



Research Report

Final concept

Centrale Bank van Aruba

2016





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Executive Summary

All-Inclusive (AI) tourism plays a substantial role in the Aruban tourism economy (Table 1). Package tourism arrangements have experienced significant growth over the past decade, currently estimated at approximately 60 percent, with an estimated 15 percent of visitors enjoying an AI accommodation¹. With an increasing demand for AI tourism arrangements, and concurrently, growth in AI resorts and AI offerings - currently estimated at 35 percent of total hotel inventory² - the need for prudence is clear and present.

The economic contribution of AI tourism in Aruba is projected at an estimated Afl. 720.6 million. This is equivalent to 25 percent of gross tourism earnings, and 15 percent of nominal GDP in 2015. More specifically, AI tourism generates *directly* (measured by current account surplus and destination expenditures) an estimated Afl. 414.2 million, whereas *indirectly* (measured by business transfers, expenses and investments) its impact is estimated at an Afl. 217.9 million, with a calculated *induced* impact (measured by consumption multiplier) of an additional Afl. 88.5 million. Despite widely shared convictions and *international* experiences regarding the disadvantages of AI tourism, currently there is no conclusive evidence that AI tourism -in, by and of itself- has a significant negative economic impact on the Aruban economy nor that it has a disproportionate stake, more than other resorts, in the local tourism accommodation industry.

In terms of its presence in Aruba, it is currently projected that AI tourism accounts for 35 percent of (transient) hotel accommodations (1839 rooms) and 30 percent of (transient) visitor nights (1,035,374)³. AI tourism contributes to 29 percent (Afl. 307.1 million) of total tourism accommodation receipts (TAR), and 24 percent (Afl. 137.5 million) of total hotel room revenues. It is calculated that the growth in AI TAR (+11 percent) mitigated most of the contraction in non-AI TAR (-8 percent) between 2014 and 2015. In comparison to 2014, the current account surplus of the balance of payments for the AI sector improved by an estimated Afl. 24.2 million (11.7 percent) to Afl. 231.6 million.

¹ AHATA (2015a).

² Ibid

³ Ibid

Table 1. Stylized indicators of All-Inclusive Tourism in Aruba⁴

All-Inclusive Tourism Arrangements	Estimate impact (2015)
Visitors	
- Total AI visitors (% of total)	148,926 (12.2%)
Number of AI explorers (off-site)	104,865 (70.4%)
- Total AI visitor nights	1,035,374
Percentage of total visitor nights	12.4%
Percentage of transient visitor nights	30.5%
- Average length of stay-over nights	7.2
Hotel Accommodations	
- Total AI rooms (% of total transient)	1,839 (35%)
- Available AI room nights	605,397
- Average occupancy rate (%)	85.2%
Hotel Revenues & Costs	
- Total AI room revenues	Afl. 137.5 million
AI revenue per available room	Afl. 228,48
- AI F&B revenues	Afl. 87.9 million
Total F&B costs	Afl 57.7 million
Percentage of local F&B purchases (% of total F&B costs)	86%
Tourism Accommodation Receipts (TAR)	
- Total TAR (% of tourism receipts)	Afl 1071.6 million (36%)
- Total AI TAR (% of TAR)	Afl. 307 million (29%)
- AI TAR per visitor night	Afl. 296
Tourism Destination Receipts (TDR)	
- AI TDR	Afl. 182.6 million
- AI TDR per visitor night	Afl. 176,40
Imports & Leakage ratio's	
- AI imports of goods	Afl 35.8 million
- AI leakage ratio's (%)	
goods import leakage (% of total payments)	15%
export leakage (% of total foreign account payments)	28%
Employment	
- Total AI wages and premiums	Afl. 85.4 million
- Direct AI employment	1701 (1578 FTE)
- FTE-per-room	0.9
Taxes	
- AI tourism taxes and levies	Afl. 13.1 million
Balance of Payments	
- AI Current account balance	+ Afl. 231.6 million
- AI Financial account net	+ Afl. 32.7 million

⁴ Based on calculations of available data from CBA, AHATA, ATA and CBS.

In terms of average rates, revenues and expenditures, analysis yields the following findings (Table 1). The estimated average daily rate (ADR) and revenue per available room (RevPAR) are appraised at, respectively, Afl. 266,63 and Afl. 228,48⁵. The average AI TAR per visitor night is estimated at Afl. 296,51, of which 84 percent is paid in advance for the AI package (pre-paid transaction). From these (foreign bank) accounts there is an inflow of an estimated Afl 185 million (72 percent), in addition to (direct) investments estimated at Afl. 32 million based on the (net) financial account of AI resorts in 2015. Subsequently, the export leakage rate of payments for AI tourism in Aruba is projected at 28 percent.

Pursuant to the AI hotel business operations, and more specifically, the total costs of labor, taxes, supplies, and utilities, available data indicates that AI resorts spent, on a cash basis, about Afl. 186 million in 2015⁶ (Table 1). Almost half (Afl. 85.4 million) of the total operational costs are allocated to wages and employee benefits. AI resorts employ a total of approximately 1700 persons, constituting an estimated 32 percent of the total hotel workforce. In terms of available tax data, it is estimated that Afl. 13.1 million has been spent on taxes and tourism levies. Utility and other operational expenses are projected at Afl. 29.8 million (16 percent of total costs). The costs of food & beverages account for an estimated Afl. 57.7 million, or 31 percent of total costs, of which an Afl. 49.9 million is procured locally (86 percent). The total import payments of goods are calculated at Afl. 35.8 million, or 15 percent of the (net) current account in 2015.

Venturing beyond the AI resort in 2015, research suggests that at least an estimated 70 percent of AI tourists explore the island on tours, excursions, shopping and gastronomic activities, generating a projected Afl. 182.6 million in terms of tourism destination receipts (TDR), that result in an estimated average AI TDR of Afl. 176 per visitor night (Table 1). When compared to the average destination receipt per visitor night (Afl. 224), it is estimated that, on average, AI tourism generates Afl. 48 less per visitor night. AI tourists spend an estimated 7.2 nights in Aruba. Two-thirds (66 percent) of AI tourists originate from North America, of which close to 16 percent travel from Canada. Latin America and Europe account for 16 percent and 13 percent of the AI markets, respectively. Findings reveal that AI tourism in Aruba resonates especially with (younger) couples (69.1 percent) and with (established) families (27.1 percent). Further analysis of AI visitor satisfaction indicates that whereas, on average, 59 percent of AI tourists rate the quality of their

⁵ AHATA (2015).

⁶ Ibid

resorts as very good to excellent, 89 percent of AI visitors are very satisfied with their Aruba vacation experiences.

For an estimated 70 percent of AI visitors, Aruba's natural -beaches and weather- and social -warmth and friendliness of people- appeal are conducive to recommending Aruba as a vacation destination, and returning for another satisfying vacation experience. While excursions, shopping and restaurants are considered highly satisfactory by 73 percent of AI tourists, 52 percent of AI visitors, on average, experience a sense of destination uniqueness and engagement. Similar sentiments are also encountered amongst Aruba's 'affluent' (high-income) visitors, with less than 50 percent readily experiencing Aruba's uniqueness and authenticity. These latter 'intangible' assets are quintessential for (re-)creating and sustaining tourism's (economic) value

Whereas a less burdensome AI licensing system would have an impact on regulatory qualities and safeguard future investments, it may be required for mitigating the risks of uncontrolled tourism growth, as witnessed for well over two decades. While the AI licensing system may induce some contradictory effects, de facto, increasing AI accommodations by AI resorts, it remains nonetheless an insufficient condition for capturing and increasing the value of (AI) tourism. Consequently, building tourism resilience through innovation pathways will be pivotal to improving the productivity and sustainability of the tourism sector. Thereto, it is essential that beyond prudent regulation, new public-private programs for tourism resilience are considered. Based on the results of this study, several initiatives for improving (AI) tourism engagement are recommended, including the development of *destination-inclusive* cultural, culinary and ecological experiences and excursions, and the enhancement of existing service quality and more importantly, experiential qualities.

In order to increase the added value of Aruba's tourism, both public and private sectors need to strengthen tourism linkages -upstream and downstream-, in addition to expanding tourism engagement and stimulating tourism entrepreneurship. The vitality and vibrancy of contemporary tourism, especially in small island tourism economies, are not merely based on maintaining a balanced diversity of products and services, but more importantly, on widening and deepening the engagement of and relationships between stakeholders. Hereto, sound tourism governance and institutional capabilities remain quintessential in Aruba's quest for a sustainable future and quality of life for all.

* * *

1. INTRODUCTION

“How fast and how far?” – Cole & Razak

1.1. Scope and Objectives

It is a truism that all-inclusive tourism (AI) is part and parcel of the Aruban tourism economy, tracing its origins to the early 1970s. All-Inclusive (AI) tourism and other package travel arrangements⁷, such as cruise tourism, are an integral feature of Aruba’s diverse and dynamic tourism ecosystem, consisting of different interrelated sectors and stakeholders, both locally and internationally.

Integrated travel arrangements or package tourism can take on different modalities based on the inclusion of different service modules. These tourism service modules include: (1) transportation and accommodation; (2) transportation, accommodation, plus breakfast; (3) transportation plus half board; (4) transportation plus full board; and (5) an *all-inclusive package*⁸, including all of the *aforementioned services bundled and paid in advance*. At a minimum, AI resorts include lodging, drinks (both alcoholic and non-alcoholic), food (three meals: breakfast, lunch, and dinner, or open bar), resort activities, and entertainment for a *fixed price paid in advance*. Increasingly, non-AI resorts also offer AI accommodations, in addition to regular European plan (EP) or American plan (AP) arrangements, or other bundled ‘add-ons’.

Package tourism arrangements have experienced significant growth over the past decade (Figure 1). It is estimated that currently more than 60 percent of tourists visiting Aruba relish some form of package travel arrangement, with approximately 15 percent enjoying an AI travel arrangement⁹. With an increasing tourist demand for AI arrangements, and concurrently, growth in AI resorts and AI package offerings in Aruba - currently estimated at 35 percent of total (transient) hotel inventory in 2015 (see Annex 1) - the impending question is:

What is the economic contribution of AI tourism in Aruba?

⁷ See Annex 5 for a glossary of key terms and definitions.

⁸ Alegre & Pou (2006)

⁹ AHATA (2015a), ATA (2016), CBS (2013)

The question regarding the economic contribution of AI tourism in Aruba is particularly pertinent considering Aruba's vision geared toward 'Quality Tourism'¹⁰. In aspiring to become a tourism destination of (high) quality and value, thereby maximizing the economic contribution of tourism in Aruba, the quest for tourism's economic sustainability is, however, not entirely new, as policy debates and discussions on 'how fast and how far' have transpired for well over a decade¹¹.

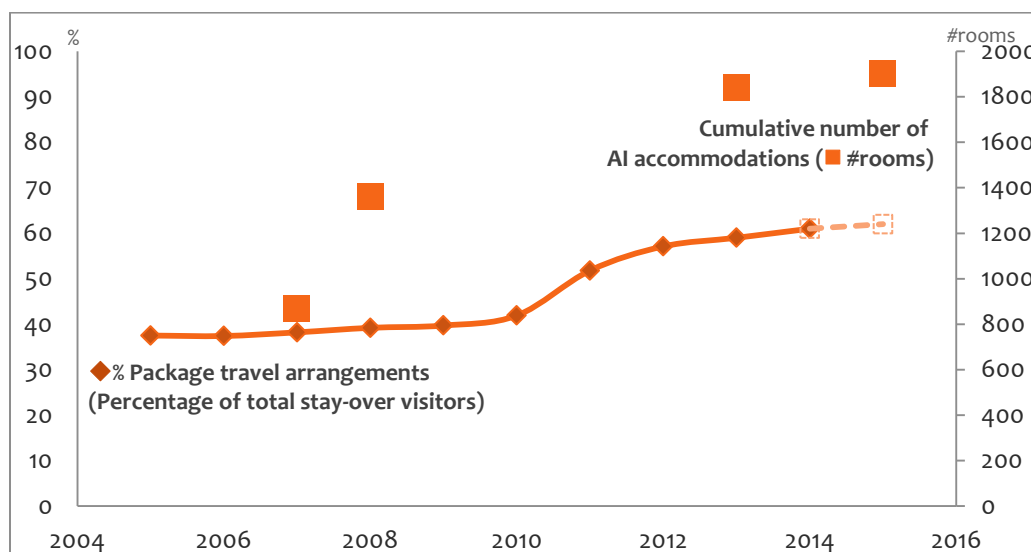


Figure 1.1. Estimated percentage in (pre-paid) package travel arrangements and total AI room inventory¹².

Reviewing Aruba's recent tourism development and economic history, the evidence suggests that while the island has enjoyed steady growth in tourist arrivals, accommodations, industry revenues, and (gross) tourism receipts over the past two decades, the (added) value hereof has waned in recent years, with diminishing returns to the economy. Whereas the former indicators (of volume) have increased over the past decade¹³, proxies of value, including average tourism receipts (per visitor night), business sentiments, gross capital formation, current

¹⁰ ATA (2016)

¹¹ Cole & Razak (2009), Peterson (2006, 2010)

¹² CBA estimates based on AHATA (2015a), CBS (2013)

¹³ CBA (2015). Annual Statistical Digest. Centrale Bank van Aruba, Aruba.

account contribution, and real GDP per capita have stagnated consistently for almost a decade (Figure 1.2). Analysis yields an inverse relationship between tourism growth (volume of tourism) and tourism development (value of tourism)¹⁴. Research indicates that the foregoing evolution in tourism's diminishing returns and receding economic productivity is structural and exacerbated by a confluence of exogenous and institutional conditions, which are typically encountered in small, open, and mature tourism economies, such as Aruba. Although beyond the scope of this study, the aforementioned provides the scene for what is to unfold.

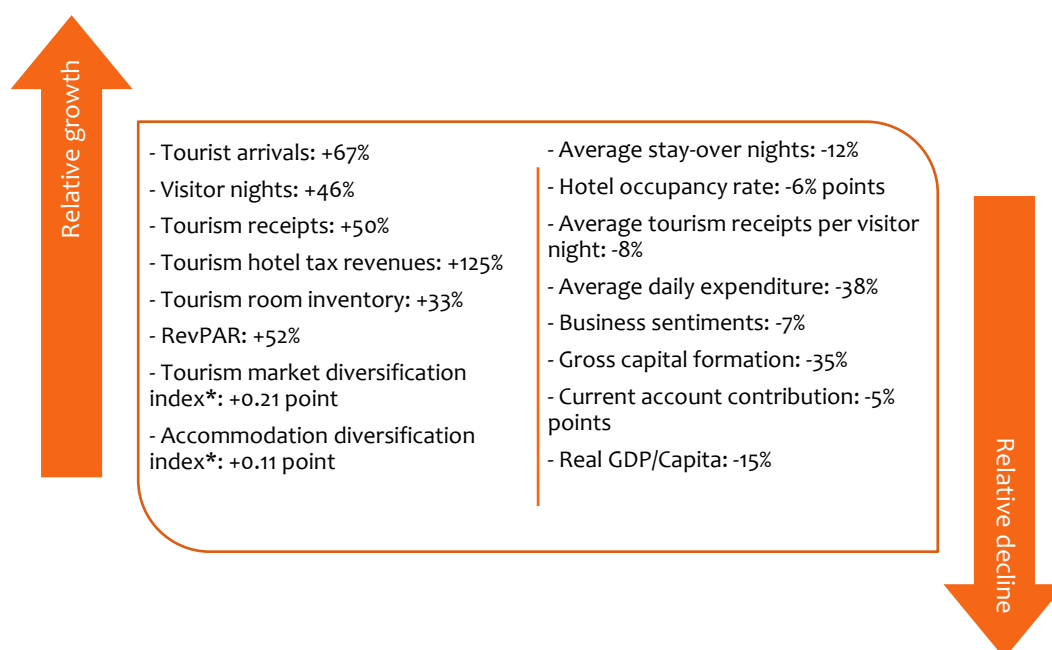


Figure 1.2. Diminishing tourism contribution between 2004 and 2015¹⁵.

¹⁴ While an extensive discussion on the conceptual and pragmatic differences between tourism growth and tourism development is beyond the reach of this report, the latter describes a *qualitative transformation* of added-value, whereas the former depicts a process of physical expansion. Erroneously, the term 'overdevelopment' is regularly used to describe the uncontrolled sprawling of (physical) tourism infrastructures. As an industry, tourism can thus grow without development, develop without growth, and conversely, grow and develop.

¹⁵ CBA (2016). *The diversification index is based on calculations of HH index for tourism markets and tourism hotel accommodations.

The main motivation for this study is underscored by the proposed (AI) tourism accommodation regulation on the part of the Government of Aruba¹⁶. More specifically, by motion of the Parliament of Aruba, the Minister of Tourism, Transportation, Primary Sector, and Culture was mandated to examine the possibility of a special licensing system for AI accommodations, and the impact of AI accommodations on the Aruban economy. The impetus hereto was an increase in the number of hotels exclusively offering AI accommodations (Figure 1.1), as well as an (perceived) increase in the number of AI packages offered by regular (non-AI) hotels.

The intended AI accommodation regulation is to be achieved through adding a special licensing system in the current Licensing Ordinance (see Annex 2). The principal rationale for the AI accommodation regulation by the Government of Aruba is threefold, and considers¹⁷:

- “- that it is in the interest of the Aruban tourism sector that there is a balanced offer of various types of accommodation in Aruba;*
- that it is advisable, in order to safeguard this balanced offer, to set rules for the various types of accommodations that can be offered by a hotel;*
- that it is also advisable for the same reason that the Minister charged with tourism affairs is involved in the issue of licenses to hotels and lodgings.”*

The foregoing underscores the importance of tourism governance and regulatory qualities, including policies, prudence, and (public-private) partnerships for sustainable tourism within the context of Aruba’s economic vulnerabilities as a small, specialized and maturing economy in an increasingly disruptive global environment.

In summary, the overall objective of this study is to examine the current state and economic contribution of AI tourism arrangements in Aruba. This focus, however, does not discount or undermine the significance of social-ecological impacts of (AI) tourism, as economic systems are contextually embedded and ‘bounded’ by social and ecological systems¹⁸. Without the latter, the former ceases to function, especially in small island tourism destinations.

¹⁶ Parliament of Aruba (2015)

¹⁷ Ibid.

