their rapid tourism success and development over the past 50 years to the closure of Cuba to US travelers. There are two generations of citizens in some countries who are not aware of the market conditions that include Cuba as a vigorous tourism competitor for US travelers. Those countries are likely to feel the greatest ripple effects of the Cuban entrance into the US marketplace.

HOW MUCH BUSINESS WILL BE LOST TO CUBA?

There is a simple question that reverberates in the heads of tourism planners and Government leaders across the region: *How much of the \$3 billion in new revenues targeted by Cuba will come at my expense?*

Many destinations in the region are already experiencing a decline in marketshare with Cuba's focus on developing tourism which started over 20 years ago.

Trendline Shows Cuba Tourism Market Share Growing; CARICOM Nations Declining



Source: Inter-American Development Bank

As it relates to the state of Florida as a source market, Cuba's location will draw the attention of those travelers who have traditionally travelled spontaneously and impulsively to The Bahamas, for example, a country which has relied on Florida for generating over 20% of its arrivals for some time. A not insignificant proportion of those arrivals from Florida to the Bahamas also results from surreptitious travel by US citizens to Cuba and the airlines benefitting from those transactions will likely lose out.



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The true impact of businesses losses or gains however will depend in large part on whether the size of the region's tourism pie remains the same or whether the overall number of arrivals to the region increases so that those destinations which are prepared can get a larger slice of a bigger pie.

CANADA'S BUSINESS TO CUBA WILL BE SIGNIFICANTLY IMPACTED

In 2014 1.1 million Canadians visited Cuba. This is an enormous number and it is likely that with Cuba courting higher yielding US business this Canadian business could well be displaced elsewhere throughout the region. Some destinations will find this attractive, others not so much.

CUBA'S PROXIMITY TO THE USA WILL PROVE VERY ATTRACTIVE

The value to Cuba of its proximity to the United States for land based visitors cannot be overstated. Countries such as the USVI, Puerto Rico, Belize, the Bahamas and the Cayman Islands and to a lesser extent destinations such as Cancun and Jamaica have been beneficiaries of spontaneous and impulse vacation decisions, a growth area aided by online vacation offers and instant booking technology applications. According to the global marketing communications firm MMGY, consumer research undertaken earlier this year shows that 20 percent of all vacations were last-minute vacations. Soon the very large and varied destination of Cuba will be added to the list of options in the consideration set for last-minute and impulse vacations by US travelers particularly those in the Northeast, Midwest and South.

FERRY SERVICE TO CUBA WILL MAKE IT VERY EASY TO TRAVEL THERE

Pronouncements of approvals for ferry services from Florida to Cuba only accentuate the closeness of the country to that state and to a Diaspora community that many think will be amongst the first to explore an open Cuba. Ferry services, should it include the option for Americans to bring their own vehicles could create an interesting niche.

CHOMPING AT THE BIT...THE CRUISE INDUSTRY

There is general agreement that the opening of Cuba will have an immediate impact on the cruise industry. The cruise sector which has been lobbying the wider Caribbean to develop products and experiences beyond sun and sea, gives Cuba an opportunity to present itself as a more diversified destination.

The major cruise companies have a well-established track record of successfully investing in new port infrastructure, and quickly establishing new or improved ports of call. The perceived safety and familiarity of a cruise ship to the over 20 million tourists that use this medium to visit the wider Caribbean could also serve to de-risk travel to this new market for many travelers. The likelihood that cruise lines will drop some existing ports to accommodate Cuba port visits is real and the proximity of Cuba to the US mainland can allow for Cuba to be easily added to a schedule that can impact itineraries to near markets such as the Bahamas, the Cayman Islands, and Jamaica. It seems inevitable that by adding the opportunity to have Cuba included in multi destination cruises nearer to the United States, with the attendant savings in fuel costs, this will negatively impact southern Caribbean destinations.



LIFTING THE US EMBARGO WILL FORCE EVERY OTHER CARIBBEAN TOURIST BOARD TO RE-EXAMINE ITS MARKETING PROGRAMS

Improving the effectiveness and capacity of Government tourism boards and private sector hotel associations to build a better Caribbean and realize far better returns on marketing investments is essential. The obvious and higher returns on investments in Canada and Europe by Cuba’s tourism boards should and will force every other Caribbean country to reexamine their approaches in those markets.

