



BHTA Quarterly General Meeting September 2014

President's Report

INTRODUCTION

Good morning...

Although I am taking the liberty of proceeding with protocol being established, I would like to thank the Honorable Minister of Finance and Economic Affairs for agreeing to be the feature guest speaker of this, my first BHTA Quarterly Meeting. Thank you Minister...

It was only about 5 years ago that I entered this industry on a full time basis. Prior to making this decision, I was the Finance Director of one of the largest public companies in the Caribbean, which traded on two of the regional stock exchanges. I worked in this group for approximately 10 years in financial services, insurance, supermarkets, food distribution, pharmaceuticals, automotive dealerships, hotels, manufacturing, real estate, aviation ground handling, etc.. I was on the board of most of these companies and found myself involved in at least three different businesses on any given day. When I made the decision to come out of this and to focus on one industry, I asked myself which industry should I go into full time? With my experience, I found that I could move into just about any industry.

I choose to get involved in the tourism sector on a full time basis because I thought this would be one of the most stable sectors. The way I looked at it was, in the Caribbean, and more specifically to Barbados, tourism is the main economic driver of our economy. If tourism fails, ***all else will fail***. And therefore, I decided to commit myself to the sector that drives this economy and that is why I am here today.

That simple decision that I made a few years ago, has a deeper meaning to me now, than it did previously. Only if I could make more people understand how important tourism is to all of us, directly and indirectly, life would be so much easier. I remember growing up hearing a phrase repeated over and over again....."tourism is our business, let's play our part". I think that we have forgotten what that means or perhaps never even really understood what it meant.

CURRENT SITUATION

Today, tourism accounts for approximately 12.5% of our GDP. This sector employs about 13,000 people directly and accounts for 1 in every 10 jobs. With approximately 6,000 rooms on this island at a conservative construction cost estimate of \$200,000 per room, the hoteliers have over \$1.2 billion dollars committed in real estate. This is the most heavily capitalized sector which requires one of the highest levels of reinvestment than any other industry. Due to heavy wear and tear, hoteliers have an

annual CAPEX program to keep things in good order. However, major renovations are required every five to seven years to remain relevant in the marketplace.

In recent times, we have seen some major investments in the tourism sector and there are announcements of several others. Sandals purchased the Casuarina property and will reopen 280 rooms for the upcoming winter season. They have also purchased the adjoining land and are proposing to add another 170 more rooms in 2016. Also on the cards for future development are Sam Lords Castle, Four Seasons, Sandy Beach, Sugar Bay and Beaches. I am sure that the general public hears this and wonders why these developers think that they can get a good return on their investments when the existing hoteliers are crying out. Well, the answer is simple. Any new investor, who is willing to make a large investment in an economy that is going through a period of adjustment, will require concessions to invest. There is absolutely nothing wrong with this, but it needs to be extended to the other hoteliers, who have been serving our country and contributing to our economic growth for over 50 years.

I was at a recent full social partnership meeting, and during those discussions it was stated by a prominent individual that if the hoteliers are not making money that they should get out of the business. What that highlighted for me was that the general public is not aware of what it takes to be in this business. My first response really was that in the better days, the hoteliers were cashing out. They were converting to condos and selling off their real estate in smaller units. So they were effectively getting out of the business. If they could, most hoteliers would have sold off their businesses during the last few years, post 2008, after the bubble burst. The only reason that we have not seen more properties being sold is because the enterprise value of the business is far lower than the real estate value and there are very few buyers, willing to pay the real estate value for the properties. There is a saying....."hoteliers only make money when they sell it". This is a common saying in the industry because of the level of ongoing reinvestment that is necessary.

For those of us who are still in the business, we have to upgrade our properties every 5 to 7 years, performing major refurbishment of the rooms and public areas. Generally, we will borrow funds from the financial institutions, for a period of 15 years. However, before we are finished paying off the first loan, within 5 to 7 years, we need to refinance the existing loan and borrow more funds to complete the next major refurbishment. Do this two or three times and then see how difficult the cash flow becomes. What this suggests is that the business model is not working and the ROI is too low. Therefore we have to do a combination of things. We have to reduce the capital cost of the refurbishments, reduce the operating costs and increase revenue so that the rate of wear and tear of the refurbishment is at least equal to the payback period of the Capital Expenditure.

If we do not refurbish our properties every 5 – 7 years, we will find that the quality of our product will fall short of par and we will lose our competitive position. We don't have to discuss this too much as I think that we have heard it often enough now and people are starting to understand that our product is not up to standard for the prices that we charging in this already expensive destination, which is losing market share. The quality of our product is now more questionable than it was before and for good reason.