¹⁸ The economic delimitation of this study in no way diminishes nor devalues the social and ecological impacts of (AI) tourism. It is readily acknowledged that beyond financial-economic impacts, social-ecological impacts are integral to the vitality and sustainability of tourism ecosystems, especially in small-island tourism societies that tend to be more sensitive to social and environmental vulnerabilities

1.2. Design of the Study

In measuring the economic contribution of AI tourism, this study considers the direct and indirect economic impacts of AI tourism arrangements, with a specific focus on macro-economic and (industry) financial impacts. More specifically, the study employs a ‘360° design’¹⁹, and analyzes (secondary) data²⁰ from the following main sources (Figure 1.3):

1. the *balance of payments*, including the current account and financial account of AI tourism arrangements, covering tourism service exports (receipts), goods imports (payments), and (direct) investments.
2. *Hotel industry financial performance*, including room revenues, occupancy, and average rates of AI tourism arrangements, in addition to costs of operations, covering labor, food & beverage, taxes, and utilities.
3. *Qualitative content-analysis of AI resorts* with regard to resort amenities, guest services, and (destination) promotions.
4. *Destination and AI visitor analysis*, including AI tourist behaviors, quality of experience, and satisfaction.

stemming from their intricate island communities and ecologies. Moreover, it is well accepted that social-ecological features of small island tourism destinations, particularly in the Caribbean, play a pivotal role in the region’s tourism portfolio of products, services, and experiences.

¹⁹ The 360° design is inspired by a macro-economic ‘balanced scorecard approach’ for measuring the performance of complex dynamic economic systems, consisting of four interrelated dimensions (economic, financial, markets, and institutions).

²⁰ Secondary data analysis is also conducted on the following source databases that contain general tourism data with reference to Aruba: TripAdvisor ratings (2016), Resonance Caribbean Tourism Quality Index Reports (2014-2015), the Aruba Tourism Authority’s (ATA) ‘Affluent Exit Survey (2016), and the Central Bureau of Statistics’ Tourism Profile Reports (2005-2013).

In order to capture (the diversity in) institutional perspectives amongst public and private sectors, and in following Regulatory Quality Impact Assessment (RQIA) procedures²¹, stakeholder consultations are conducted in order to (a) ascertain the different positions and perceptions on the state of AI tourism in Aruba, and (b) the (intended and unintended effects of the) proposed (AI) tourism accommodation regulation. Due to time restraints, stakeholder consultations were conducted with the following institutions²²: The Aruba Tourism Authority (ATA), the Aruba Hotel and Tourism Association (AHATA), The Chamber of Commerce (KVK), the Aruba Trade and Industry Association (ATIA), the Aruba Gastronomic Association (AGA), and a Wholesale company.

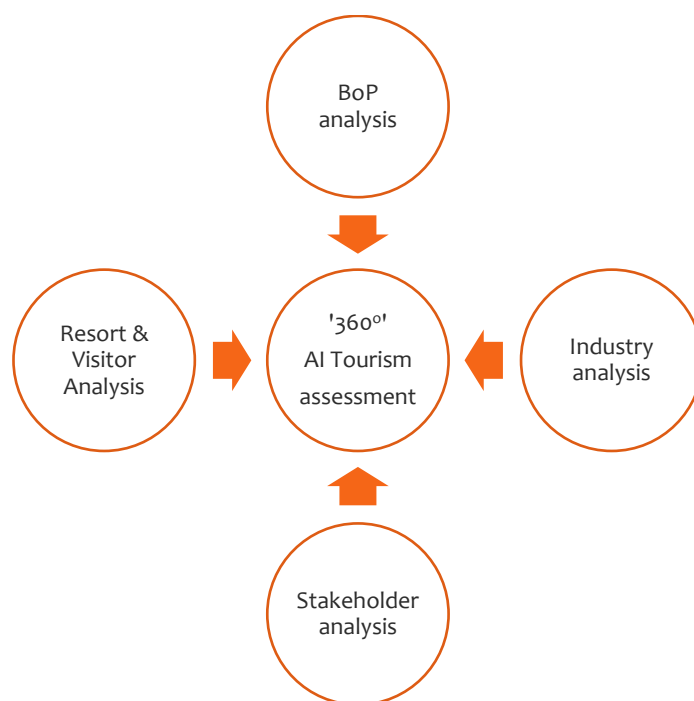


Figure 1.3. Research design: '360°' assessment of AI Tourism in Aruba.

²¹ World Bank (2015), OECD (2008)

²² The following institutions were approached for a meeting: The Ministry of Tourism, The Aruba Tourism Authority (ATA), the Aruba Hotel and Tourism Association (AHATA), the Chamber of Commerce (KVK), the Aruba Trade and Industry Association (ATIA), the Aruba Gastronomic Association (AGA), and a Wholesale company. In addition, an official request was sent to the Minister of Finance requesting the installation of a workgroup to facilitate the collection and analysis of public sector data. To date and as of publication, no official response has been received.

In summary, the study provides calculated estimates within the delimitations of available data²³. While further socio-economic and legal-regulatory impact studies are required to provide a conclusive answer on the economic contribution of AI tourism in Aruba, the preliminary findings of this study provide a *conservative approximation* of the economic contribution and experiential qualities of contemporary AI tourism in Aruba. In addition, the study questions some basic tenets underlying Aruba's present tourism development, and provides alternative pathways for value innovation.

1.3. Outline of the report

The remainder of this report is structured as follows. A brief outline of select international and national (AI) tourism developments is presented in chapter two (Chapter 2), followed by a condensed review of key developments in Aruba's tourism, with special attention for the AI tourism market.

In chapter three (Chapter 3), the main findings of this study are outlined, and reflect on the economic contribution and regulation of AI tourism in Aruba. More specifically, the results of the different quantitative and qualitative analysis are discussed.

This report concludes with a discussion of the main findings, and provides recommendations with regard to the resilience, regulation, and further research on (AI) tourism development (Chapter 4).

²³ This report is based on data analysis by the CBA in light of currently available, yet incomplete data. The accounts and outcomes may, therefore, differ from those estimated in this document. Consequently, no guarantee is presented or implied as to the complete accuracy of estimates contained herein. The CBA does not assume any liability for any loss that may result from the reliance upon these estimates or information, and under no condition is responsibility assumed by the CBA for its use, or for any infringements of other rights of third parties resulting from its use.



2. ALL-INCLUSIVE TOURISM IN CONTEMPORARY PERSPECTIVE

“... everything’s included, including the fun” – Club Med

2.1. Introduction

Contemporary AI tourism is in a continuous state of flux as international travel and business models continue to transform and adapt to changing consumer behaviors and destination developments. Research indicates that both the demand for and the supply of AI tourism have evolved over the past decades into a diverse and dynamic complex of market niches and product arrangements. The evolution of AI tourism demonstrates an increasing sophistication and innovation in quality and value, driven by a confluence of social, political, economic, environmental and digital developments, in which experiential travel and tourism engagement are taking centerpiece. Market studies suggest that AI packages are a preferred choice and desired hotel amenity for almost one-third of a new generation of travelers driven by value-for-money and vivid experiences²⁴.

This chapter provides a brief overview of contemporary developments in AI tourism, starting with a definition and demarcation of AI tourism (Section 2.2). In the remaining sections of this chapter, the demand for and supply of contemporary AI tourism in the Caribbean are discussed (Section 2.3). Based on a review of previous studies on the (economic) impacts of AI tourism, the strengths, weaknesses, opportunities, and threats (SWOT) of the AI business model are presented (Section 2.4), which serve to introduce the proposed tourism accommodation regulation by the Government of Aruba (Section 2.5).

²⁴ Resonance (2015), Skift (2015)

2.2. Definitions and Demarcations ²⁵

Although AI tourism is no stranger to the Caribbean²⁶, its conception remains somewhat ephemeral and contentious due to the diversity of perspectives, the dynamic evolution of its practice, and the delusion of empirical data on Caribbean AI. As a package travel arrangement, AI tourism combines or bundles different modules of a vacation into a single (fixed) price offered to consumers²⁷. To varying degrees, these modules include transportation, accommodation, food and beverage, resort amenities, facilities, and other services, and are paid in advance, before commencing the travel and/or vacation. Pre-paid package tourism can take on different modalities based on the inclusion of service modules (Figure 2.1): (1) transportation and accommodation; (2) transportation, accommodation, plus breakfast; (3) transportation plus half board; (4) transportation plus full board; and (5) an *all-inclusive package*²⁸. Within the context of the proposed AI regulation, the Government of Aruba defines AI as²⁹:

“accommodation in which, beside use of the housing, by payment in advance, one can also enjoy unlimited food and in any event non-alcoholic beverages on the site of the hotel or lodging, whether or not combined with the use of one or more recreational facilities”.

In its most rudimentary form, AI tourism arrangements are based on value propositions for operational excellence, service efficiency, fixed pricing, and product standardization. The (guest) service promise is one of predictability, i.e., certainty, consistency, ‘cost-free’, convenience, and comfort³⁰.

Currently, it is estimated that at least 60 percent of Aruba’s stay-over visitors are package travelers, of which an estimated 15 percent enjoys an AI vacation arrangement³¹. Between 2005 and 2015, it is projected that the average percentage of independent (non-package) travelers waned from 62 percent to 39 percent, thus

²⁵ See Annex 5 for a glossary of key terms and definitions

²⁶ Pattullo (1996), Issa & Jayawardena (2003)

²⁷ Sheldon & Mak (1987)

²⁸ Alegre & Pou (2006)

²⁹ Parliament of Aruba (2015)

³⁰ Issa & Jayawardena (2003)

³¹ AHATA (2015a), ATA (2016), CBS (2013)

marking a marked shift in the travel preferences and tourism behaviors in Aruba³². During this same period, it is estimated that package tourism grew from 38 percent to 61 percent, and AI room inventory expanded by an estimated 110 percent, more than doubling the AI accommodation capacity in less than a decade. An additional compounding factor herein is the increased (concentration of) foreign-ownership of AI resorts, estimated at 73 percent of total AI accommodation capacity³³.

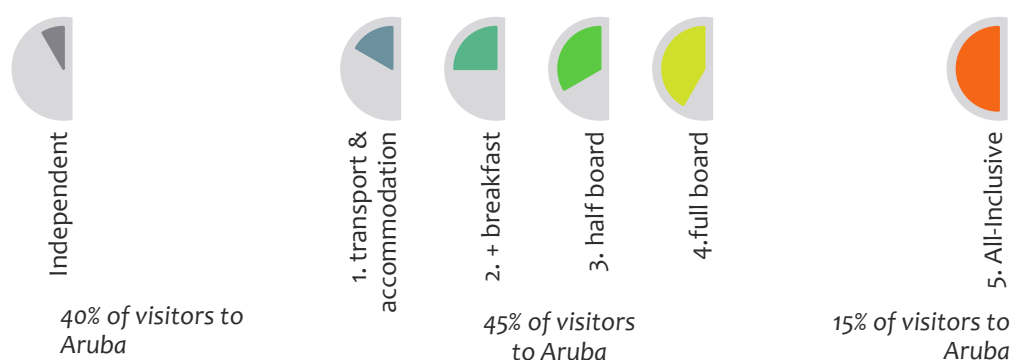


Figure 2.1. From Independent to Inclusive: modalities and estimate percentages of travel arrangements to Aruba (2015)³⁴.

³² Although beyond the scope of this study, the foregoing trend in package travel arrangements is consistent with tourism destination life-cycle models indicating an evolution towards tourism destination maturity, involving mass tourism and a behavioral shift towards non-allocentric tourism (Butler, 1980). In light of Aruba's repeat visitor rate (+55 percent), in addition to a relatively large time-share industry (+35 percent), declining average length of stay, and stagnating tourism expenditures per capita, the psychographic profile of Aruba's tourism is likely to be more psychocentric (thus less allocentric). In general, studies indicate Aruba's tourists are not interested in visiting undiscovered places (ATA, 2016)

³³ AHATA (2016)

³⁴ AHATA (2015a), ATA (2016), CBS (2013)

The continuous growth in stay-over visitors, currently amounting to 1.2 million (stay-over) visitors³⁵, and the mass development of Aruban tourism over the past decade, are partially reflected in the sustained growth in package tourism arrangements, and in the more recent surge (+30 percent growth) of travelers choosing alternative tourism accommodations (ATAs), such as residential lodgings, apartments, and ‘other’ accommodations³⁶.

The foregoing divergence in demand for both AI and ATAs is disrupting the status quo in the Aruban hotel industry, thus putting pressure on conventional (EP) accommodation business models, as well as maintaining a ‘balance’ in the Aruban tourism accommodation portfolio. More poignantly, beyond the obtrusive expansion in accommodation infrastructures and visitor growth, the lingering, albeit implicit question is one of (tourism) industry innovation and value creation.

2.3. Transformation of All-Inclusive Tourism

The rise and continued demand for AI tourism arrangements is best understood in light of slow and simultaneous shifts, and sudden shocks in tourism demand and supply, i.e., in the evolution of market and institutional forces. Over the past decade, international tourism markets and consumer travel behaviors have experienced significant changes due to a series of social, political, economic, environmental and digital (SPEED) developments³⁷. Whereas individually these changes are not necessarily new, the flux, i.e., the synchronicity and velocity of these developments is having profound impacts on small-island tourism destinations, especially those that find themselves in a relatively mature stage of tourism development³⁸. This flux in tourism is rapidly disrupting traditional tourism products and services, thereby placing a premium on the quality of travel experiences and other intangible tourism assets³⁹ (Table 2.1).

³⁵ CBA (2016)

³⁶ AHATA (2016)

³⁷ Peterson (2006)

³⁸ Day et al (2008), Duval (2004), Peterson (2010)

³⁹ Peterson (2008), Resonance (2014), Tung & Ritchie (2011)

Contemporary Trends in Tourism Demand

At the turn of the century, a new generation of (Millennial) consumers and travelers slowly entered the tourism market. Beyond their social demographics (born during the early 1980s), their lifestyle habits and experiential needs are shaping the tourism landscape⁴⁰. While older, more affluent generations still dominate global travel, they too seek authenticity and fresh experiences as they continue to travel the world⁴¹. In fact, the notion of ‘luxury’ itself has changed over the past decade. Today, luxury is a reflection of consumer emotions, aspirations, and passions. Consequently, luxury travel is not static, nor is it solely about (physical) possessions or extrinsic satisfaction any longer⁴².

While beaches and beach resorts remain an important part of the tourist experience, research indicates that at least one-third of new travelers seek out unique experiences during their vacation, and want to participate in ‘different’ activities (Table 2.1). Unlike previous generations that sought a ‘home away from home’, the new generation of travelers increasingly seek out to experience new - cultural and natural- spaces and share their personal stories (by means of social media).

New experiences are integral to the future of Caribbean tourism. According to Resonance’s Caribbean tourism quality market study, 69 percent of global travelers plan to try something new in 2016, with culinary, sightseeing, and sports/adventure ranking as the most important sought-after experiences⁴³. The Caribbean Tourism Organization (CTO) contends that *“it is the quality of the experience that will determine if our guests develop such an emotional attachment that they become influencers and repeat visitors. The whole Caribbean will enhance its competitive advantage by providing unique and memorable experiences to our visitors”*⁴⁴. The operative word here being *emotional attachment*, and thus how to engage travelers beyond the physical (tangible) towards the emotional and intellectual.

⁴⁰ Resonance (2014)

⁴¹ Resonance (2015)

⁴² Martini (2015)

⁴³ Resonance (2016)

⁴⁴ Resonance (2015)

Table 2.1. Key destination features and preferences of the new traveler⁴⁵.

	Millennial Traveler (21 – 44 years; +\$100k)	Affluent Tourist (45 – 54 years; +\$150k)
Key destination features and travel preferences		
Accommodations:		
- Full service hotel	54%	37%
- All-Inclusive resort	45%	13%
- Luxury resort	39%	36%
Amenities:		
- Free Wifi/Internet	58%	57%
- Privacy	48%	39%
- Beach/Beach Resort/Swimming pool	42%	40%
- Cuisine/Hotel restaurant	34%	39%
- All-inclusive offers/packages	52%	18%
Attractions:		
- Proximity to must see attractions/Fun attractions	39%	36%
- Shopping and restaurants	40%	35%
- Nightlife and entertainment	32%	39%
Authenticity:		
- Unique experiences/Opportunity to learn something	37%	32%
- Exploring nature/cultural attractions	30%	38%
- Participating in a ‘once-in-a-lifetime’ activity	30%	40%
Attention:		
- Safety/Security	54%	40%
- Cost/Perceived value-for-money	50%	53%
- Weather (Sun)	46%	59%
- Language (English)	42%	28%
- Scenery/Nature	41%	47%

Today’s travelers are indeed looking to establish an intellectually-stimulating emotional connection with a destination, in which the (expected) experience defines the destination of choice. More importantly, the (realized) experience drives (monetary) value for both tourists and the destination⁴⁶. This is the quintessential character(istic) of ‘Quality Tourism’. Previous studies indicate that the quality of the ‘Aruban tourism’ experience - from cruise visitors to time-share and transient tourists - plays a significant role in shaping tourists’ engagement,

⁴⁵ Resonance (2014, 2015)

⁴⁶ UNWTO (2015)

expenditures and destination loyalty⁴⁷. Thus while traditionally Caribbean tourism destination competitiveness was driven by comparative advantages in terms of tangible assets (e.g., natural, infrastructural, financial resources), contemporary tourism demand is placing a competitive premium on institutional and intangible assets (e.g., norms, values, relational, and experiential).

From a geo-political perspective, new tourism destinations are emerging in the Caribbean, while traditional Latin American source markets are experiencing significant turmoil. The emergence of Cuba as a new alternative tourism destination in the Caribbean, in conjunction with economic woes in Venezuela, Colombia and Brazil, are likely to leave their mark on Caribbean tourism destinations, which traditionally have relied on these tourism (source) markets. The disintegration of regional (European) economic markets is likely to affect international travel, with projected negative effects for UK travel and tourism arrangements to Anglo-Saxon Caribbean tourism destinations. Despite arguments against the short-term impacts of the foregoing developments, history shows that geo-political shifts are unlikely to leave Caribbean tourism untouched and small-island tourism destination unaffected.

Economically, the financial crisis has left its mark on society, as financial stability, security and cautiousness dominate consumer and corporate behaviors and spending habits. Today's traveler is relatively more cost-conscious and price-sensitive, thereby more prone to assuring value-for-money before traveling (Table 2.1). Research indicates that at least 50 percent of new travelers are keenly attuned to securing value-for-money and managing their travel costs 'within budget'. This alludes to the contemporary popularity of AI tourism and the rise in ATAs (Alternative Tourism Accommodations) across the Caribbean, especially amongst a new generation of travelers, conversely, less affluent in terms of discretionary income⁴⁸. Although empirically unconfirmed, the current economic climate and consumer thrift are likely to have increased the price-elasticity of tourism demand⁴⁹.

⁴⁷ Peterson (2008)

⁴⁸ Resonance (2015)

⁴⁹ Alternatively, a behavioral substitution effect may also transpire as tourists balance their budgets and expenditures, and spend relatively more on accommodations (due to increasing price rates), and are less likely to spend more on destination activities.

More importantly, luxury travel has been re-invented. Market studies on affluent consumers suggest that after the recession, luxury travel evolved into something more personal, subtle, intimate and meaningful⁵⁰. It evolved from merely visiting and enjoying a ‘placid’ place, to venturing and engaging (emotionally and intellectually) in ‘dynamic’ spaces. Indeed, the new (affluent) traveler is increasingly driven by passions that have shifted from ownership and status, towards intrinsic satisfaction, and self-realization. Consequently, the notion of quality and value(s) has also shifted from expensive to existential, from indulgence to unique, and from pretentious to personal.