CUBA IS A PRIME MARKET FOR VISITORS WHO WANT STAY IN PRIVATE HOMES: AIRBNB AND OTHER SIMILAR NETWORKS WILL BE A MAJOR FORCE

Despite recent statements about a planned expansion from 62,000 hotel rooms to 78,000 by 2018, there will be a corresponding need for investment in infrastructure that may not be ready for a major increase in visitor arrivals. Already, however, it appears that Cuba is one of the leading Caribbean countries with peer-to-peer accommodations such as those provided by AirBnb and others. So, to some degree, the shortage of accommodations for an influx of US visitors might be more apparent than real.

The influx of this emerging accommodations option presents Cuba and the region with challenges, ensuring they are regularized, taxed and become contributors to the marketing and product development efforts in the region.

Airbnb Listings by Caribbean Destination: Caribbean Journal, June 2015

Dominican Republic	1000+
Guadeloupe	1000+
Jamaica	1000+
Puerto Rico	1000+
Cancun	1000+
Cuba	1000 +
Martinique	986
Barbados	943
Aruba	660
Curacao	554
Bahamas	534
US Virgin Islands	530
Saint Lucia	324
Trinidad and Tobago	234
Dominica	186
Bonaire	159
Antigua	155
St Barth	149
Grenada	134
Haiti	127
St Vincent and Grenadines	123
British Virgin Islands	103



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Nevertheless, as the rest of the Caribbean is learning, a robust tourism infrastructure depends on a corresponding national one. Decisions related to land use and planning associated with new tourism projects will have to be carefully examined and efforts to improve product offerings will have to be undertaken, as current facilities may not match up to US expectations.

THE REST OF THE CARIBBEAN COULD WELL LOSE AIRCRAFT TO ROUTES SERVING CUBA

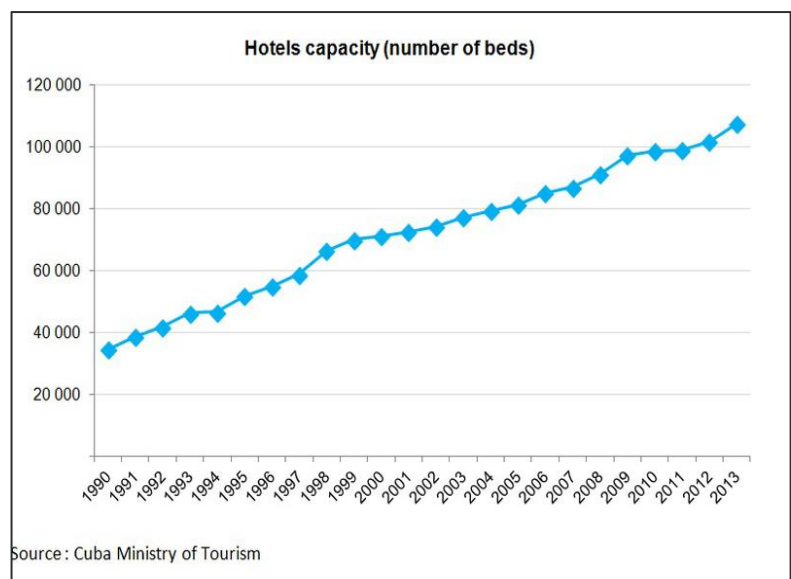
Airlift is one of the most crucial issues for every island destination in the region and one new concern has to be a possible willingness by the airline industry to absorb low airfares and load factors for a period of time in order to build routes and market share in Cuba. This could be disastrous for the wider region especially if it also results in US carriers shifting aircraft to new Cuba routes upon the lifting of the embargo. The Caribbean is already one of the most expensive regions to travel to in terms of total price per air mile flown.

On the other hand it could spell an opportunity for carriers within the Caribbean offering more connections between Cuba and other countries in pursuit of the long discussed combination vacations with other destinations within the region. But this would take a more cooperative approach with destinations working together with international tour operators and airlines combined.