If we are strategically going after the higher spending tourists, then we need to strategically reposition our product, otherwise we will be wasting our time and money marketing something that we are not. As we know too well in this business and reflected clearly on TripAdvisor, we have to manage guest expectations.

The issue of duty-free concessions has been on the table for the last 10 months now. These concessions are needed urgently to assist in solving the issue of the product quality. While most people acknowledge the need for this, there are certain fractions of our community that obviously do not appreciate it. I want to try to help people to understand that we are no different from the manufacturers or the farmers. In very simple terms, we are manufacturing an experience for our guests that provide valuable foreign exchange. The manufacturers and the farmers have various forms of concessions. These take the form of import restrictions, license requirements and high import duties on the items that they produce. Along with this is the fact that most of the imported raw materials for the manufacturing process are duty-free.

The point to this is that the tourism sector is finally recognized as an export sector, which is the largest foreign exchange earner for the economy of Barbados. Just like the raw material required in the manufacturing process, so too is the food and beverage and consumables required for the hospitality sector to produce that guest experience.

The only difference between these sectors is that the tourism sector is the single largest contributor to our foreign reserves. We need to see the bigger picture and not stifle the goose that lays the golden egg.

I know that the Government of Barbados understands the need for the tourism sector to have duty-free concessions on food and beverage and consumables. We have heard many pronouncements that these concessions have been approved and will be available to the sector. Other governments and tourism officials within the region are complementing our government for having the foresight to provide these concessions to the industry. Most of the regional press has carried the story of these concessions and it is now widely believed that the hoteliers in Barbados actually have access to these concessions. It is remarkable that even at the local level, this is the general belief. However, dates have been set for this legislation to be in place and all of those dates have come and gone. We have waited patiently now for the last 10 months since the first official announcement that the concessions will be available to the industry. I appreciate that we cannot get our instant coffee as fast as we would have liked, but if we are having it without milk or sugar; it really should not take this long.

I am saying all of this in the presence of the Minister of Finance and Economic Affairs and hoping that during the Minister's feature address today, that he will formally give us notification that the concessions are available with immediate effect and not make another promise of a future date.

Once we have this issue of the concessions behind us, I would also like to address the Direct Tourism Services registration with the VAT office. There is still confusion surrounding the 75% of income that is required to be generated in foreign exchange versus 75% of income being derived from tourists.

Secondly, the Tourism Development Act is now outdated and needs to be revised. I am not talking about the schedule to the Act, I am referring specifically to the Act itself. This has also been outstanding for some time now.

And lastly, the controversial Municipal Solid Waste Tax has been put on the back burner by extending the deadline for payment. However, it is still an issue that will resurface closer to the time that payment becomes due. To complicate matters even more, some of our members are not being given clearance certificates because this tax has not been paid, even though, the date for payment has been extended. This is affecting the clearing of vital items through customs. Some of these items are required for major renovations.

At the end of the day, this tax is burdensome to the hoteliers because of the high value of the real estate of the beachfront properties. Once again, as an export sector, we need to reduce our input costs, which include items such as this.

It is important that both, the private and public sector work together to achieve our common goals. Having outlined what we need in place to allow us to reinvest and raise our product quality, we also have to look internally.

BHTA CHANGES

At the last Quarterly Meeting, I talked about the need for the BHTA to restructure. In the coming months, we will attempt to make changes to the Constitution and the way we go about our business. I urge all of you to take note of the proposed changes as you, the membership, will have to vote at a special general meeting on whether or not you support the proposed amendments to the Constitution.

Firstly, I do not think that it is clear to the general public that the position of the Executive Vice President of the BHTA, is the only Executive on the board of Directors. The post of President or Chairman of the board is a non-executive position. Let me pause there for a second to stress what I am saying. The face and the voice of this Association should be the Executive Vice President and that person is Ms. Sue Springer. The role of the President, which happens to be my role, is that of a non-executive. According to the Constitution, Sue Springer is effectively the CEO of the Association. Just to clarify this a bit further, **this is not a change**. This was always written in the existing Constitution and all I am doing now is restating what the intentions were, at the time when the Constitution was written. Although this was not practiced in the past, it is my intention to follow the Constitution in this regard. As President of the Association, I will continue to play my role in relation to the major objectives of the Association, but I want the press and general public to understand that the President of the Association is not involved in the day to day activities of the Secretariat. The face and the voice of the Association is Sue Springer, the Executive Vice President. As President, I will remain focused on the bigger picture and through our board, ensure that the objectives outlined in the Articles of the Association are pursued.