In similar vein, contemporary tourists and travelers are more conscious and aware of climate change and the importance of protecting and conserving the natural environment, particularly as so-called ‘slow travel’, nature and eco-attractions increasingly dominate travelers’ preferences and tourism itineraries (Table 2.1). Research indicates that for at least one-third of today’s tourists, the natural environment and exploring nature are key activities⁵¹. This ‘eco-lust’ is, however, not new. Over the past decade, tourism markets have experienced a clear and present shift, one in which consumers across all generations are increasingly demanding ‘greener’ products, ‘environmentally friendly’ services, and ‘eco’ experiences.

Today’s generation of travelers is increasingly more critical and demanding of a destination’s efforts and achievements in terms of nature and nurturing environmental responsibility⁵². Already in 2009, a study conducted by Deloitte Consulting found that 90 percent of business travelers look to ‘go green’ while away. In the US, 40 percent of travelers seek an environmentally responsible hotel or resort, and for more than 25 percent of travelers, ‘sustainability’ is among the top three influencing factors when booking international vacations. In 2013, TripAdvisor reported that over 70 percent of travelers and tourists would make environmentally responsible vacation choices that year. For affluent travelers, nature experiences and walking trails account for 26 percent of desired resort and destination amenities, in which ‘scenery and nature’ ranks as the third most important factor (47 percent) when deciding on a vacation destination (Table 2.1).

⁵⁰ Martini (2015)

⁵¹ CREST (2016), Resonance (2015)

⁵² Ibid.

Beyond (re-)connecting with nature, staying digitally connected is a top priority for the ‘new traveler’. The continued development and adoption of new social, smart and savvy technologies and ‘apps’, in addition to the surge of new travel and (residential) vacation platforms (e.g., Airbnb) have become an integral part of the digital travel landscape. If once upon a time on-line travel agents disintermediated the traditional travel agent market space, today almost anyone is - or can become - a ‘destination accommodation agent’. It is thus no surprise that (digital) connectivity is regarded as the most important resort and destination amenity (Table 2.1). Almost two thirds of tourists consider ‘free wifi’ and access to internet as an essential resort (and restaurant) amenity⁵³.

Contemporary Trends in AI Tourism Supply

Considering the foregoing shifts in tourism demand, it becomes relatively apparent why AI tourism has been popular since the 1970s across the Caribbean⁵⁴, and more importantly, how and why there is a resurgence of new AI arrangements in the Caribbean since the turn of the century⁵⁵. The confluence of natural endowments, exotic images, new experiences, themed activities, and cost control have created a fertile ground for the continued growth of package travel arrangements, modern AI resorts, and ‘inclusive business models’ in the Caribbean and beyond.

What started off as standardized package travel fifty years ago, has today evolved into a sophisticated complex of differentiated AI products and services. The nuanced evolutions in the overall quality of AI guest services include, e.g., family- and adult-exclusive resorts, high-end luxury services, wellness, eco and lifestyle products, with a strong sense of local authenticity and culture (Figure 2.2). Unlike the mainstream AI of the 1990s, contemporary AI is much more likely to be specialized in niche markets, with differentiated services and experiences. Rather than function as a (physical) ‘enclave’, today’s AI resort is more likely to engage (experientially).

⁵³ Resonance (2015)

⁵⁴ Duval (2004), Issa & Jayawardena (2003)

⁵⁵ Skift (2015)

Market studies indicate that beach-front destinations (38 percent), travel expenses (36 percent), and off-site excursions and activities (32 percent) are determining factors in considering and choosing an AI resort⁵⁶. This highlights the importance of both natural and experiential destination attributes, in addition to consumers' demand for controlling costs. In responding to the 'free, fast and fab' demands of today's consumer, the AI business model is indeed evolving to meet and exceed the demands of the new traveler.

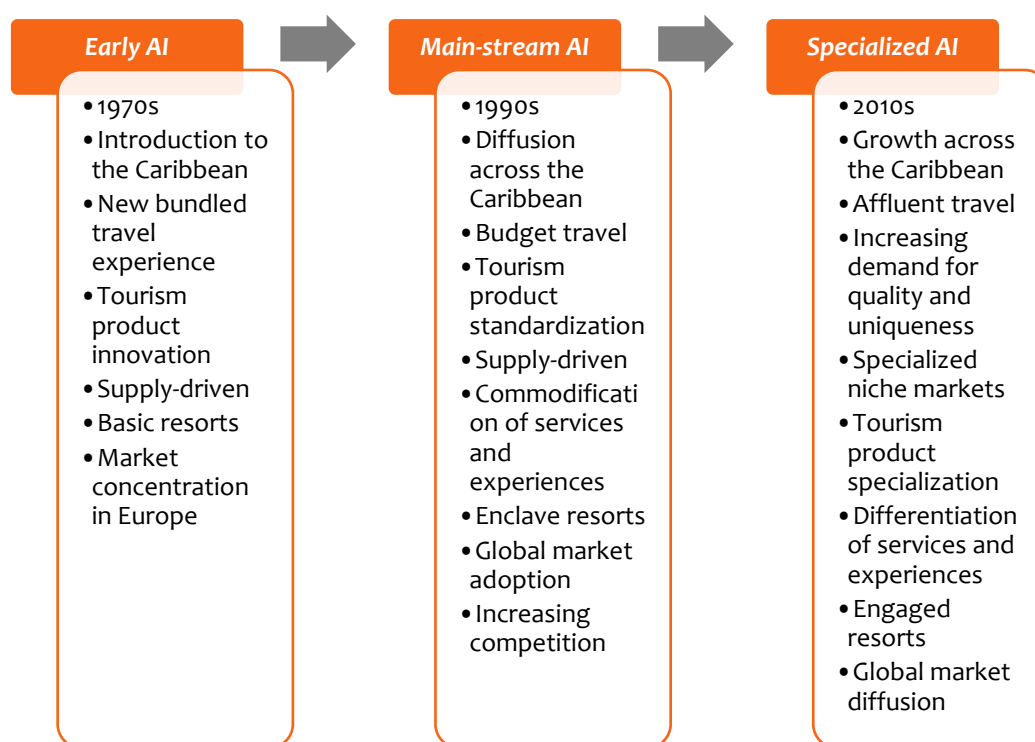


Figure 2.2. Evolution of the All-Inclusive Business Model.

⁵⁶ Ibid.

Closer to home in the Caribbean, industry reports describe several key trends with regard to AI tourism in the Caribbean. Currently, it is estimated that there are at least 230 AI resorts in the Caribbean⁵⁷, with the majority of AI accommodations in the Dominican Republic (41 percent) and Jamaica (23 percent), which are two of the large(r) tourism destinations in the Caribbean (Table 2.2).

Table 2.2. Visitors, AI resorts and tourism quality ranking across Caribbean tourism destinations⁵⁸.

Caribbean Tourism Destinations	Stayover Visitors (x 1000)	All-Inclusive Resorts (estimate total)	Destination Tourism Quality Index (Relative rank)
Anguilla	71	0	5
Antigua	249	15	17
Barbados	520	9	2
BVI	224	1	23
Curacao	452	4	13
Grenada	134	5	9
Martinique	490	1	4
St Kitts	114	1	7
St Lucia	338	18	12
St Maarten	499	5	21
St Vincent	71	2	8
Tobago	413	5	3
Turks & Caicos	435	1	1
Aruba	1072	4	16
Bahamas	1422	10	24
Dominican Republic	5141	95	18
Jamaica	2080	54	14
Total	13725	230	

⁵⁷ Resort Vacations to Go (2015) http://www.resortvacationstogo.com/All-Inclusive_Resorts.html

⁵⁸ Resonance (2015), UNWTO (2015) and Resort Vacations to Go (2015)

Analysis indicates that the presence of AI resorts is associated with the amount of stay-over visitors and (the growth in) tourism arrivals in Caribbean tourism destinations (Figure 2.3). The increase in the volume of AI resorts and accommodations is symptomatic of mass tourism. This self-perpetuating development between expanding tourism arrivals and (AI) tourism infrastructures is akin to developing economies of scale, and conversely the commodification of tourism across the Caribbean, particularly in the larger destinations of Jamaica, Dominican Republic, and the Bahamas, and to an increasing extent in smaller, more mature tourism destinations, such as Barbados and Aruba⁵⁹. With respect to Aruba, although being a small-island tourism destination, its tourist arrival numbers are consistent with relatively large(r) island tourism destinations. It is thus no surprise that these destinations, despite significant differences in terms of geo-economic scope and (tourism) styles are often clustered and compared in terms of their (tourism) industry performance and competitiveness, oftentimes leading to erroneous conclusions.

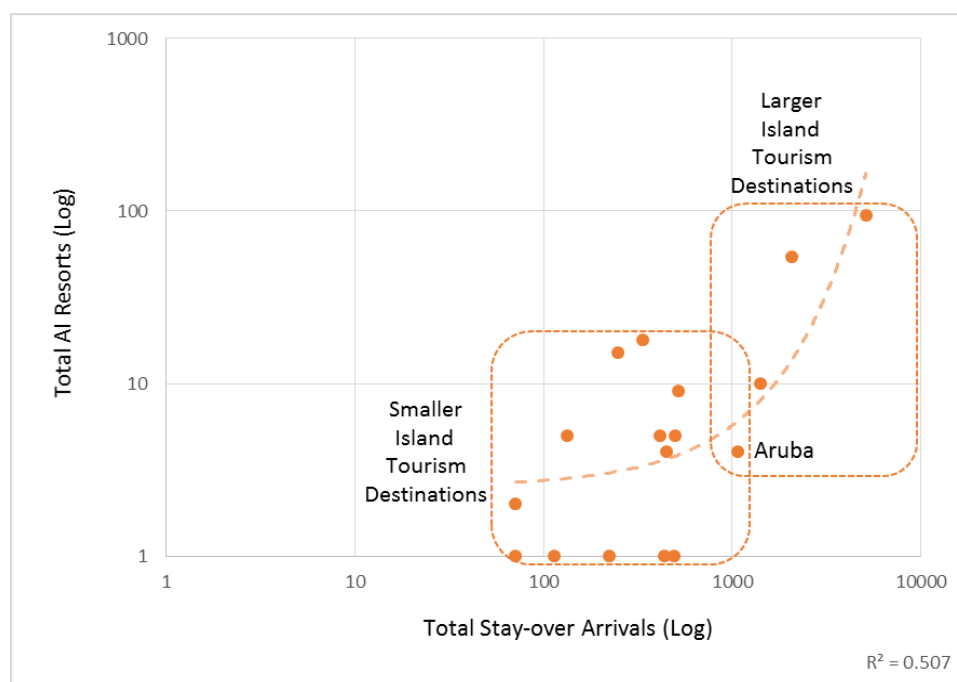


Figure 2.3. Relationship between total stay-over arrivals and total AI resorts.

⁵⁹ Duval (2004)

Currently, most of the hotel industry transactions occurring in the Caribbean are (beach-front) resorts which are being purchased for renovation, repositioning and rebranding of all-inclusive properties⁶⁰. Some examples include the purchase and renovation by Sandals Resort International of several high-end and luxury AI resorts in Barbados and Antigua, and the agreement between the Spanish group Playa Hotels and Resorts and Hyatt to operate Hyatt Ziva and Hyatt Zilara, which are luxury AI brands for couples and families. Later this year, the Warwick Paradise Island Bahamas -a luxurious 244-room resort- is slated to offer adult-only all-inclusive experiences in the Bahamas⁶¹. Other recent entrants in the affluent all-inclusive market include Caribbean-based Sagicor Life Insurance company, Blue Diamond Resorts (from Canada) and Palace Resorts (based in Mexico). In the Dominican Republic, more than 18,000 new hotel rooms are scheduled by 2019, including 55 new hotel projects accounting for an estimated \$2 billion worth of investment⁶².

In conclusion and comparing the foregoing tourism supply trends with the previously developments and ‘desires’ in tourism demand, it is obvious that there are clear contrasts in the tourism styles and strategies in the Caribbean. These range from large(r) island tourism economies like the Dominican Republic, which embrace large-scale tourism infrastructures and facilities for accommodating (more) tourists, to small(er) tourism destinations like Anguilla, which focus on developing quality experiences, target specific niches of travelers, and have less (large-scale) infrastructures and no (large) AI resorts. It is clear that the strategic (policy) choices Caribbean tourism destinations make to differentiate themselves are key in engaging today’s ‘new traveler’ for value creation.

⁶⁰ Andrews (2015)

⁶¹ Resonance (2016)

⁶² Ibid.

2.4. Previous Investigations on All-Inclusive Tourism

Discussions and debates regarding the economic impact of (AI) tourism have been bent and bandied for well-over fifty years in the Caribbean. These discussions, albeit not always evidence-based, have focused mainly on the (economic) impact of (large and foreign-owned) hotel chains and resorts, with the additional aspect of ‘all-inclusiveness’. A review of previous studies⁶³, albeit limited in empirical nature, yields a complex of different, sometimes competing and conflicting findings and conclusions, oftentimes contingent upon the institution, method, and context of investigation. In summarizing the focal conclusions of these studies, the following main strengths, weaknesses, opportunities, and threats (SWOT) are identified in the literature on AI tourism (Figure 2.4).

In terms of its strengths, the advantages of the AI business model accrue particularly to visitors and business-owners, in terms of value-for-money, convenience, and efficiency. One of the primary reasons for AI’s contemporary success is its proposition of value-for-money, in which travelers experience an increased sense of financial control and emotional freedom. From a business perspective, the vertically integrated business model allows for value chain control and economies of scale. AI resorts also provide significant foreign exchange earnings (tourism receipts) and employment opportunities, albeit relatively more so in early (embryonic) stages of tourism destination development.

The AI business model, however, also suffers from some of its inherent weaknesses. These include relatively high levels of standardization and commodification of products and services, ‘enclaved’ resort facilities (particularly in larger, crime-prone destinations), relatively higher import and export leakages (inherently part of vertically integrated, foreign-owned AI chains), and relatively lower tourism expenditures. The economics of small island tourism destinations engender increased vulnerabilities due to relatively high dependency on imports and exports, in addition to diseconomies of scale often encountered in small island tourism economies. Import and export leakage rates can vary from 40 to 70 percent

⁶³ See References for complete listing: Duval (2004), Day et al. (2008), Seow (1981), Summary (1987), Domros (1989), Poirier (1995), Master and Prideaux (2000), Krippendorf (2001), Bowen (2001), Issa & Jayawardena (2003), Sugiyarto et al (2003), Tavares & Kozak (2015), Tosun et al (2003), Sahli & Nowak (2007), Dritsakis (2008), Anderson et al (2009), Anderson (2010), Heung & Chu (2000), Andriotis (2002), Valhouli (2003), Wong & Kong (2004), Smith (2007), Akama & Kieti (2007), Agarwal (2012), PwC (2016), SKIFT (2015), Soldati (2010), Alegre & Pou (2008), Aguilo & Rosello (2012), López-Guzmán et al. (2016).

(more so in small open economies), whereas tourists are less inclined to leave (and spend) beyond the resorts *if no structured destination-wide initiatives are developed, or if no incentives are provided to experience the destination*. In the latter case, AI visitors tend to spend, on average, 15 to 20 percent less during their vacation on ancillary services.

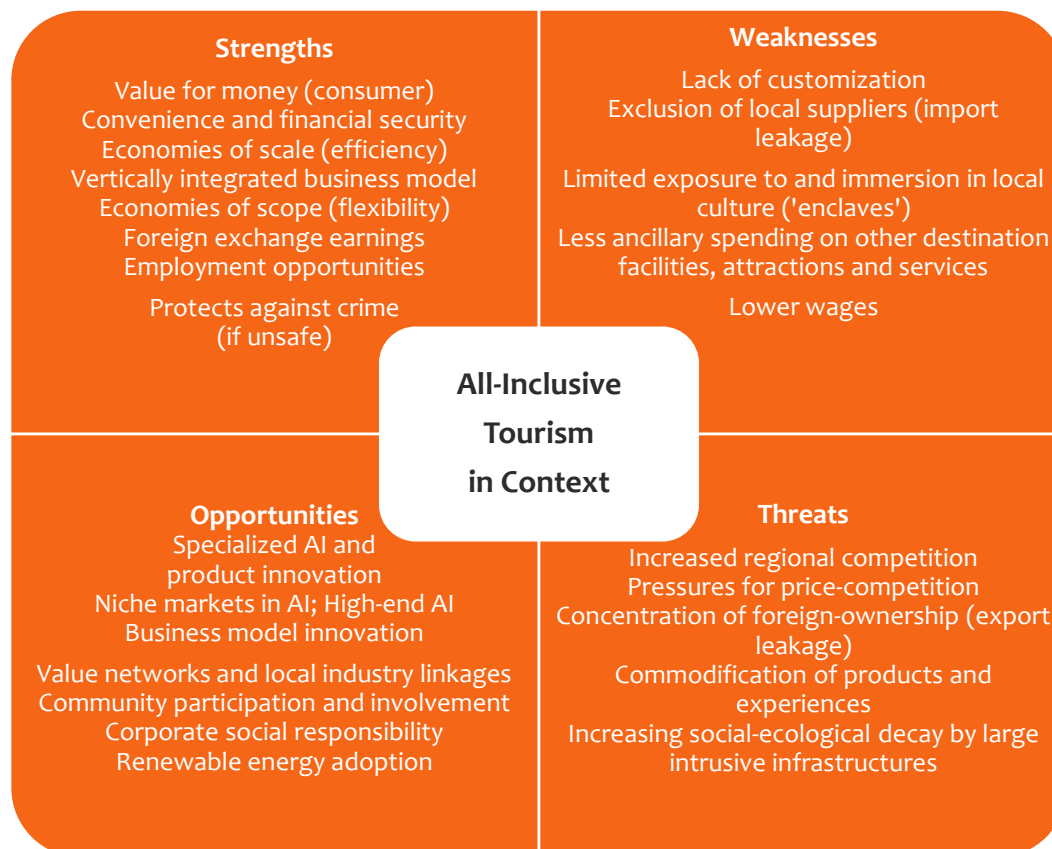


Figure 2.4. Summary of previous studies: The strengths, weaknesses, opportunities and threats of AI tourism arrangements.

More importantly, the impacts of the AI business model are moderated by the characteristics of the destination, in which the (institutional) context is a key determining factor in mitigating -or alternatively amplifying- the potential effects of AI tourism arrangements (Figure 2.5). *The impact and contribution of AI is thus contingent upon the destinations' tourism governance.* Destination contingency factors include, e.g., economic size, tourism policies, regulations, industry linkages, business climate, safety, cultural heritage, and tourism entrepreneurship. Thus, the destination's value appropriation of AI tourism is closely intertwined with the institutional qualities of the tourism destination. Without the latter conditions and capabilities, the former remains fleeting.