CUBA WILL BE VERY ATTRACTIVE TO INVESTORS, POTENTIALLY REDUCING THE AMOUNT OF FINANCE AVAILABLE TO THE REST OF THE REGION

The opening of Cuba will also impact the investment outlook for the wider Caribbean region causing a chilling effect on investing in the Caribbean as developers take a wait and see position on the opportunities that Cuba may present. While successful models and blueprints for investment strategies in tourism are known, being first into a new market such as Cuba may serve to be a significant incentive for potential investors and result in the siphoning of attention away from investment opportunities in the rest of the region. The fact that Cuba saw over \$800 million in hotel-related investments in 2013 is a sobering thought. ***The Caribbean and its industry will find itself not only competing for American tourists but also for investment dollars.***

Many believe that it is likely that US capital flows into the Cuban tourism economy may take some time - considering the fact that the government led economic apparatus is unfamiliar to US investors. For the US investing community, transparency associated with tax rates, restrictions on the repatriation of profits, insurance liability, and the current lack of a robust banking system will all be areas to be navigated. How Cuba navigates a variety of economic relationships including its dependence on Venezuela for fuel and financial support are also questions that the investing community is waiting to be answered.





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The fact that there are many European and Canadian brands already in the market indicates an ability of the Cuban government to pivot as appropriate to encourage investment. Their track record speaks for itself, nearly tripling the number of hotel beds since Cuba's commitment to enter the tourism business in force in the 1990s.

Notable are policies to recognize foreign held capital and the variety of joint foreign and domestic companies working within the tourist industry. So much will depend on the enabling policies of the Cuban government in attracting US capital.

COMPETITION FOR ATTENTION... .CLOSENESS, CURIOSITY & COST

As a new option for the general American public considering a Caribbean vacation, Cuba will benefit from interest by many hoping to see what has long been a forbidden destination. A country of 42,426 square miles and a population of some 12 million, Cuba is an archipelago of islands with multiple destinations designated as tourism zones. The country offers cultural authenticity, close proximity to the United States, and costs of travel that are being projected to be relatively low. Low labor costs as compared to the wider region contribute to making this market attractive to investors and consumers. It is expected that the intermittent relaxation of various policies will yield the kind of media coverage that can only serve to bolster that country's appeal to those looking for a new Caribbean experience.

THE GOVERNMENTS AND PRIVATE SECTOR FROM THE CARIBBEAN CAN ACT NOW TO LESSEN THE IMPACT

Notwithstanding the efforts by the current US administration to establish diplomatic relations with Cuba, the lifting of the embargo and changing of any other legislation regulating travel, trade and conducting financial transactions with Cuba will not be immediate as it is dependent on Congressional action and most likely the results of the next US presidential election.

So the good news may be that this state of affairs provides the individual countries of the Caribbean time to get its affairs in order. Once again, the gods are smiling on the Caribbean. They tell us with sufficient time in advance that a disruptive force is on the way. It is now up to the region and its constituent countries to prepare to take full advantage of the notice period. The simple task in the interval is to ensure that all of the \$3 billion in expenditure sought by Cuba is incremental and not detrimental.

The most disruptive effect of Cuba on Caribbean tourism might not be the introduction of new competition for US travelers in the region. Instead, the most disruptive effect is Cuba's clear lesson for the rest of the region that tourism development with its myriad opportunities for linkages is the most viable and sustainable economic development tool for the region.

A MORE EFFICIENT TOURISM INDUSTRY CAN DRAMATICALLY INCREASE EMPLOYMENT... FOR CUBA AND THE CARIBBEAN

The correlation between tourism activity and employment is evident and well quantified by the research and forecasting conducted by the World Travel and Tourism Council. With the acceleration of growth in the tourism industry since the 1990s Cuba has seen a proliferation of job creation at all levels. WTTC reports



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that tourism's total contribution to employment in Cuba in 2014, direct, indirect, and induced, was 450,000, an increase of 2.3% over the previous year and representing 9.2% of total employment.

Without the embargo being lifted, the WTTC forecasts that tourism will contribute to 10.5% of total employment in ten years. With the lifting of the embargo, Cuba is banking on even more significant growth in employment.