The first major Constitutional change that will be proposed relates to the BHTA Tourism Fund, which was the brainchild of Mr. Wayne Capaldi, when he was President of this Association. The fund has been used to assist with the CCTVs for the police force, street signage, lighting, Segways for the Royal Barbados Police Force, and several marketing initiatives. It is a voluntary contribution by our guests. This is not a cost to any operation and yet, we have less than 20% of the hotels participating in this program. I am not going to go into how the fund works, or the benefits or simplicity of it. I think that we have done enough presentations on it, that you know how it works, what the funds have been used for in the past and are currently being used for now and how you can participate. It is not fair that only 20% of the hotels participate in this fund while the other 80% of the properties go along for the ride. If all of the hotels participated in this fund, it would have a significant impact on our marketing contribution. It is time that we all play our part and while it was a request of the Association for the hotels to join the program, I will be proposing that this be a requirement of the membership. This will require a constitutional change since we cannot seem to get all of the hotels to voluntarily participate in this fund.

The second proposed Constitutional change relates to research data. One of the objectives of the Association is to lobby with various stakeholders to make changes for the overall improvement of the industry. I can tell you first hand, that this is almost impossible to do without supporting data. Despite being one of the major Associations on the island, reliable and consistent data is not readily available. Basic occupancy and ADR information comes in on an ad hoc basis and when it does come in, the reliability, accuracy and consistency is questionable. Don't even ask for other information such as property values, number of employees, payroll costs, utility costs, land tax expense, insurance expense, etc. Just getting information to lobby on the Solid Waste Municipal Tax proved time consuming and difficult to collate. We will be looking to work with an independent external company to collect data from all properties to provide useful information for you to compare and manage your businesses more efficiently. This data will be encrypted and your information will be protected so that your competition will not have access to your information, as you will not have access to theirs. What you will get is how you compare to the industry average and your comp set average. This will then allow the Association to be in a better position to support its case in future lobbying efforts. Once again, this will require a Constitutional change.

The last major proposed Constitutional change is a little more sensitive but should have occurred a long time ago. Currently, the President of this Association can only be selected from the Accommodation Sector. In other words, only a hotelier can be the President of this Association. I think that the time has come for us to look at this again. However, to be fair, we need to look back at the history to see why this is so. The original Association founded in 1952 was called the Barbados Hotel Association, formed by a group of hoteliers. In 1994, the President at the time, Mr. Geoff Kinch opened up the membership to the wider sector and renamed the Association, the Barbados Hotel and Tourism Association. This was a major step in the right direction, recognizing that the tourism sector was not only made up of the hotels, but in fact recognizing that tourists come to our island for an experience. The tourism sector is made up of all hotels, restaurants, attractions and direct tourism services. In recognizing this, my proposal is that the post of President of this Association should not be restricted to the members of the accommodation

sector, but should be selected from the wider membership. That way, we will truly have the opportunity to select the best person for the job.

Let me stress that those proposed constitutional changes outlined here today will have to be put to the vote and you, the membership, will have the opportunity to have your say. I feel strongly on each one of these proposed changes and while they may not all be passed when we get to the voting stage; I feel the need to make the proposed changes and to give you enough time to start thinking about them. If we are serious about the future of this Association and its relevance, we must change the way we presently conduct our business. This will also require us to further review the role of the Secretariat and how effective we are, in achieving the objectives of the Association. As we are all aware, the only constant is change.

If we have the right infrastructure in place, access to the duty-free concessions, and remain focused and committed to our goals, we can play our part in leading this economy out of the current recession.

OUTLOOK

For the first 6 months of this year compared to 2013, Caribbean tourist arrivals increased by 4.3% compared to the global increase of 4.7%, while Barbados remained flat. However, our main market, the UK showed an increase of 8.6%.

From all indicators, our main markets are showing signs of recovery. The newly formed Barbados Tourism Marketing Company is making inroads with the airlift capacity to the island, duty-free concessions to the sector are imminent and new investments and significant reinvestments are in the pipelines. And over the remainder of this year, Sue in her presentation, will outline some of the major events that will be taking place in Barbados.

Over the next 18 months, the sector has approximately \$40M lined up in private sector renovations. Some of the major projects are:

- Apes Hill
- Cobblers Cove
- Sandpiper
- Elegant Hotels
- Sugar Bay
- Bougainvillea
- Accra Beach Hotel
- Butterfly Beach Hotel
- The Great House
- Harbour Lights
- Rostrevor
- Mango Bay

- Worthing Court
- Yellow Bird
- Sea Breeze
- South Gap
- South Beach

These projects will involve the renovation of rooms and public areas, the construction of a new club house and the building of new villas.

This is all in addition to the new investments already on the way and in the pipelines, such as Sandals.

Barbados remains one of the premier aspirational Caribbean destinations and our differentiating factors sets us apart from our competition.

We have a great foundation and infrastructure to build on. Let us stay focused, work together and achieve our common goal of getting the Barbados economy back on track.....Thank you.