Research indicates that the AI business model is not static. The business model of AI has evolved over the past decade in addressing some of the foregoing weaknesses, and in response to the increasing demand for quality experiences, by customizing products and services, catering to different lifestyle and luxury niche markets. Studies indicate that AI resorts are increasingly exploring local opportunities and developing ties with local businesses and organizations in order to engage both visitors and the community in tourism activities, in addition to local suppliers (of indigenous products and services). The relatively high costs of business (driven primarily by energy, operations and labor in a small island open economy) have also led to the evolution of the AI business model in the Caribbean. Thus, both demand and supply forces continue to shape the AI business model.

Without sound and suitable destination tourism governance, expansive AI tourism arrangements can lead to the decay of the quality of small island tourism ecosystems and experiences. Fierce price-competition tends to dominate in and between the large(r) tourism destinations that have relatively large AI sectors and resorts, which marginalize both destination partnerships and profits. Lack of industry partnerships and inter-sectoral linkages, in addition to concentration of foreign-ownership tend to promulgate increased economic leakages. Absent tourism policies and lack of destination standards for quality assurance and accountability likewise may create sprawling conditions. Considering the relatively high costs of business in small(er) island tourism economies, the AI business model becomes financially unsustainable, unless significant economies of scale exist or are built, thus inducing (more) physical expansion and considerable social-ecological costs.

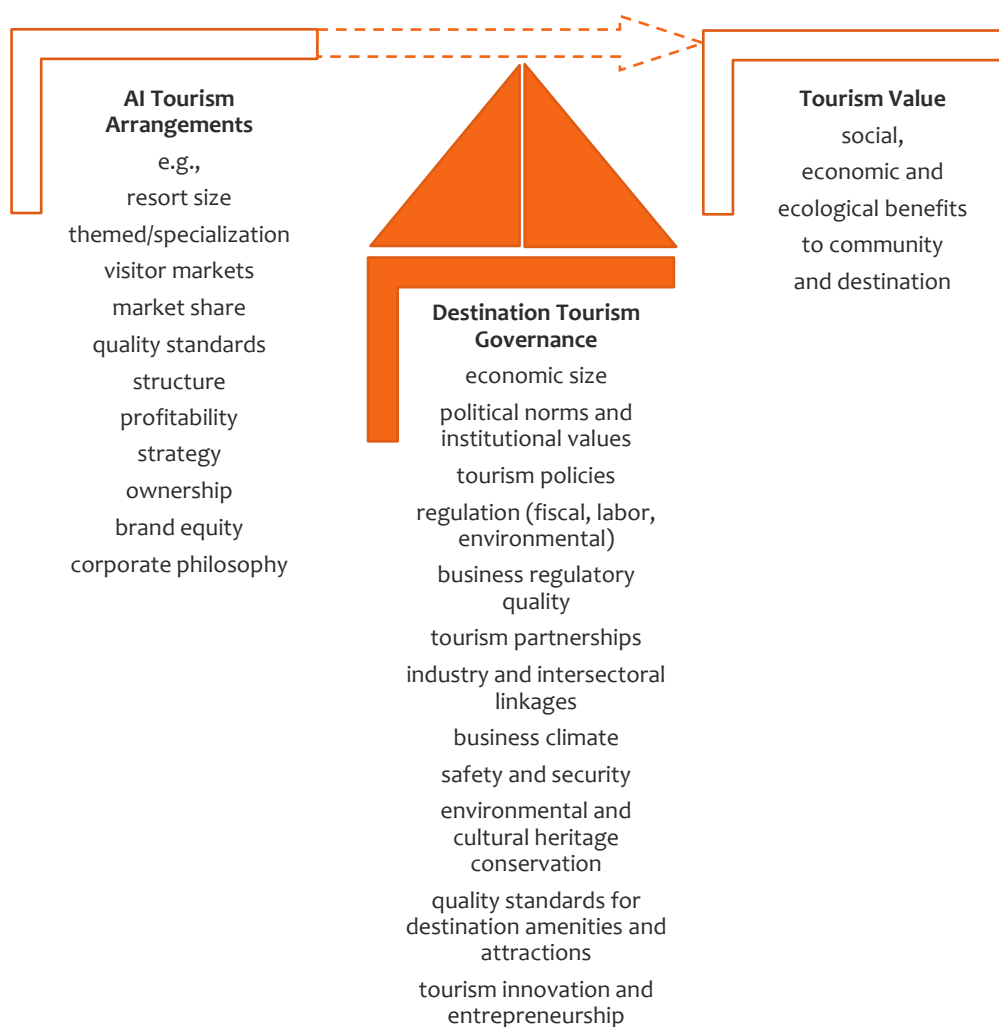


Figure 2.5. The moderating role of destination tourism governance in tourism's value creation.

The relentless expansion of the AI sector and large AI resorts may obfuscate the natural, cultural and experiential qualities of Caribbean small island tourism destinations as critical levels of carrying capacity are surpassed. This could have detrimental impacts on the community and (natural) ecology, if the latter are not protected and preserved by cultural and environmental regulation. Considering the importance of social-ecological amenities and activities in contemporary travel preferences and itineraries, the scene is set for dwindling tourism excursions, explorations and expenditures, thereby, ironically, inducing yet another cycle of sectoral and market expansions, and attracting more visitors who see and spend less in the destination. This rather vicious cycle is endemic to tourism growth in mature tourism destinations.

2.5. Proposed Regulation of All-Inclusive Tourism in Aruba

In light of the foregoing general weaknesses and potential threats of unrestrained AI tourism growth, the Government of Aruba proposes to include the regulation of AI accommodations into the Licensing Ordinance⁶⁴. The amendment proposes to include a special licensing system in the Licensing Ordinance for hotels that offer AI accommodations (see Annex 2 for a complete description of the proposed amendments and memorandum of explanation). The principal rationale for the AI regulation by the Government of Aruba is threefold, and considers *“that it is in the interest of the Aruban tourism sector that there is a balanced offer of various types of accommodation in Aruba, and in order to safeguard this balanced offer, to set rules for the various types of accommodations that can be offered by a hotel”⁶⁵*. For this reason *“it is also that the Minister charged with tourism affairs is involved in the issue of licenses to hotels and lodgings”⁶⁶*.

The current Licensing Ordinance contains the general framework for the regulation of (inter alia) the hotel industry in Aruba⁶⁷. This includes regulations attached to a license that can also be used outside the framework for the sale of alcohol, spatial layout, and hygiene. Consequently, the Government of Aruba intends to regulate AI tourism accommodations through the Licensing Ordinance by

⁶⁴ Parliament of Aruba (2016). See also Annex 2 for the original amendment.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ An assessment of the lawful inclusion of the AI License within this Licensing Ordinance is beyond the scope of this study. For a complete discussion, see the assessment by the ‘Raad van Advies’ (2015).

introducing the requirement of a special license for hotels that offer AI accommodation, either exclusively or as part of a mix of accommodations offered (by non-AI resorts).

In essence, the core of the amendments is based on two new articles, which will be included in the Licensing Ordinance. More specifically, an AI license will only be granted to (a) an AI hotel, upon submission of a business plan, if no more than 40 percent of all available accommodation in Aruba offered by hotels is based on AI accommodation, or alternatively, if (b) for a non-AI hotel the annual average of accommodation nights offered would not supersede 20 percent. In addition, the Minister of Tourism, Transportation and Culture will be exclusively authorized to grant the AI License. It is deemed vital by the Government of Aruba that the Minister gets an indispensable role in the granting, refusal, and revocation of the hotel licenses and lodging licenses that are already required pursuant to the current Licensing Ordinance.

Consequently, two limits are set for the offer of AI accommodations:

- *Hotels that exclusively offer AI accommodation will only obtain a license if on account hereof no more than 40 percent of the total accommodation offered in Aruba is offered as an AI accommodation.* Total offer is defined by the offer of both fully AI hotels and mixed hotels. Occupied and un-occupied accommodations are included in the total offer. According to the most recent amendments, the AI license will be valid for 35 years.
- *Hotels with mixed accommodations (non-AI hotels) will only obtain a license automatically if they do not sell more than 20 percent of their accommodation nights as AI accommodation annually.* The available accommodation nights are included. The limit of 20 percent is an annual average. AI accommodation nights that are sold by a certain hotel with mixed accommodations could consequently exceed the maximum limit of 20 percent during the year, provided that, on average, less than 20 percent is sold as AI accommodations on an annual basis. According to the most recent amendments, the AI license will be valid for 35 years, and existing hotels will have two (2) years to adjust their accommodation offerings.

If the applications exceed the limits, the Minister will be authorized to select and grant an AI license. He will do so based on the business plans submitted by the applicants. The proposed amendment stipulates that the license will be granted to the hotel that will invest most in the Aruban economy as evidenced by the business plan. To ensure that the business plans are adequate, the plans have to be certified by registered accountant. An AI license can be revoked by the Minister, if business plans are not executed according to the conditions stipulated.

The proposed amendment also includes specific exemptions to the general rulings of the AI license, in which the Minister can grant exemption from aforementioned limits for special cases. These include: (1) modification of, or deviation from the pre-specified percentages, if the need to do so is clearly and timely demonstrated and established; (2) inclusion of special dine-around programs in partnership with local restaurants and associations; (3) Group accommodations for meetings, incentives, conferences and exhibitions (MICE) travel.

3. RESULTS

“Without data you're just a person with an opinion” - Deming

3.1. Introduction

Following the 360° research design, this chapter presents the main findings of the analysis conducted on AI tourism in Aruba. More specifically, in the subsequent sections of this chapter, the following results⁶⁸ are summarized:

- *The balance of payments*, i.e., the current and financial accounts of AI resorts, including *tourism receipts* for AI accommodations and the destination.
- *The industry and business performance* of AI resorts.
- *The visitor behaviors and destination experiences* of AI tourists.
- *The stakeholder consultations* regarding the impact and regulation of AI tourism in Aruba.

3.2. Economic contribution of All-Inclusive tourism in Aruba

Balance of Payments

In 2015, the current account surplus of the balance of payments for the AI sector improved by Afl. 24.2 million (11.7 percent) to Afl. 231.6 million, compared to 2014 (Table 3.1). This improvement was caused mainly by a higher services account surplus and a lower deficit on the income account. These were partially offset by increases in the deficit on the goods and services (related to imports) and current transfers accounts.

⁶⁸ As noted previously, the main findings of this study should be interpreted within the delimitations of data (and time) availability. The results presented are estimates and calculations based on the accessibility of data prior to July 23, 2016. Therefore, all results should be interpreted as valuations and projections within the confines of this study.

In 2015, the goods account (imports) registered a higher deficit of Afl. 10.3 million, compared to 2014. This deterioration was largely caused by higher payments for goods related to the upgrade and renovation of resorts, which took place in the spring and summer of 2015. On the other hand, the surplus on the services account rose by Afl. 33.7 million to Afl. 272.1 million, largely due to an Afl. 25.3 million (9.1 percent) increase in tourism receipts, despite hotel renovations for almost six months in 2015. Based on the aforementioned estimates, it is projected that AI sector experienced an import leakage of 15 percent in 2015. The income account deficit contracted by Afl. 1.2 million to an Afl. 3.9 million, mainly due to lower interest payments on intercompany loans. The current transfers account deficit expanded by Afl. 0.4 million to Afl. 0.8 million, reflecting higher payments for insurance premiums.

The financial accounts for AI sector recorded an Afl. 32.7 million net inflow in 2015, Afl. 21.9 million lower than in 2014. This fall was mostly caused by direct investment related transactions. In 2015, the latter recorded a net outflow of Afl. 2.9 million, compared to a net inflow of Afl. 97.7 million in 2014. This result was mainly attributed to lower intercompany loans and capital contributions received from foreign shareholders in 2015, when compared to 2014, while higher intercompany loans repayments were made. On the other hand, other investment related transactions experienced an Afl. 35.6 million net inflow, compared to an Afl. 43.1 million net outflow in 2014, reflecting a decrease in foreign currency and deposits balances of the AI sector.

In 2015, the combined current and financial accounts of the balance of payments for the AI sector posted an Afl. 264.3 million surplus, improving by Afl. 2.3 million, compared to 2014. Net transfers of foreign exchange from notified foreign accounts held by the AI hotels amounted to Afl. 167.9 million in 2015, compared to Afl. 187.9 million in 2014.

Table 3.1. Balance of Payments for AI and EP sectors: Select indicators (CBA calculations, 2016).

Amounts in Afl. millions	2014	2015
A. Current account balance AI + EP (I+II+III+IV)	446.2	505.5
A.1 Current account balance AI	207.4	231.6
A.2 Current account balance EP	238.8	273.9
I. Goods AI + EP	(58.1)	(60.7)
AI Goods	(25.5)	(35.8)
- Exports	-	-
- Imports	25.5	35.8
EP Goods	(32.6)	(24.9)
- Exports	-	-
- Imports	32.6	24.9
II. Services AI + EP	530.2	594.9
AI Services	238.4	272.1
- Exports	280.4	307.3
- Imports	42.0	35.2
EP Services	291.8	322.8
- Exports	363.4	392.1
- Imports	71.6	69.3
III. Income AI + EP	(22.6)	(22.8)
AI Income	(5.1)	(3.9)
- Receipts	1.1	1.1
- Payments	6.2	5.0
EP Income	(17.5)	(18.9)
- Receipts	2.8	2.4
- Payments	20.3	21.3
IV. Current transfers AI + EP	(3.3)	(5.9)
AI Current transfers	(0.4)	(0.8)
- Receipts	-	-
- Payments	0.4	0.8
EP Current transfers	(2.9)	(5.1)
- Receipts	-	-
- Payments	2.9	5.1
B. Financial account net AI + EP (V + VI)	(19.9)	3.7
B.1 Financial account net AI	54.6	32.7
B.2 Financial account net EP	(74.5)	(29.0)
V. Direct investment AI + EP	33.2	(44.4)
V.1 Direct Investment AI	97.7	(2.9)
V.2 Direct Investment EP	(64.5)	(41.5)
VI. Portfolio and other investments AI + EP	(53.1)	48.1
VI.1 Portfolio and other investments AI	(43.1)	35.6
VI.2 Portfolio and other investments EP	(10.0)	12.5
Memorandum Items:		
Transfers from (inflow) and transfers to (outflow) foreign accounts AI + EP	128.9	106.2
1 Transfers to and from Foreign Accounts AI (+ Net inflow)	187.9	167.9
2 Transfers to and from Foreign Accounts EP (- Net outflow)	(59.0)	(61.7)

Source: CBA

When comparing the AI sector with the non-AI sector (EP) on a per room basis, analysis indicates that the current account of the balance of payments for the AI sector is estimated at Afl. 126.000, compared to Afl. 200.000 for the EP sector (Table 3.2). On a per room basis, import payments of goods for the AI sector are estimated at Afl. 19.500, whereas the EP sector is calculated at Afl. 20.900. In terms of (tourism) service exports, the AI sector generates Afl. 167.000 per room, while the EP sector generates an estimated Afl. 178.000 per room. In the 2015, the combined current and financial accounts of the balance of payments for the AI sector posted an estimated Afl. 143.800 surplus, compared to an Afl. 175.700 for the EP sector (on a per room basis).

Table 3.2. Comparing AI and EP on a per room basis (CBA, 2016).

In Afl. millions		2014	2015	Per AI room (x1000)	per EP room (x1000)
AI Current Account Balance		207.4	231.6	Afl. 126	Afl. 200
Goods	imports	-25.5	-35.8	Afl. 19.5	Afl. 20.9
Services	exports	280.4	307.3	Afl. 167	Afl. 178
Income		-5.1	-3.9		
	receipts	1.1	1.1		
	payments	- 6.2	-5		
Current transfers	payments	-0.4	-0.8		
AI Financial Account Net		54.6	32.7	Afl. 17.8	- Afl. 24.3
	Direct	97.7	-2.9		
	Portfolio/other	-43.1	35.6		
Total		262	264.3	Afl. 143.8	Afl. 175.7

Further analysis of tourism receipts by sector indicates that tourism accommodations receipts (TAR) account for approximately 36 percent of total (gross) tourism receipts, and rose by Afl. 21 million to an estimated Afl. 1071 million in 2015 (see Annex 4). Close to two-thirds (64 percent) of total tourism receipts (Afl. 1869 million in nominal terms) is generated by (ancillary) tourism destination receipts (TDR), including visitor expenditures on, e.g., shopping (11 percent), food & beverage (9 percent), supermarket (5 percent), excursions and recreation (4

percent), car rental (2 percent), casino (1 percent) and other off-site activities (Figure 3.1)⁶⁹.

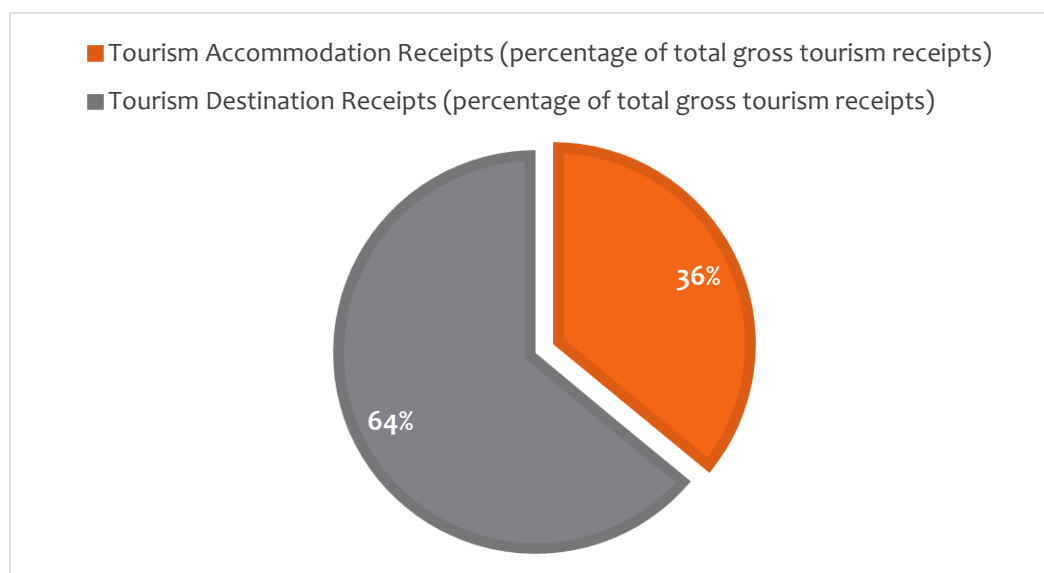


Figure 3.2. Distribution of total tourism receipts in 2015.

Currently, it is projected that AI tourism accounts for an estimated 35 percent of (transient) hotel accommodations (1839 rooms), and 30 percent of (transient) visitor nights (1,035,374)⁷⁰. In addition, AI tourism contributes to 29 percent (Afl. 307.1 million) of tourism accommodation receipts (TAR), and 24 percent (Afl. 137.5 million) of total (hotel) room revenues. For the AI sector, tourism accommodation receipts (TAR) grew by Afl. 30 million to an estimated Afl. 307.3 million, the equivalent of Afl 296,50 per (AI) visitor night in 2015 (Table 3.2), of which an estimated Afl. 249,50 (per visitor night) is paid in advance. It is calculated that the growth in AI TAR (+11 percent) mitigated most of the contraction in non-AI TAR (-8 percent) between 2014 and 2015.