The World Travel & Tourism Council estimates that some 1,963,000 jobs in the Caribbean were attributed to tourism in 2014. This is expected to rise by 1.9% annually to 2,377,000 jobs in 2024, representing 12.2% of the region's total employment.

These projections assume the status quo. By extension, the lifting of the embargo should accelerate employment growth for Cuba well beyond the WTTC forecast. Will this be to the detriment of other countries in the region, many which are plagued by surging unemployment rates? Or can tourism be the catalyst for stimulating job growth?

CHTA maintains that visitor arrivals and hotel occupancy rates are fundamentally linked with employment levels. If employment levels are directly proportional to hotel occupancies by moving hotel occupancies from the region's current 65% rate to 80%, the Caribbean can add an estimated half-million jobs thereby significantly reducing unemployment in the region to a much more manageable number. Caribbean governments are acknowledging that employment is the most effective social and economic program ever.

Cuba's past experience and prospective actions are telling governments of the Caribbean that tourism development presents the best and quickest opportunity for addressing the growing threat of persistently high unemployment and even higher levels of national debt. Cuba's emergence is the clearest demonstration and statement that a vibrant and growing industry can generate the broadest array of new jobs, increase employee hours and earnings, and has been seen to generate entrepreneurial activity – spawning small and mid-sized tourism related enterprises throughout the region.

OPPORTUNITY THROUGH COOPERATION

The countries of the Caribbean and the tourism industry through the Caribbean Tourism Organization and the Caribbean Hotel and Tourism Association have long considered Cuba as kit and kin and an integral part of the Caribbean. The elimination of the US-Cuba trade embargo represents the removal of a significant barrier to improving regional cooperation and integration.

CHTA joins its regional counterparts in embracing this unprecedented opportunity for collaboration to the benefit of Cuba and its regional counterparts. A new era of cooperation stands to strengthen the entire Caribbean, helping it to realize its full potential as one of the world's enviable regions.

New mutual trade and investment opportunities are presented. Caribbean manufacturers and service providers will benefit. Medical and sports tourism may progress in the region through collaboration. The sharing of research, data and information can help all regional partners to benchmark and improve performance. With CHTA broadening its role as a regional tourism broker, Cuba can learn from the region, and the region can learn from Cuba, about best and worst practices and policies.

Imagine a Caribbean that is also the supplier of goods, arts, craft, produce and services to itself with the attendant transportation systems to deliver these good and services more efficiently. Imagine a far more



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economically successful Caribbean that is a source market for tourism to itself while each country maintains its piece of the rich diversity that makes the Caribbean so attractive.

As CHTA challenges the region and the United States to embrace a new Caribbean tourism agenda, Cuba and CHTA are presented with an opportunity to lead by example, commencing high level discussions with the Cuban Ministry of Tourism and others to meet and explore areas of cooperation leading to new opportunities for the region’s tourism industry stakeholders

THE CHTA HAS A SINGLE RECOMMENDATION – THE CARIBBEAN BASIN TOURISM INITIATIVE

This, in our view, presents the ideal opportunity for a new US - Caribbean relationship, and the urgent creation of a **Caribbean Basin Tourism Initiative** that recognizes tourism services as a way in which to assist regional development. Similar to the original Caribbean Basin Initiative of the 80’s, an initiative that contemplates policy and technical support to the region with private sector entities like the Caribbean Hotel & Tourism Association (CHTA) and the Caribbean Tourism Organization (CTO) as partners in the development and delivery of an economically viable, safe and stable Caribbean.

This **Caribbean Basin Tourism Initiative** with the Government of the United States, and the attention surrounding Cuba can only benefit the wider region as more and more citizens of the United States come to appreciate and recognize a Caribbean tourism brand rich in diversity and appeal. That **Initiative** could also become the spark that ignites the long desired and much needed cooperation and collaboration among all of the governments and the private sector organizations of the Caribbean region.

One of the most disruptive events of our lifetime was the fall of the Berlin wall. The new systems, new approaches and new initiatives that it engendered for more than a dozen countries are well documented. We expect that the removal of the US embargo and the consequential great Cuban disruption will be equally as good for the countries of the Caribbean.

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