⁶⁹ Off-site refers to discretionary tourism receipts generated outside of the (physical) hotel property. From a visitor perspective this includes expenditures made outside of the resort facilities.

⁷⁰ AHATA (2015a), ATA (2016)

AI tourism accounts for approximately 16 percent of (ancillary) tourism destination receipts (TDR)⁷¹, with an estimated monetary value of Afl. 182.6 million, or the equivalent of Afl. 176 per (AI) visitor night (Table 3.3). Market research suggests that at least an estimated 70 percent of AI tourists explore the island on tours, excursions, shopping and gastronomic activities. Analysis indicates that an estimated Afl. 156.7 million (85.8 percent) is spent directly on destination activities, including tours, excursions, food & beverage, shopping and transportation. In summary, based on the current account surplus and the estimated tourism destinations receipts, it is calculated that in economic terms AI tourism contributes directly with Afl. 414.2 million, with a relative net added-value of 75.4 percent.

Table 3.3. Destination economic impact and receipts (CBA, 2016).

Estimate AI Tourism Receipts (2015)	Total (Afl. millions)	Per Visitor Night (Afl.)
Resort (on-site)	307.1	296,50
Accommodation package (international ⁷²)	258.3	249,50
Additional resort services (local)	48.8	47,00
Destination (off-site)		
Excursions, F&B, Shopping (local)	182.6	176,40
Economic impact (net)	Afl. 231.6	Afl. 223,50

Supplementing the above-mentioned (direct) economic impact, the inflow from AI foreign accounts is estimated at Afl. 185.8 million. This accounts for approximately 72 percent of (inflow) foreign account tourism receipts, with an estimated 28 percent outflow (export leakage). The foregoing is corroborated by aggregated AI account reports⁷³, indicating that this inflow is largely geared at covering a large portion of costs of operations, including wages, taxes, and utility expenses (discussed in the subsequent section).

⁷¹ Based on the multiplier ratio for tourism receipts generated by foreign accounts and bank accounts.

⁷² Pre-paid average accommodation receipt per visitor per night.

⁷³ AHATA (2016)

Industry performance of AI resorts

In 2015, the AI cluster⁷⁴ accounted for 605,397 available room nights (ARN), and 515,870 of occupied room nights (ORN), with an average occupancy rate of 85.2 percent. Total AI room revenues (TRREV) is estimated at \$US 77.3 million, representing a 24 percent share of total room revenues in 2015. Between 2014 and 2015, the AI cluster experienced an 11.9 percent increase in the number of available room nights, with the opening of a new (AI) resort, and the renovation (temporary closure) of another hotel in 2015. The number of occupied room nights grew by 8.1 percent, resulting in average room occupancies receding from 88.2 percent in 2014 to 85.2 percent in 2015. The average daily rate (ADR) fell by 2.0 percent from \$152.78 to \$149.79, and likewise, the revenue per available room (RevPAR) contracted by 5.2 percent from \$134.70 to \$127.64.

Table 3.4. Business Performance of AI and EP clusters (AHATA, 2016).

2015	ARN	ORN	%OCC	TRREV (millions)	ADR	RevPAR
EP	744,600	565,530	76.00%	\$189.3	\$334.77	\$254.26
AI	605,397	515,870	85.20%	\$77.3	\$149.79	\$127.64
Total sample	1,349,997	1,081,400	80.10%	\$266.6	\$242.28	\$194.08
Grand total			78%	\$319.7	\$237.38	\$185.19
2014	ARN	ORN	%OCC	TRREV	ADR	RevPAR
EP	744,600	561,259	75.40%	\$178.9	\$318.88	\$240.36
AI	541,144	477,111	88.20%	\$72.9	\$152.78	\$134.70
Total sample	1,285,744	1,038,370	80.76%	\$251.9	\$235.83	\$190.46
Grand total			79.4%	\$304.8	\$231.09	\$183.39

⁷⁴ To assess the (comparative) industry performance of AI and EP hotels in Aruba, secondary data was collected and analyzed from the Aruba Hotel and Tourism Association (AHATA) for 2014 and 2015. The industry performance of AI and EP clusters is based on a sample of resorts and total accommodations.

The *EP cluster* experienced no change in inventory, yet grew with an estimated 0.8 percent in terms of the number of occupied room nights, with average room occupancy growing by 0.6 percentage point from 75.4 percent to 76.0 percent. The ADR rose by 5.0 percent from \$318.88 to \$334.77, and consequently the RevPAR increased by 5.8 percent from \$240.36 to \$254.26. A comparative cluster performance analysis reveals that whereas the *AI cluster* enjoyed a relatively higher occupancy rate (+9.2 percentage points), the *EP cluster* performed better at ADR (+123 percent) and subsequently RevPAR (+99 percent) when compared to the *AI cluster*.

Pursuant to the *AI hotel business operations*, and more specifically, the costs of labor, taxes, supplies, and utilities, the research indicates that *AI resorts* spent an estimated Afl. 186 million in 2015 on covering their operational expenses, which was funded by the from their foreign (bank) accounts. (Table 3.5). Almost half (Afl. 85.4 million) of the total operational costs are allocated to wages and employee benefits. *AI resorts* employ a total of approximately 1701 personnel, constituting 32 percent of the total hotel workforce⁷⁵. The (aggregate) employment-accommodation multiplier is estimated at 0.9 employee per room, which is consistent with the (efficiency-oriented) *AI business model*⁷⁶. In terms of taxes, limited available data⁷⁷ indicates that a (conservatively) estimated Afl. 13.1 million is paid on taxes and tourism levies. Utility and other operational expenses are projected at Afl. 29.8 million (16 percent of total costs).

Table 3.5. Total costs of operations of *AI cluster*.

Total costs of operations (2015)	Estimate Afl. millions
Labor	Afl. 85.4
Food & Beverage	Afl. 57.7
	(local procurement: Afl. 49.9)
Taxes and levies	Afl. 13.1
Utility and other expenses	Afl. 29.8
<i>Total</i>	<i>Afl. 186</i>

⁷⁵ The total workforce in the Aruban hotel industry is estimated at 5811 employees (AHATA, 2016a).

⁷⁶ Premised on efficiency and standardization, the employment-accommodation multiplier in a (classical) *AI business model* is usually smaller than 1.0.

⁷⁷ Collected tax data remains incomplete as of publication. Hotel tax data, including profit and turn-over tax data, was requested from the Department of Tax. Additionally, a formal request was sent to the Minister of Finance for the installation of a data-taskforce consisting of CBS, DIMP and CBA. However, no data nor answer were received as of publication date. Estimates are based on partial responses to CBA's 'Profitability and Financial Soundness Indicators For Tourism' (PROFIT) survey.

The supply costs of food & beverage account for an estimated Afl. 57.7 million, or 31 percent of total costs, of which an average Afl. 49.9 million (86 percent) is procured locally. The total import payments of goods are projected at Afl. 35.8 million, or 15 percent of the (net) current account in 2015 (see Table 3.1).

The projected economic contribution of AI tourism in Aruba is conservatively estimated at an Afl. 720.6 million (Figure 3.4). More specifically, AI tourism generates *directly* (measured by current account surplus and destination expenditures) an estimated Afl. 414.2 million, whereas *indirectly* (measured by business transfers, expenses and investments) its impact is estimated at an Afl. 217.9 million, with a projected *induced* impact (measured by consumption multiplier⁷⁸) of an additional Afl. 88.5 million. In general, the results indicate that in its current state, AI tourism holds a ‘one-third stake’ in the overall tourism industry portfolio in Aruba, accounting for a projected one-third of visitor nights, hotel accommodations, hotel employment, and tourism receipts.

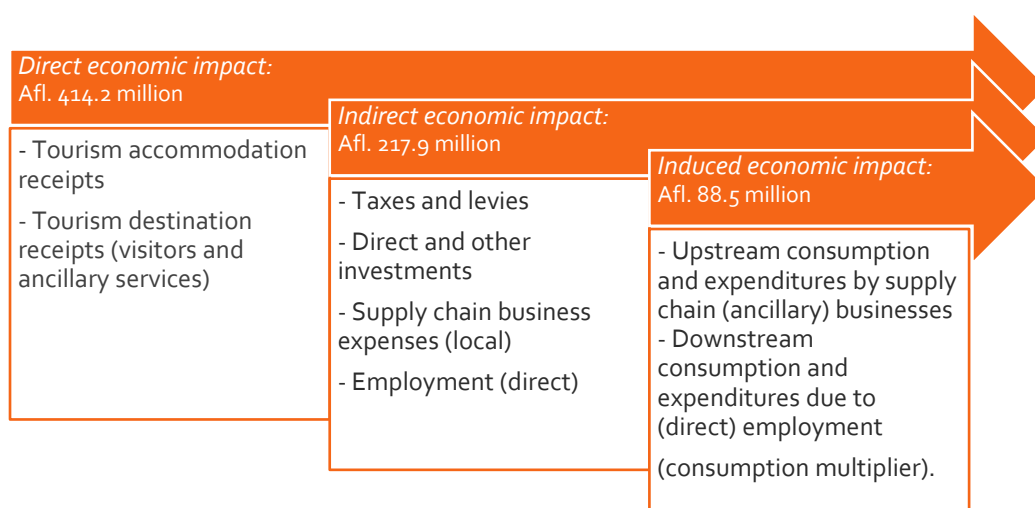


Figure 3.4. Estimate economic contribution of AI tourism in Aruba (2015).

⁷⁸ WTTC (2015).

Quality of AI Tourist Experience

To assess the quality of AI resort accommodations, a review of four AI resorts on TripAdvisor was conducted (TripAdvisor.com, June 2016). Of the total of 11,416 AI tourist reviews, 69 percent are couples travelling, 27 percent are family travel, whereas 4 percent visited Aruba in another travel arrangement (e.g., business, friends, solo). Based on the rating analysis (from 5 to 1, excellent to poor) of 11,416 AI tourist reviews, the findings indicate that 71 percent of Aruban tourist rate the AI resorts as very good to excellent, of which close to 40 percent rate this as excellent (see Figure 3.5).

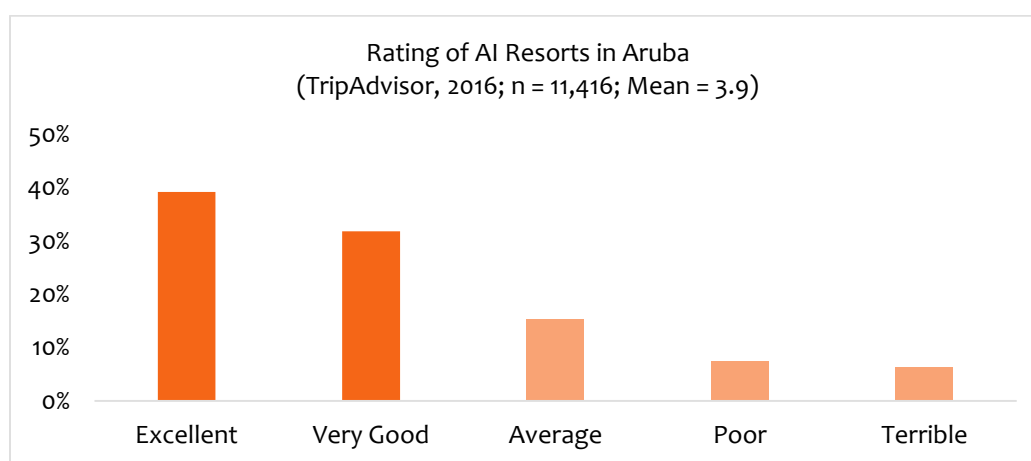


Figure 3.5. Rating of AI Resorts in Aruba⁷⁹.

Of the total reviews, 15 percent rate the AI resort experience as average, whereas 14 percent rate the quality as poor to terrible. The mean rating across all AI resorts for all AI tourists is 3.9 (with a standard deviation of 0.2), indicating a relatively ‘very good’ AI resort experience (on average), and consistent with a 4-star denomination.

To assess the (destination) promotion by AI resorts, a descriptive content-analysis was conducted of official AI resorts’ websites (July, 2016). The content-analysis was framed by previous studies and findings on the key attributes of (Caribbean) tourism destination qualities⁸⁰, and scrutinized the websites of three (3) AI resorts in terms

⁷⁹ TripAdvisor (2016)

⁸⁰ Resonance (2014, 2015)

of guest information and tourism promotions of (1) resort amenities and facilities, (2) destination attractions and activities, (3) quality of (resort and destination) experiences, and (4) attention to specific/unique selling points (of the resort and/or destination).

The results of the content-analysis indicate that beyond providing and promoting basic resort amenities, several destination activities are endorsed. With respect to basic resort activities, these include free wifi, 24-hour services, multiple themed restaurants, luxurious pools, and infinite beaches. AI resorts also emphasize the convenience and the value-for-money, in addition to the quality of relaxing experiences, oftentimes catering to specific niche markets for either adults (exclusively) or family activities (with children).

Regarding destination (off-site) activities, all AI resorts promote some form of excursion and exploration of Aruba. Examples include, but are not limited to, Aruba's capital, shopping and dining options, nightlife, casinos, golf, as well architectural and cultural activities. In addition, eco-based activities, such as adventure sports, diving, hiking, biking and exploring Aruba's nature are promoted by AI resorts.

Beyond the resorts, and in addressing the destination-wide quality of AI tourist experiences, analysis indicates that, on average, at least 70 percent of AI tourists venture beyond their hotel and resort on, e.g., tours, excursions, and other destination activities. The (monetary) value of these ancillary (destination-wide) activities is estimated at an Afl. 182.6 million, resulting in an estimated average of Afl. 176 per visitor night. When compared to the average destination receipt per visitor night (Afl. 224), it is estimated that, on average, AI tourism generates an Afl. 48 (US\$ 26) less per visitor night.

On average, AI tourists spend an estimated 7.2 nights in Aruba. Two-thirds (66 percent) of AI tourists originate from North America, of which close to 16 percent travel from Canada. Latin America and Europe account for 16 percent and 13 percent of the international AI markets, respectively. Research indicates that these (diversified) markets are more (than average) disposed to a 'pull' for package (AI) tourism arrangements, particularly amongst a new generation of travelers. Corroborating international market studies, findings reveal that AI tourism in Aruba resonates especially with (younger) couples (69.1 percent) and with (established) families (27.1 percent).

Forthcoming evidence suggests that Aruba's tourism strategy towards 'affluent tourism', (market) diversification, and (revenue) enhancement may have - inadvertently- shaped the package travel appeal of Aruba amongst a new generation of tourists, especially during and post the financial crisis. Counter to conventional wisdom, and although beyond the confines of this study, the findings suggest that there may be certain limits and diminishing (economic) returns to (over-) diversifying travel markets in small island tourism destinations due to limited economies of scale and scope, in addition to increased and dispersed (transaction) costs.

Further analysis of AI visitor satisfaction indicates that whereas, on average, 59 percent of AI tourists rate the quality of their resorts as very good to excellent, 89 percent of AI visitors are very satisfied with their Aruba vacation experiences (Table 3.6). However, in comparison to other 'premium travelers', while AI tourists are more likely to be satisfied, they are conversely less likely to return for a repeat vacation, and are also relatively less inclined to recommend Aruba as a tourism destination. In general, the findings suggests that despite enjoying a relatively great vacation, this generation of AI tourists is less likely to show significant 'attachment' to the destination.

From a destination perspective, for an estimated 70 percent of AI visitors, Aruba's natural -beaches and weather- and social -warmth and friendliness of people- appeal are conducive to recommending Aruba as a vacation destination, and returning for another satisfying vacation experience. While excursions, shopping and restaurants are considered highly satisfactory by 73 percent of AI tourists, on average, 52 percent of AI visitors experience a sense of destination uniqueness and engagement. Similar sentiments are also encountered amongst Aruba's affluent visitors, with less than 50 percent readily experiencing Aruba's uniqueness and cultural authenticity⁸¹. These findings are corroborated by Resonance (2015) who indicates that Aruba ranks 16th (in the Caribbean) in terms of providing quality tourism experiences (see annex 3). The results of this Caribbean Tourism Quality Index reveal several areas of relative weaknesses -alternatively, opportunities for improvement- in the qualities of the Aruban tourism experience, including, gastronomic, cultural and ecological experiences. These latter 'intangible' assets are quintessential for (re-)creating and sustaining tourism's (economic) value.

⁸¹ ATA (2016)

Table 3.6. Experience and quality ratings by Premium Travelers and AI tourists.

Key Aruban destination experiences and qualities	Premium Traveler ⁸² (n = 641)	AI Tourist ⁸³ (n = 688)
★ Accommodations:		
- Timeshare offer	15%	NA
- All-Inclusive resort	15%	59%
- Luxury resort	14%	NA
★ Amenities:		
- Free Wifi/Internet	NA	NA
- Privacy	NA	67%
- Beach/Beach Resort/Swimming	65%	77%
- Cuisine/Fine dining	40%	59%
- All-inclusive offers/packages	NA	NA
★ Attractions:		
- Proximity to must see attractions/Fun attractions	24%	49%
- Shopping and restaurants	72%	73%
- Nightlife and entertainment	17%	49%
- Casino & Gambling*	36%	NA
★ Authenticity:		
- Unique experiences/Opportunity to learn something	50%	59%
- Exploring nature/Good cultural attractions	41%	46%
- Warmth and friendliness of locals/interact with locals*	64%	75%
- Participating in a 'once-in-a-lifetime' activity	NA	19%
★ Attention:		
- Safety/Security	30%	71%
- Cost/Perceived value-for-money	25%	71%
- Weather (Sun)	62%	73%
- Language (English)	NA	64%
- Scenery/Nature (Aquatic*)	56%	64%
- Direct flights/Connectivity*	28%	NA
★ Attachment⁸⁴:		
- Satisfaction	77%	89%
- Experience	83%	85%
- Recommend	87%	79%
- Return	83%	68%

* Specific Aruban feature; not included as a key attribute in original list of basic features.

⁸² Percentages of activities in Aruba and/or key decision-making criteria (ATA, 2016)

⁸³ Quality ratings (in percentage) for 'great to excellent' by tourists.

⁸⁴ 'Attachment' measures destination loyalty as measured by percentages 'strongly agree'.

While further empirical investigation still awaits these preliminary AI tourism revelations, from a theoretical perspective the tentative explanation lies in understanding the lure of Aruba’s social-ecological context. Confirming previous research, the results of this study suggest that the impacts and contributions of AI tourism are largely moderated and somewhat mitigated by the (social-ecological) qualities of the destination’s amenities and attractions, and the overall experiential quality of the destination. The economic contribution of AI tourism in Aruba is thus contingent and largely attributed to the destination-inclusive engagement and attachment of tourists, including the attractions, amenities and authenticity of Aruba as a destination (Figure 3.6).

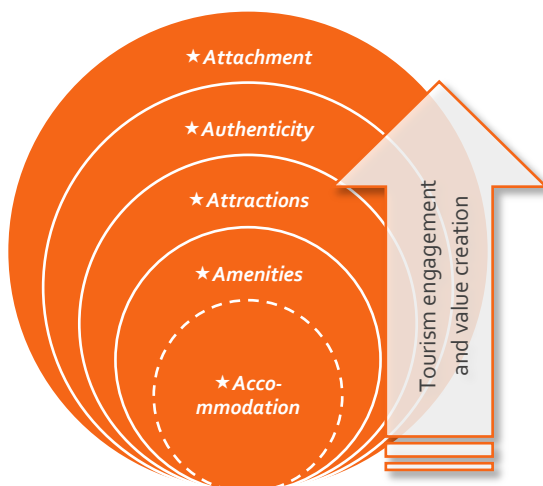


Figure 3.6. Five-star attributes of Aruba’s tourism engagement and value creation.

The foregoing findings underscore previous international and local tourism studies regarding the ‘covert qualities’ of Aruba, and the intangible value of - ecological, cultural and culinary - experiences for (emotionally) engaging and (financially) enticing a new generation of travelers⁸⁵. Although the subpar quality of (ancillary) services and (destination) experiences is readily acknowledged by various stakeholders, the latter remains generally undervalued in Aruba’s plight for sustainable tourism. While beyond the scope of this study, the foregoing presents a lingering opportunity for spurring business entrepreneurship, fostering community

⁸⁵ Cole & Razak (2009), Peterson (2009)

involvement, and enabling (economic) value creation, thereby fulfilling Aruba's tourism proposition of quality, and more importantly, Aruba's promise of 'one happy island'.

3.3. Regulation of All-Inclusive tourism in Aruba: Stakeholder perspectives

In order to ascertain the positions and perspectives of stakeholders on the current (economic) state and (proposed) regulation of AI tourism in Aruba, several consultations and meetings were organized⁸⁶. Based on a qualitative content-analysis of the meetings and discussion points raised during the stakeholder consultations, several 'themes' emerged with regard to the state and regulation of AI tourism in Aruba. Graphically these themes are depicted in Figure 3.7 (see below), and are organized in a matrix of strengths, weaknesses, opportunities, and threats (SWOT).

In terms of strengths, stakeholders agree that there is a growing (international tourism) demand for AI packages, as travelers increasingly seek to maximize their value-for-money. The additional advantages of AI include the flexibility of resorts to provide package offers, and increase their overall occupancy rates (particularly during the low season). While more than half of AI visitors venture beyond the resort on excursions and dining, stakeholders readily recognize that there are many opportunities for offering and incentivizing 'off-site' activities in a programmatic manner, in addition to improving the quality of services and experiences in a destination-inclusive fashion.

⁸⁶ The following institutions were approached for a meeting: The Ministry of Tourism, The Aruba Tourism Authority (ATA), the Aruba Hotel and Tourism Association (AHATA), The Chamber of Commerce (KVK), the Aruba Trade and Industry Association (ATIA), the Aruba Gastronomic Association (AGA), and a Wholesale company. In addition, an official request was sent to the Ministry of Finance requesting the official installation of a workgroup to analyze the problem and question at hand. To date and as of publication, no official response was received.

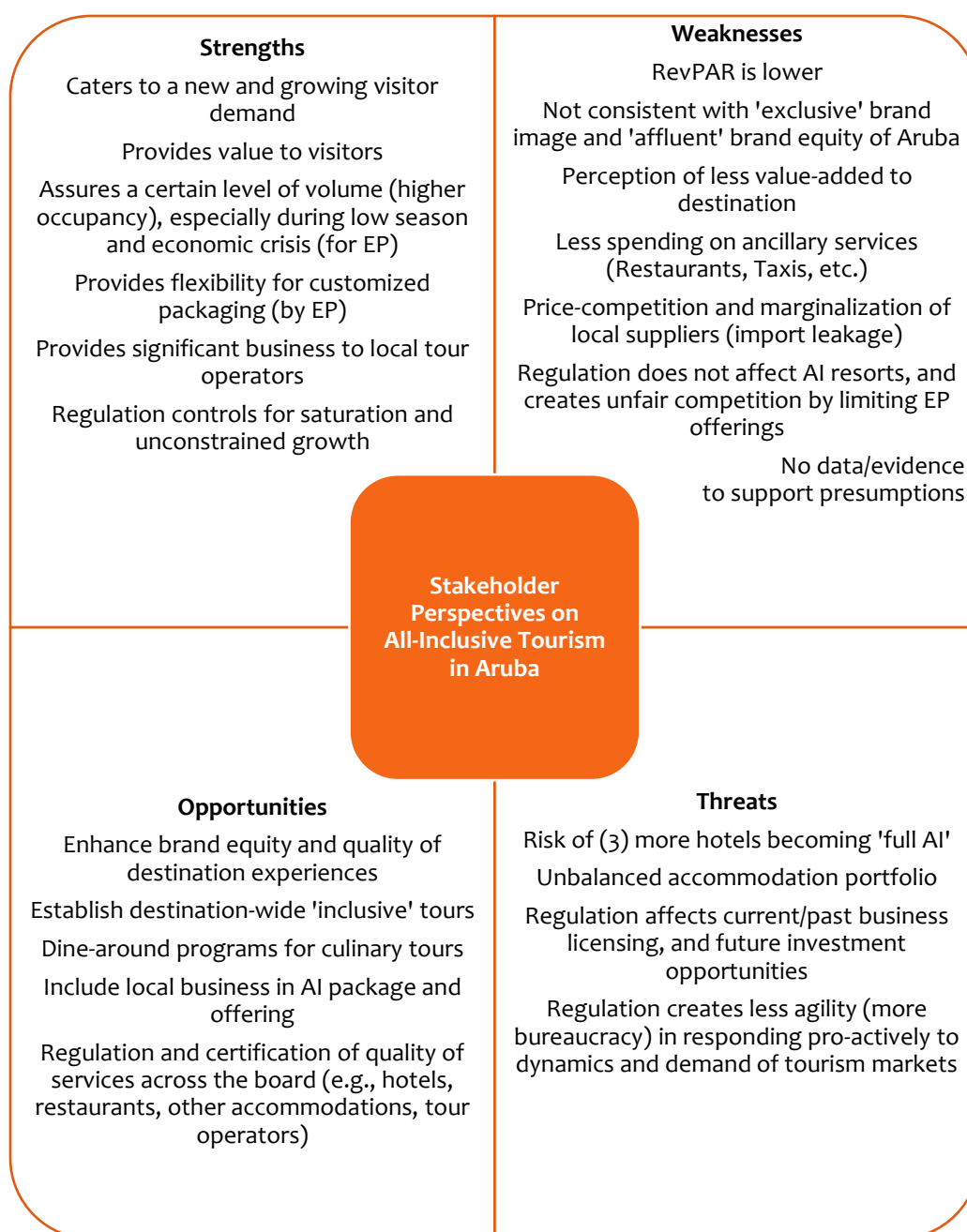


Figure 3.7. SWOT Analysis of Stakeholder Perspectives on All-Inclusive Tourism in Aruba.

In general, stakeholders embrace some form of regulation to improve quality and control the unrestrained growth of undifferentiated products and services. More importantly, there is a general sentiment that Aruba has ‘enough rooms and hotels’ and that a certain level of (accommodation) saturation has been achieved. More importantly, questions are raised regarding the amount of (undifferentiated) restaurants and food & beverage establishments, most of whom are geographically concentrated within the tourism corridor (Palm Beach/Sasaki/Noord areas)

Whereas no explicit data or evidence was readily available nor presented, there was also a clear sentiment amongst stakeholders that ‘more of the same’ is not good for Aruba’s brand image and equity. An unbalanced portfolio of accommodations and undifferentiated restaurant offerings was not seen as something desirable for the quality and affluence of Aruba’s tourism. Although it was shown that AI generated (relatively) lower revenue per available room, a (relatively) higher occupancy rate was demonstrated for AI resorts and EP resorts offering (AI) packages.

The perception of less added-value (for the destination) and marginalization of local suppliers was also mentioned as undesirable developments. Price-competition and relatively less (ancillary) spending by visitors were identified as possible risks. In terms of restaurants and (fine) dining, the general perception was one of ‘less business and more competition’. While no (fine) dining restaurant was in eminent danger of closure, stakeholders did question the added-value of (more) AI and (more) undifferentiated restaurants.

The risk of more AI resorts and offerings was also identified as a possible threat by stakeholders. Unconfirmed accounts indicate that up to three (3) resorts could become “fully AI”, and eventually “our tourism corridor would be AI only”. Evidence of the foregoing was not forthcoming during the meetings, although stakeholders generally speculated that “something is going on”. Nevertheless, stakeholders also admit that some (luxury) properties would never venture into an AI business model, as Aruba did not have the economies of scale, nor could (the high costs of) business operations be transformed in such a manner.

In a related fashion, stakeholders also speculated on the effectiveness and unintended effects of the proposed regulation by indicating that this would not deter existing AI resorts, and would in fact stimulate more AI resorts. In line with the foregoing, (business) stakeholders indicated that the proposed legislation would hurt (EP) competitiveness by reducing their business decisions and degrees

of flexibility to offer (AI) packages and would affect occupancy rates drastically, potentially losing up to 5 to 10 percent in package accommodations. In effect, stakeholders indicate that AI-inclined tourists would not visit Aruba, if a limit were to be set for non-AI properties. Moreover, the propensity for future (EP) investments and the general hotel investment climate could be affected negatively due to incurred business losses in addition to increased regulatory burdens, according to (business) stakeholders. In general, and from a legal perspective, stakeholders questioned to what extent the proposed regulation was ‘constitutional’ and how this would be ‘administered’ in a fair and transparent way, if the law should pass.

4. CONCLUSIONS

*“Destiny is not a matter of chance, it is a matter of choice.
It is not a thing to be waited for, it is a thing to be achieved” – Gibran*

4.1. Summary of main findings

In answering the research question set forth within the delimitations of this study, and reiterating the main findings, the total economic contribution of AI tourism in Aruba is estimated at Afl. 720.6 million. This is equivalent to 25 percent of gross tourism earnings, and 15 percent of nominal GDP in 2015. Despite widely shared convictions and *international* experiences regarding the disadvantages of AI tourism, currently there is no conclusive evidence that AI tourism -in, by and of itself- has a significant negative economic impact on the Aruban economy nor that it has a disproportionate stake (more than other resorts) in the local tourism accommodation industry.

While its economic reach and range have unquestionably evolved and expanded over the past decade, to date empirical evidence has not been forthcoming on its negative economic implications. Economically, there is no compelling (available) data -except for a relatively lower than average revenue and destination expenditure per visitor night- to substantiate beyond reasonable doubt that in its *current state* AI tourism in Aruba has an adverse economic impact. Furthermore, unlike previous claims of ‘enclaving’ tourists, there is no evidence that AI tourists do not leave the resort premises, nor is there any compelling evidence that AI tourists do not spend outside of the resort. Moreover, the development in the AI current account surplus and its (relative) contribution to growth in tourism receipts, suggest that AI may well have a ‘substitutional’ bolstering effect on the economy in terms of balancing out receding tourism receipts in other accommodation sectors, especially during low(er) seasons and in competitive post-crisis international tourism markets. The latter is confirmed by nascent package accommodation offers by (non-AI) resorts in Aruba.

Table 4.1. Summary of economic contribution of All-Inclusive Tourism in Aruba⁸⁷

All-Inclusive Tourism Arrangements	Estimate impact (2015)
Visitors	
- Total AI visitors (% of total)	148,926 (12.2%)
Number of AI explorers (off-site)	104,865 (70.4%)
- Total AI visitor nights	1,035,374
Percentage of total visitor nights	12.4%
Percentage of transient visitor nights	30.5%
- Average length of stay-over nights	7.2
Hotel Accommodations	
- Total AI rooms (% of total transient)	1,839 (35%)
- Available AI room nights	605,397
- Average occupancy rate (%)	85.2%
Hotel Revenues & Costs	
- Total AI room revenues	Afl. 137.5 million
AI revenue per available room	Afl. 228,48
- AI F&B revenues	Afl. 87.9 million
Total F&B costs	Afl 57.7 million
Percentage of local F&B purchases (% of total F&B costs)	86%
Tourism Accommodation Receipts (TAR)	
- Total TAR (% of tourism receipts)	Afl 1071.6 million (36%)
- Total AI TAR (% of TAR)	Afl. 307 million (29%)
- AI TAR per visitor night	Afl. 296
Tourism Destination Receipts (TDR)	
- AI TDR	Afl. 182.6 million
- AI TDR per visitor night	Afl. 176,40
Imports & Leakage ratio's	
- AI imports of goods	Afl 35.8 million
- AI leakage ratio's (%)	
goods import leakage (% of total payments)	15%
export leakage (% of total foreign account payments)	28%
Employment	
- Total AI wages and premiums	Afl. 85.4 million
- Direct AI employment	1701 (1578 FTE)
- FTE-per-room	0.9
Taxes	
- AI tourism taxes and levies	Afl. 13.1 million
Balance of Payments	
- AI Current account balance	+ Afl. 231.6 million
- AI Financial account net	+ Afl. 32.7 million

⁸⁷ Based on CBA's calculations of available data.

4.2. Recommendations

Considering the economic significance of (AI) tourism in Aruba, and the recent growth in AI accommodation capacity, without losing sight of Aruba's vision of 'Quality Tourism' and a 'balanced' accommodation mix, the quest for governance and regulation of (uncontrolled) tourism growth resonates and endures for more than a decade. The expansive growth of AI tourism arrangements should be understood and placed within this context, as described in the introduction to this report.

The stealthy surge and inexorable penetration of AI tourism arrangements *may* create and exacerbate systemic economic risks, similar to the general effects of unsustainable tourism growth surpassing the island's carrying capacity. While the likelihood of this exuberance remains unsubstantiated based on the available evidence, and unconfirmed at the time of this study, the potential impacts hereof *could* adversely and disproportionately affect the tourism industry and local economy⁸⁸. These risks are mainly attributed to, inter alia: (a) anti-competitive product and service bundling and oligopolistic price fixing; (b) the endogenous build-up of tourism imbalances; (c) the increasing concentration and vertical integration of internationally-owned AI resorts; and (d) the subsequent exposure to exogenous shocks. The systemic effect of these risks *could* increase the overall vulnerability of an already stagnating tourism economy.

To maintain macro-economic stability and manage economic risks accordingly, prudent and effective oversight and governance are required to mitigate these potential market failures and economic risks. Hereto, standards of regulatory quality, commensurate with the established legal (rule of law) system, are essential. In general, regulatory quality describes the system through which policies and regulations are formulated and implemented which permit, enable and promote, or alternatively, impede, burden and demote private sector development⁸⁹.

⁸⁸ Should the scenario of three (3) additional 'full' AI resorts (currently EP-AI resorts) transpire, accounting for an estimated +1330 rooms and +693,000 AI visitor nights per year, it is projected that the local (non-accommodation) economy could lose an estimated Afl. 40.1 million on tourism destination receipts annually.

⁸⁹ OECD (2008), World Bank (2015)

Prudent regulation policy has three fundamental components: (a) it should be adopted at the highest political levels; (b) it should contain explicit and measurable regulatory quality standards; and (c) it should provide for a continuing regulatory management capacity. According to the OECD and the World Bank⁹⁰, the success regulatory policy depends on the right set of institutions to maintain consistency and a systematic approach across the entire administration to advocate regulatory quality, including independent regulatory authorities and oversight bodies, which are often located in core government offices with a mandate to check the quality of the new proposed rules as well as to develop programs for reducing bureaucracy.

A regulatory quality assessment of the proposed AI licensing in the Licensing Ordinance for hotels that offer AI accommodations -either exclusively, or as part of an accommodation mix- indicates that while the new AI licensing system is lawful for new hotel licenses, the regulatory burden is considerable with negative financial effects. This risk of excessive burden is attributed to the *potential* loss of business revenues and return on investments, in addition to the expected increase in the costs of general compliance, as well as the required compliance within 2 (two) years. With respect to loss of business, current account analysis of the balance of payments indicates that non-AI hotels could lose up to an estimated Afl. 60 million in revenues. Regarding the latter, and considering the two-year window of advanced hotel bookings and reservations, it would be recommended to extend the two-year transition with an extra year, thus providing hotels with a total transition period of 3 (three) years.

Research indicates that the limitation of a maximum of 20 percent (on average) AI provisioning by non-AI resorts may be restrictive in terms of meeting the average growth in demand for AI packages, especially during specific times of the year, i.e., 'low-season'. While specific procedural provisions are made for exemptions to the quota of 20 percent, increasing the quota to 25 percent would be an option, especially considering the current international demand for AI travel, ranging between 19 percent and 33 percent⁹¹. An alternative less-intrusive and legally available means would be the enactment of an anti-competition law (or anti-trust law), enforced by a legally appointed independent council or institutional authority with sufficient administrative capacity.

⁹⁰ Ibid.

⁹¹ Resonance (2015)

In addition to (financial) investment and (physical) expansion requirements in business plans for acquiring an AI license, it would be recommended to include destination parameters and (social-ecological) indicators that measure improved tourism engagement and value creation. These additional business plan requirements would provide significant means for creating shared value. Furthermore, in light of tourism market dynamics and product disruptions, it would be recommended to conduct a regulatory quality assessment every three (3) years rather than 5 years, as the latter time frame may be too long to intervene in a timely and effective manner.

With regard to the unintended effects of the proposed tourism accommodation regulation, due diligence is required in terms of monitoring and measuring AI industry reservations, bookings, and business investments on a regular (quarterly) basis. The proposed AI licensing system could have a perverse regression effect⁹², in which the exact opposite purpose of the tourism accommodation regulation is achieved. In effect, in light of the limits set forth by the proposed regulation (especially for non-AI resorts), it is likely that in the short- to mid-term an increase in AI bookings could be experienced due to a substitution effect from non-AI resorts to AI resorts, which could de-level competition. An additional effect could also be a discouragement of (ancillary) tourism product and service innovation as local markets are ‘conserved’ from competition. Consequently, regulatory quality impact assessments are essential to monitor and mitigate any regulatory perversions⁹³.

Based on industry performance trends and averages⁹⁴, the proposed regulation may also induce an estimated decline of 5 percent to 10 percent in the amount of AI visitors, and thus overall stay-over arrivals, which would consequently affect foreign exchange earnings and tourism receipts in an adverse manner. Moreover, considering the significant regulatory burden of the proposed AI licensing system, and the potential loss of business revenues (especially for non-AI resorts), within the context of declining gross capital formation and deteriorating business perceptions over the past decade, private (tourism) investments *could* further decline in the years ahead, amounting to an estimated Afl. 103 million according to industry stakeholders. The cumulative effect hereof *could* have dire implications for the international reserves, in addition to an already stagnating gross domestic production.

⁹² Beaulier & Caplan (2007), OECD (2008)

⁹³ OECD (2008)

⁹⁴ AHATA (2016b), Resonance (2015)

In keeping with the objectives of the proposed amendments to preserve the balance and quality of the commons, appropriate environmental regulation should be enacted and strict zoning laws, in addition to energy-efficient building codes should be enforced. Akin to the spirit of preservation and conservation of balance in the proposed legislation, and considering the scarce and fragile natural environment of Aruba, regulation should likewise be directed towards conserving our natural habitats, particularly as natural and social-ecologies are determining factors in today's travel and tourism.

Whereas regulating AI tourism arrangements *may* be required for maintaining stability and mitigating risks, it is an insufficient condition for creating and sustaining the value of (AI) tourism. Consequently, building tourism resilience through innovation pathways will be pivotal to improving the productivity and sustainability of the Aruban tourism economy (Figure 4.1).

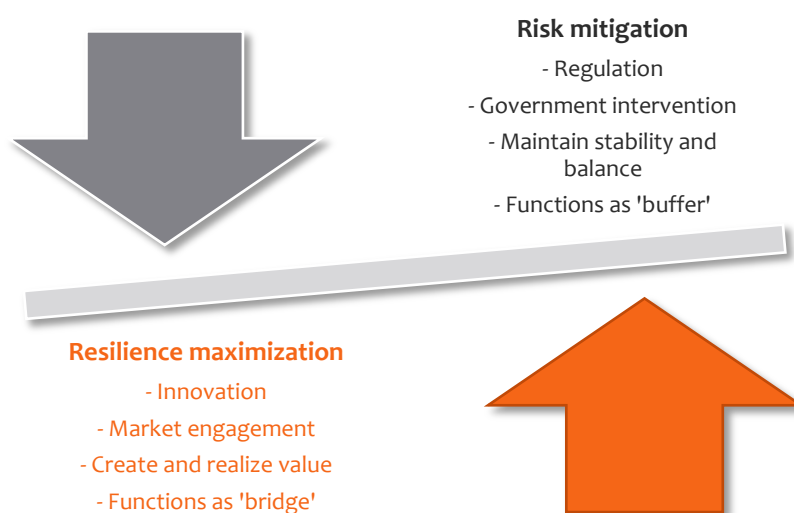


Figure 4.1. Complementary strategies and dual pathways for tourism value.

It is essential that beyond prudent regulation, new policy-based, performance-driven (public-private) programs for building tourism resilience are executed, which would serve to strengthen tourism engagement, enhance (experiential) qualities, and fortify local linkages and relationships ('bridging'). Based on the preliminary results of this study, several pathways for improving (AI) tourism

engagement are suggested, including the development of destination-inclusive cultural, culinary and ecological experiences and excursions, and the enhancement of existing service quality and more importantly, experiential qualities (Figure 4.2). From an AI resort perspective, there are ample opportunities for catering to new affluent couples and young families, as well as improving both guest experiences and authentic amenities, in addition to operational and energy efficiencies.

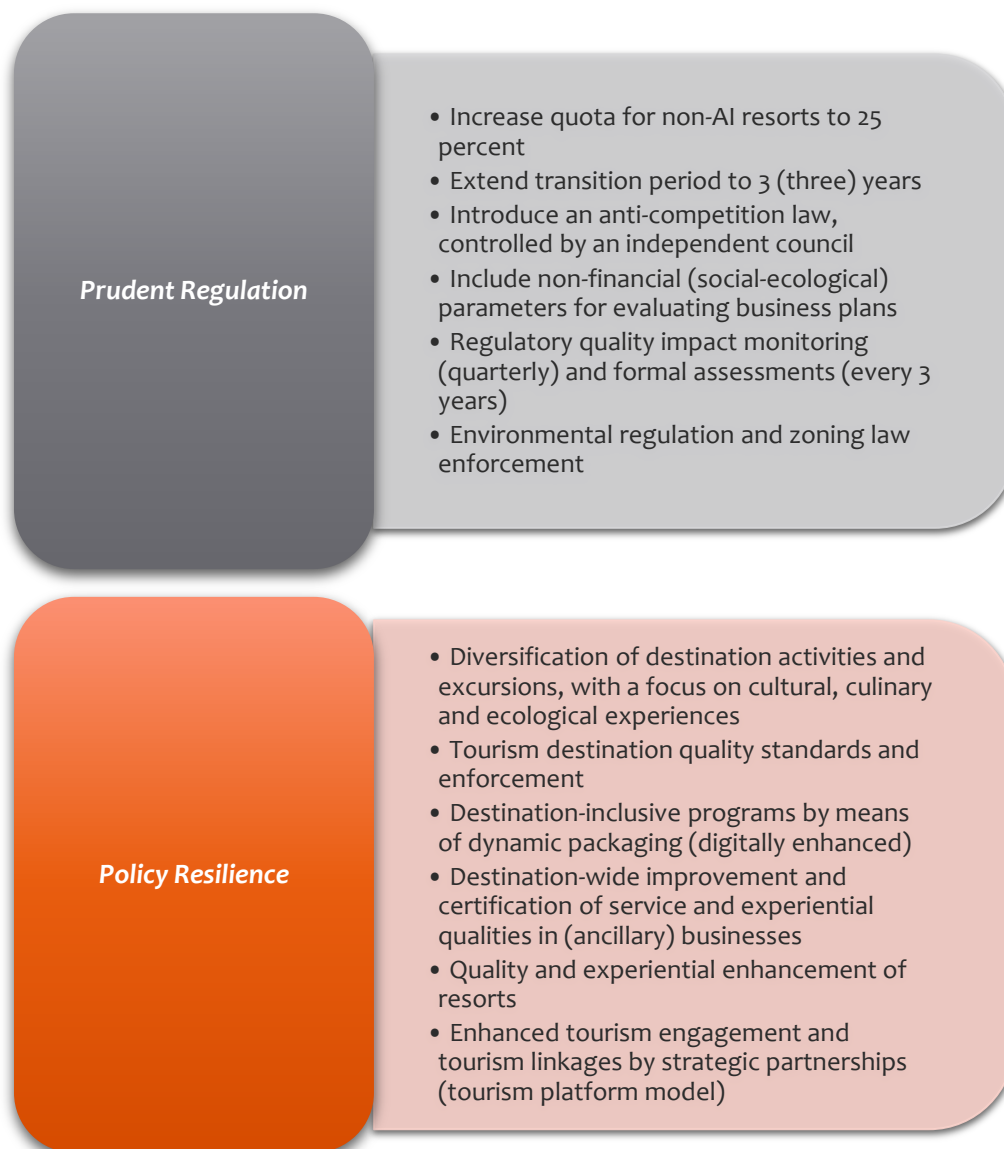


Figure 4.2. Destination pathways for prudent regulation and policy resilience.

In essence, in order to realize the value of Aruba's tourism, both public and private sectors need to strengthen tourism linkages -upstream and downstream-, in addition to deepening tourism engagement. The vitality and vibrancy of contemporary tourism ecosystems, especially in small island tourism economies are not only based on maintaining a balanced diversity but importantly on widening and deepening the interconnections and relationships.

The foregoing recommendations and considerations should, of course, be interpreted with the (time) frame and (data) delimitations of this study. The latter is of particular concern and a clear and present risk to the sound governance and sustainable development of Aruba's tourism economy. Without appropriate institutional capabilities for inclusive data, sustainable development and its corresponding goals and indicators will remain ephemeral and beyond the measures of evidence-based policy development.

Moreover, it is strongly recommended that further investigation be conducted on the economic impact of Aruba's evolving portfolio of tourism accommodations, including package and non-package accommodation offers, and other relevant segments of the hotel industry. Pursuant to the rise of Alternative Tourism Accommodations (ATAs), the socio-economic impact hereof should be analyzed. Likewise, further economic study of (the experiential quality and contribution of) ancillary destination services is called for, including restaurants, retail shopping, entertainment, excursions, transportation, and cultural attractions.

Beyond the economic impacts, social-ecological impact studies, as well as experiential tourism studies are quintessential in understanding the evolving values, aspirations and behaviors of a new generation of travelers. In-depth studies on Aruba's tourism engagement are required in order to uncover the dynamics and authenticity of the 'Aruba' tourism experience. Concurrently, future research should scrutinize the economic impacts of tourism marketing and tourism market diversification in small island tourism destinations. Lastly, the need for comprehensive regulatory quality impact assessments are deemed pivotal in developing Aruba's institutional qualities for sustainable development.

4.3. Epilogue

Aruba's tourism economy has come of age. What started out as a casual affair midway the 20th century has today evolved into an extraordinary vibrant and mature industry, permeating deep into the socio-economic fabric of the Aruban society. As Aruban tourism ventures deeper into the 21st century, it faces considerable complexity and uncertainty, which will require nothing less than a parallel shift in rethinking and redesigning economic structures and relationships, without losing sight of the local context and island vulnerabilities.

The Aruban tourism economy can no longer indulge in superficial affairs nor can it afford to stand still while sprawling growth envelops its unique islandness⁹⁵. Previous studies underscore the importance of an intricate strategic alignment and dynamic linkage of destination, industry, and resort attributes (and actors), suggesting that improving the quality of a relatively mature tourism destination lies primarily in improving the destination-inclusive experience, rather than simply attracting more high-quality resorts and/or high-quality affluent visitors. The relatively lower ratings for destination experiences and qualities, such as cultural attractions, ecological amenities, and culinary vibrancy and uniqueness, in addition to the growing concerns about congestion, crime, crowding and rising costs, should send several clear and present signals that the current tourism model is unsustainable⁹⁶.

Every destination holds the key to its future, and there is an alternative path, which is driven towards qualitative transformation and value innovation. Value innovation essentially entails 'jumping the curve' of decline, and includes more than a mere rejuvenation, make-over, or 5-star actor (Figure 4.3). Rather than continue to expand 'horizontally' (in terms of volume), thereby perpetuating decline, value innovation emphasizes 'depth' in tourism engagement and value linkages, which form the genesis of strategic innovation and entrepreneurship.

Value innovation entails the systemic resilience to combine existing resources and knowledge with newly acquired or developed assets, which subsequently shape the entrepreneurial mindset, enable strategic agility and foster systemic (destination-wide) innovation. The lingering quest for tourism value and the subsequent necessity for value innovation indicate the dual need and challenge of improving the quality of existing resources and assets, and simultaneously,

⁹⁵ Peterson (2006)

⁹⁶ Peterson (2008)

developing new quality products and markets. This duality is readily recognized in the different needs for tourism development in Aruba. The simultaneous cry for, e.g., environmental conservation, and architectural restoration, in conjunction with product innovation and digital services, are symptomatic of this ambiguous state of destination affairs, and again is testimony of having reached a ‘tipping point’ in tourism’s development. The management of this duality -strategic ambidexterity- is pivotal for any type of future tourism policy or tourism regulation. It captures the requisite capability of strategic flexibility, and the dual need for ‘transforming-while-performing’ in a hyper-competitive environment.

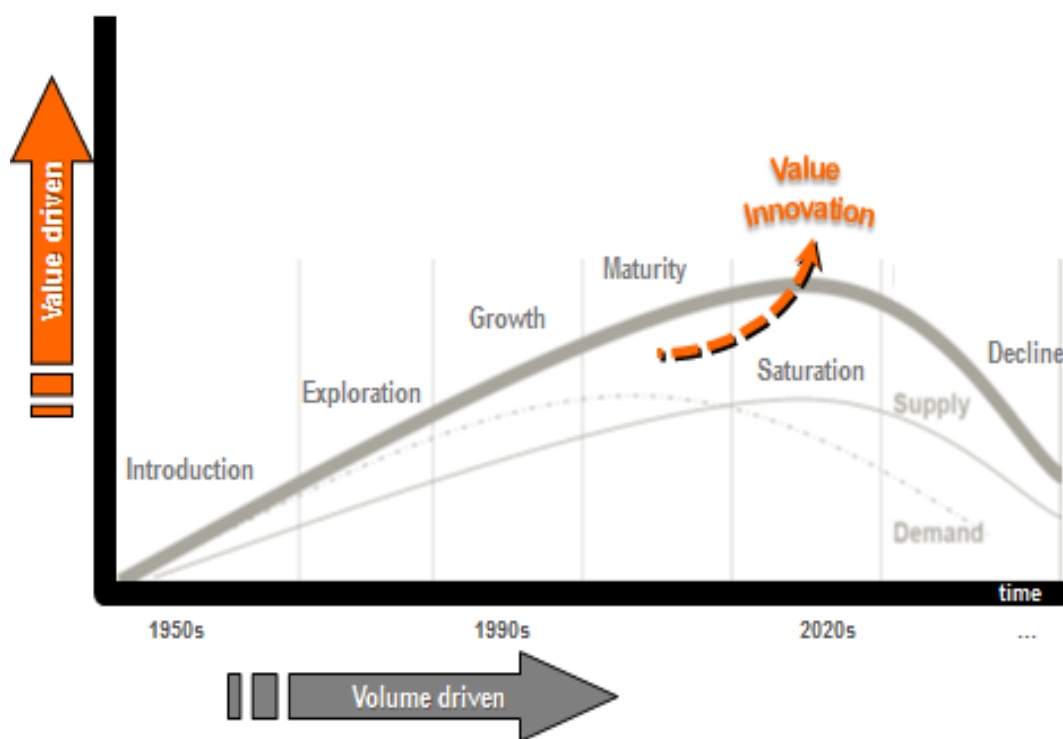


Figure 4.3. Value innovation for sustaining small-island tourism ecosystems⁹⁷.

⁹⁷ Butler (1980), Peterson (2009)

In conclusion, this study reveals an unequivocal need for a changing political-economic discourse on the sustainability and value of Aruban tourism. This changing discourse on tourism's value and sustainability should be engendered and stimulated across the community. The national dialogue on the future development of tourism in Aruba should be conducted across all levels, involving all relevant stakeholders (e.g., industry, associations, government, non-government, public, community and citizens) that shape the sustainability of tourism, and which are subsequently affected by the sustainability of tourism. Sustainability is an 'organic', dynamic process of social constructions and negotiated values, which is embedded within thick relational networks of stakeholders. It is within and, particularly, across these networks of different stakeholders that 'real' sustainable solutions are shaped. As we forward in this generation, we are reminded that we are not bearers of the past but stewards of the future.

* * *



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Annex



Annex 1: Aruba's Accommodation Inventory (AHATA, 2015; expedia.com; Kayak.com; Airbnb.com; homeaway.com; booking.com; cheapcaribbean.com)

	Resort	Rooms	AI/EP
1	RIU Palace	491	AI
2	RIU Palace Antillas	480	AI
3	Occidental Grand Aruba	368	AI
4	Tamarijn Aruba All Inclusive Beach Resort	297	AI
5	Divi Aruba All Inclusive Beach Resort	203	AI
		1,839	(35% share)
1	Aruba Holiday Inn Resort*	590	EP
2	Renaissance Aruba Resort and Casino*	434	EP
3	Aruba Marriott Resort and Stellaris Casino	411	EP
4	Hyatt Regency Aruba Resort and Casino	357	EP
5	Hilton Aruba Caribbean Resort and Casino	354	EP
6	Ritz Carlton Aruba	320	EP
7	Tropicana Aruba Resort and Casino	240	EP
8	The Mill Resort & Suites	185	EP
9	Bucuti and Tara Beach Resorts	104	EP
10	Brickell Bay	98	EP
11	Amsterdam Manor Beach Resort	72	EP
12	Manchebo Beach Resort and Spa*	72	EP
13	Talk of the Town Beach Resort	63	EP
14	Blue Village	56	EP
15	Arubiana Inn	18	EP
16	MVC Eagle Beach	19	EP
17	Malibu Hotel	15	EP
18	The Boardwalk	13	EP
		3,421	(65% share)
Sub Total HOTELS (TRANSIENT)		5,260	(58% share total)
* Also offers All Inclusive packages			

The State of All-Inclusive Tourism in Aruba

TIMESHARE RESORTS		Bedrooms
1	Marriott Aruba Surf Club	900
2	Divi Dutch Village	96
3	Divi Village Golf & Beach Resort	365
4	La Cabana Beach and Racquet Club	449
5	Marriott Aruba Ocean Club	311
6	Divi Aruba Phoenix Beach Resort	241
7	Playa Linda	212
8	Caribbean Palm Village	170
9	Costa Linda Beach Resort	159
10	Casa del Mar	147
11	Aruba Beach Club	131
12	Renaissance Aruba Resort	122
13	Paradise Beach Villas	80
14	La Quinta	54
sub total TIMESHARE RESORTS		3,437 (38% share total)
OTHER		
1	Gold Coast Aruba	85
2	Blue Residences	124
3	Palm Aruba	74
4	Tierra del Sol Resort and Country Club	35
sub total OTHER		318
41	sub TOTAL BEDROOMS (RESORTS)	9,015
RESIDENTIAL ACCOMMODATION & LODGING ROOMS		
(Estimate +700 properties)		2100
GRAND TOTAL ACCOMMODATIONS		11,115

Annex 2: Draft National Ordinance to amend the Licensing Ordinance⁹⁸

Parliament of Aruba

NATIONAL ORDINANCE to amend the Licensing Ordinance (AB 2002 No. GT 1)

ZJ 2015-2016-842

DRAFT

IN THE NAME OF THE KING!

THE GOVERNOR of Aruba,

Having taken into consideration:

- that it is in the interest of the Aruban tourism sector that there is a balanced offer of various types of accommodation in Aruba;
- that it is advisable, in order to safeguard this balanced offer, to set rules for the various types of accommodations that can be offered by a hotel;
- that it is also advisable for the same reason that the Minister charged with tourism affairs is involved in the issue of licenses to hotels and lodgings.

Having heard the Advisory Council, in consultation with Parliament, has adopted the following National Ordinance:

⁹⁸ Official translation by M.C. Meelhuysen (2016).

Article I

The Licensing Ordinance (AB 2002 No. GT 1) shall be amended as follows:

A. Article I shall be amended as follows:

1. the definition of the term “lodging” shall be:

every establishment where fewer than ten persons, not being blood relatives or relatives by marriage of the holder up to and including the third degree, and not being employed by the holder, are provided housing with or without service against payment;

2. the definition of the term “hotel” shall be:

every establishment where ten or more persons, not being blood relatives or relatives by marriage of the holder up to and including the third degree, and not being employed by the holder, are provided accommodation with or without service against payment;

3. after the term “hotel” and the definition belonging thereto, seven new terms shall be inserted with the definitions belonging thereto, reading:

timesharing: the real right or personal right to use one or more real properties or components hereof meant for habitation for at least one week per year;

accommodation: the rooms that by their layout are meant to be used as an individual unit and in which a hotel or lodging, not being timesharing, provides housing against payment;

accommodation night: a night during which housing can be provided in an accommodation;

all-inclusive accommodation: accommodation in which the housing also gives the right to unlimited enjoyment of food and in any event non-alcoholic beverages free

of charge on the site of the hotel or lodging, whether or not combined with the use of one or more recreational facilities free of charge;

all-inclusive hotel: a hotel exclusively offering all-inclusive accommodation;

all-inclusive lodging: a lodging exclusively offering all-inclusive accommodation;

all-inclusive license: a special license for offering all-inclusive accommodation in a hotel or lodging.

B. Article 2 shall be amended as follows:

1. the words “housing with service” in the fifth paragraph shall be replaced with: housing with or without service;
2. a sixth paragraph shall be added to the Article, reading:
6. All-inclusive accommodation in a hotel or lodging shall only be offered with an all-inclusive license.

C. Article 10 shall be amended as follows:

1. the number “1” shall be placed before the text of the Article, followed by a period;
2. a second paragraph shall be added to the Article, reading:

An all-inclusive license shall give the holder the right to rent out all-inclusive accommodation up to the number stated in that license.

D. After Article 19, two new Articles shall be inserted, reading:

Article 19a

1. In derogation from Article 19, first paragraph, the granting, refusal, and revocation of:

- a. a hotel license and a lodging license shall be effected in agreement with the Minister charged with tourism affairs;
 - b. an all-inclusive license shall be effected exclusively by the Minister charged with tourism affairs.
2. The all-inclusive license shall contain a description of the number of rooms and the accommodation for which it has been granted, as well as the period for which it has been granted.
 3. An application for an all-inclusive license shall be refused:
 - a. for an all-inclusive hotel or an all-inclusive lodging if on account hereof more than 40% of all accommodation in Aruba would become all-inclusive accommodation; or
 - b. for another hotel or lodging than an all-inclusive hotel or an all-inclusive lodging, if annually an average of more than 20% of the accommodation nights of that hotel or lodging would become all-inclusive.
 4. Annually, before June 1, the holder of an all-inclusive license shall send a written statement to the Minister charged with tourism affairs of the average percentage of its accommodations that were all-inclusive in the previous year.
 5. The Minister charged with tourism affairs can grant exemption from the provision in the third paragraph for special cases.
 6. By National Decree, containing general administrative orders, the percentages referred to in the third paragraph can be modified.

Article 19b

1. If a percentage as referred to in Article 19a, third paragraph, has not been reached as yet, the Minister charged with tourism affairs shall publicly announce this once per calendar year, and he shall state that new applications for an all-inclusive license can be submitted within a period to be set by him on that occasion.
2. A business plan shall be submitted together with the application for a license, showing how much the applicant will invest in the Aruban economy each year during the following period of 20 years.

3. The business plan shall be accompanied by an opinion of a registered accountant, stating that the business plan contains a fair representation of the intended investments of the applicant.
 4. An application for a license can be granted to the applicants in accordance with who will invest most in the Aruban economy, until the percentage referred to in Article 19a, third paragraph, has been reached.
 5. The Minister charged with tourism affairs can set further rules concerning the submission of an application and the processing hereof.
- E. in Article 31, sub-paragraph b, the words “the provisions of this National Ordinance” shall be replaced with: the provisions in or by virtue of this National Ordinance;
- F. a third paragraph shall be added to Article 32, reading:
3. An all-inclusive license can be revoked, if the hotel or lodging in question is not operated in conformity with the regulations set for this purpose.
- G. In Article 40, fourth paragraph, the phrase “the Minister of charged with public health,” shall be replaced with the phrase: the Minister charged with public health.

Article II

An all-inclusive license shall be granted by operation of law for a period of 20 years to the party that on March 1, 2016 has a license as referred to in Article 10 of the Licensing Ordinance as it read on the day before the effective date of this National Ordinance, and that:

- a. operated the hotel or lodging as an all-inclusive hotel or an all-inclusive lodging;

- b. operated a hotel or lodging the accommodation of which in 2015 was no more than 20% all-inclusive on average; or
- c. operated another hotel or lodging than referred to in sub-paragraphs a or b the accommodation of which in 2015 was more than 20% all-inclusive on average, provided that the license holder states that the number of all-inclusive accommodations of that hotel or lodging will be reduced proportionately in two years to no more than 20% of the accommodation of that hotel or lodging.

Article III

This National Ordinance shall take effect at a time, which can be set differently for different sections, to be determined by National Decree.

Given in Oranjestad,

The Minister of Public Health, Elderly Care, and Sports,

The Minister of Tourism, Transportation, Primary Sector, and Culture,

The Minister of Justice,

*** DRAFT MEMORANDUM OF AMENDMENT***

(Licensing Ordinance “AB” (Official Bulletin) 2002 No. GT 1)

The draft will be amended as follows:

A. Article I, section A, will be amended as follows:

1. Under 1. in the definition of the term “lodging”, the word “housing” will be replaced with: accommodation;
2. Under 3. a phrase will be added to the definition of the term “accommodation” after the word “payment”, reading: for a period not exceeding 90 days;
3. Under 3. the definition of the term “all-inclusive accommodation” will read: accommodation in which, beside use of the housing, by payment in advance, one can also enjoy unlimited food and in any event non-alcoholic beverages on the site of the hotel or lodging, whether or not combined with the use of one or more recreational facilities;

B. In Article I, section B, under 2. a phrase will be added after the word “license”, reading:

, with the exception of offering ten or more all-inclusive accommodations simultaneously in connection with a conference or event.

C. In Article I, section D, in Article 19a, second paragraph, while replacing the comma with a period, the phrase “as well as the period for which it has been granted.” will be replaced with: The all-inclusive license shall be granted for a period of 35 years.

D. In Article I, section D, two sentences will be added to Article 19a, fifth paragraph, reading: Exemption can be granted if the applicant hereof proves in the second quarter that it is advisable for economic reasons to offer more all-inclusive accommodations in the remaining period of that year, because the hotel or lodging involved is expected to sell fewer accommodations in that period compared to the average number of nights sold in the same period in the two previous years.

E. Article II will read:

1. An all-inclusive license shall be granted by operation of law for a period of 35 years to the party that on May 9, 2016 has a license as referred to in Article 10 of the Licensing Ordinance as it read on the day before the effective date of this National Ordinance, and that:

- a. operated the hotel as an all-inclusive hotel;
- b. operated a hotel or lodging the accommodation of which in 2015 was no more than 20% all-inclusive on average; or
- c. operated another hotel than referred to in sub-paragraphs a or b, the accommodation of which in 2015 was more than 20% all-inclusive on average, provided that the license holder states that the number of all-inclusive accommodations of that hotel will be reduced in two years to no more than 20% of the accommodation of that hotel.

2. The application for an all-inclusive license referred to in the first paragraph shall be filed with the Minister charged with tourism affairs and shall be accompanied by documents showing that the conditions referred to in the first paragraph have been met.

F. While renumbering Article III to Article IV, a new Article III will be inserted, reading:

Article III

Within 5 years after Article I, section B, number 2, of this National Ordinance has taken effect, the Minister charged with tourism affairs shall send Parliament a report on the effectiveness and impact of this National Ordinance in practice.

EXPLANATION

Section A modifies the definition of the term “lodging” in order to let this definition follow other sections of the draft, in particular the definition of hotel. The definition of accommodation is also modified in order not to let long-term rental fall under the effect of the National Ordinance. For the government does not intend that a hotel or lodging license has to be applied for for accommodation rented out for a period longer than 90 days. The requirement attached to the license does not alter the fact that the rental activities can be outsourced to third parties by the owner or operator.

The definition of all-inclusive accommodation has also been modified. Strictly speaking, it did not include accommodation in which food and in any event non-alcoholic beverages are offered at a very low price. However, such accommodation is meant to fall under the effect of the National Ordinance. For the same disadvantages are attached to it as to all-inclusive accommodation in the traditional sense, notably that the result is that guests will hardly or even not at all use the bars and restaurants outside their hotels. Therefore, the words “free of charge” have been deleted and replaced with “by payment in advance”. This also covers the situation in which the guest upon arrival in the hotel chooses a package to enjoy food and in any event non-alcoholic beverages at a fixed price.

Section B explicitly excludes MICE accommodations from the requirement to have an all-inclusive license. MICE stands for “Meetings, Incentives, Conventions, and Exhibitions”. Accommodations for large numbers of foreign participants in such conferences or events, with all-inclusive accommodation as part of the program, are excluded from this National Ordinance. It concerns offering ten or more accommodations simultaneously. According to the Explanatory Memorandum to the draft National Ordinance, exemption could be obtained in such cases, but in order to increase transparency and efficiency, one has currently chosen to explicitly exclude MICE accommodations.

In connection with a consultation with the stakeholders, it has been decided to extend the period for which the all-inclusive license is granted to 35 years. This extension has been laid down in sections C and E.

Section D stipulates that, beside special cases, exemption from the limits can be granted if a hotel or lodging can prove that fewer (ordinary) accommodations will be sold in the remaining period of that year compared to the average number of accommodations sold in the previous two years in the same period as the one for which the exemption is applied for, so that there is a financial need to offer more all-inclusive accommodations in that period, causing the limit of 20% to be exceeded. The applicant of the exemption has to substantiate this, in any event by submitting the occupancy figures of the two previous years and the occupancy figures of the first three months of the year in which exemption is applied for. If the business need has been adequately proven, the hotel or lodging can be allowed to offer just as many all-inclusive accommodations in the remaining period of the year as the average in the same period in the two previous years. The exemption can be applied for in the second quarter of the relevant year, because the first three months generally give an indication as to the occupancy to be expected in the rest of the year.

Section E subsequently lays down the procedure for application for an all-inclusive license by operation of law, as referred to in Article II, first paragraph, in the new second paragraph of Article II. This license has to be applied for with the Minister charged with tourism affairs and has to be accompanied by documents showing that the hotel or lodging that applies for the license had a hotel or lodging license on May 9, 2016, and that that hotel or lodging is either almost fully all-inclusive or does not offer more than 20% of the accommodation as all-inclusive. The hotel or lodging subsequently has to mention whether it has sold more than 20% of the accommodation as all-inclusive in 2015, in which case the hotel or lodging has to reduce this percentage to 20% within two years. The date of May 9, 2016 is the date on which the legislative bill has been publicly announced in a press conference as well as in a letter to the stakeholders.

Section F provides the opportunity to evaluate the effect and impact of the new all-inclusive policy.

Parliament of Aruba

NATIONAL ORDINANCE to amend the Licensing Ordinance (“AB” (Official Bulletin) 2002 No. GT 1)

ZJ 2015-2016-842

EXPLANATORY MEMORANDUM

1. Introduction

By motion of May 7, 2015, Parliament requested the Minister of Tourism, Transportation, Primary Sector, and Culture (to be referred to as the Minister hereinafter) to examine the possibility of a special licensing system for so-called all-inclusive hotels and the impact of this licensing system on the Aruban economy. This motion’s background was the increase in recent years in the number of hotels in Aruba exclusively offering all-inclusive accommodation, as well as the increase in the number of all-inclusive accommodations offered by hotels beside the ordinary accommodations. Subsequently, PricewaterhouseCoopers (PwC) was instructed to conduct the requested study. This report was presented to the Minister on January 26, 2016. The results hereof formed the basis for this draft. It proposes to include a special licensing system in the Licensing Ordinance for hotels that offer all-inclusive accommodations.

The term “all-inclusive” does not have a fixed definition. In normal language, it usually means accommodation where, beside the stay, in any event all meals (breakfast, lunch and dinner) and non-alcoholic beverages are included in the price. They can be taken in the restaurants or other establishments of the hotel itself. Depending on the conditions of the package, a guest can also have access to other facilities for entertainment and recreation in the hotel, such as spas and watersports activities. In some cases, also the use of alcoholic beverages is included in the price. All-inclusive accommodation can be offered by hotels meant for this purpose as well as by regular hotels as part of the accommodations offered. Both cases exist in Aruba. Incidentally, also small-scale accommodation (the so-called lodgings) can offer all-inclusive packages. Therefore, the lodgings have also been included in this

draft. When a hotel is mentioned hereinafter, a lodging is also meant. Because timesharing accommodations usually do not offer all-inclusive packages, timesharing is not included in this regulation.

2. Economic reasons for limiting the number of all-inclusive accommodations

Offering all-inclusive accommodations entails advantages for the hotel guest and the hotel company. The hotel guest agrees on a price for his stay in advance, giving him the right to use all kinds of facilities of the hotel. Depending on the conditions of the package, this may mean that the hotel guest has unlimited access to all hotel facilities during his stay without having to pay extra. Because of the volume gain that hotels usually achieve with all-inclusive packages, the price per night of such a package can also be relatively cheap for the hotel guest, compared to classic packages. The same volume gain causes all-inclusive packages to be more attractive with regard to return than classic packages for certain hotel companies. The offer of all-inclusive accommodations has consequently steadily spread in the tourist regions of the world recently, including particularly also the Caribbean. Aruba is no exception.

Although the economy unmistakably benefits from all-inclusive accommodations (inter alia in the form of employment in the hotels and the purchase of consumer goods on the local market for the hotel facilities), their presence also entails disadvantages. For instance, the fact that the guests can use the hotel restaurants without paying extra in all-inclusive accommodations leads to it that they hardly use the bars and restaurants outside their hotels, or even not at all. Furthermore, it is a fact that guests of all-inclusive accommodations spend more time in the hotel itself during their stay, so that they also make less use of taxis and other facilities outside the hotel, such as shops. Eventually, this has a negative impact on certain sectors of the Aruban economy.

The above is confirmed in various studies conducted of the economic impact of all-inclusive accommodation. The results of these studies have been combined in aforementioned PwC report of January 26, 2016. Several studies confirm that offering (too much) all-inclusive accommodation has a negative impact on the local economy. For instance, a study of the United Nations Environment Programme shows that of most all-inclusive trips no less than 80% of the spending of the tourist accrues to the airline, hotels, and other international companies, that in most cases

have their main office in the country of origin of the tourist, instead of to local companies and/or persons.

The government is aware of the presence in Aruba of hotels that operate exclusively on an all-inclusive basis or that offer all-inclusive packages as part of their range of accommodations. The government is also aware of the contribution these hotels make to the Aruban tourism sector. But in the interest of the Aruban tourism sector and eventually also of the Aruban economy, the government considers it necessary that a balanced offer of packages is offered to tourists in Aruba. One should not forget that Aruba is more sensitive to the negative impact of an imbalanced accommodation mix than other countries, as the Aruban economy (almost) completely depends on tourism. For instance, in 2014 the total contribution of tourism to the gross domestic product of Aruba was 88.4%. As a consequence, Aruba is relatively speaking number one in the world with regard to the total contribution of tourism to the gross domestic product (source: World Travel & Tourism Council). It is also of importance that Aruba has long pursued a high-quality tourist product, with the accompanying facilities and attractions for the tourists that stay in Aruba. In order to achieve this, a so-called “RevPar” agreement was signed between the Minister and various stakeholders in tourism on May 12, 2014.

In short, the offer of accommodation packages has to be diverse, combined with a balanced division between the various packages, explicitly also providing room for hotels that do not operate on an all-inclusive basis or only in part. For this has a positive impact on the companies domiciled elsewhere in Aruba that consider tourists their clients. Aforementioned studies confirm that it would be a problem if more all-inclusive accommodation is offered in Aruba than is already the case at present. Regulating all-inclusive accommodation and preserving a balanced accommodation mix is consequently necessary and efficient, according to the government, particularly considering Aruba’s great economic dependence on tourism.

3. The purport of this draft

The government proposes to include regulation of all-inclusive accommodation in the Licensing Ordinance (AB 2002 No. GT 1) with the proposed amendments. For that Ordinance already provides for a licensing system for hotels. The Licensing Ordinance contains the current general framework for the regulation of (inter alia) the hotel industry in Aruba anyhow. This includes regulations attached to a license

that can also be used outside the framework of the sale of alcohol, spatial layout, and hygiene. Consequently, the government wants to regulate matters related to tourism policy through the Licensing Ordinance with the proposed amendments, inter alia by introducing the requirement of a special license for hotels that offer all-inclusive accommodation. Exclusively the Minister will be authorized to grant this so-called all-inclusive license. It is also of importance that the Minister gets an essential role in the granting, refusal, and revocation of the hotel licenses and lodging licenses that are already required pursuant to the current Licensing Ordinance.

The starting point of this legislative bill is that the existing situation regarding the accommodations offered is respected. A study of the Aruba Tourism Authority has shown that hotels exclusively offering all-inclusive accommodation currently jointly represent a maximum of 40% of all hotel accommodation offered in Aruba. This also includes future hotels that have received concrete promises. Regular hotels that offer all-inclusive accommodation as part of their accommodations offered do not sell more than 20% per year of all their accommodation nights as all-inclusive, on average. This draft follows these percentages, by limiting the number of licenses for all-inclusive accommodations and also by setting a maximum all-inclusive quota for regular hotels that offer all-inclusive accommodation. Because the existing situation is respected, it is prevented as much as possible that the application of this statutory regulation will give rise to conflicts. The Minister will assess the situation every five years, verifying whether the regulation is effective and what the impact hereof is. An objective social cost-benefit analysis model to be drawn up as yet will be used for this purpose. Should the assessment or other circumstances give rise to it, the percentages mentioned in the legislative bill can be modified by National Decree, containing general administrative orders.

The all-inclusive license will be attached to a certain period of time, in order to give new players a chance to enter the market. That is why an all-inclusive license can also be revoked, if the hotel does not observe the regulations applicable to it. The room that this will create on the all-inclusive market will be divided fairly. Hotels that would like to offer (more) all-inclusive accommodation than it is allowed to do at that time, based on their all-inclusive license, can submit a business plan to the Minister in that case, in which they have to indicate concretely, substantiated with reasons, how many all-inclusive accommodations they would like to offer. Should the available room be exceeded with these plans, the Minister will grant the hotels that contribute most to the Aruban economy a (modified) all-inclusive license until the limit has been reached. This is in keeping with the purpose of this draft.

The formalities accompanying the all-inclusive license, such as the necessary information for the application, will be laid down in the Minister's policy.

The amendments proposed with this draft will not entail financial consequences for the government.

4. Explanation per Article

Re Article I, section A

This Article changes the definition of the terms “lodging” and “hotel” in this manner that also establishments that provide housing to persons without service against payment are now included in the definition. This change has been prompted by the current, increasingly existing practice that accommodations are rented out to tourists for a brief period without service (think for instance of Airbnb). The government considers it advisable to apply the rules and regulations of the Licensing Ordinance also to these establishments, to thus create a level playing field.

The term “lodging” has also been stretched: also establishments providing housing to fewer than ten persons, not being blood relatives or relatives by marriage of the license holder, against payment fall under the term “lodging” with the proposed amendment. For the rest, the terms “lodging” and “hotel” follow the existing definitions.

The term “timesharing” has been defined to exclude timesharing accommodations from the scope of the draft. For as already mentioned in the general section of this explanation, timesharing accommodations usually do not offer all-inclusive packages.

“Accommodation” means, according to the draft, the rooms that by their layout are meant to be used as an individual unit and in which a hotel, not being timesharing, provides housing against payment. The actual occupancy of the room is not relevant in this connection: it concerns the rooms the hotel offers.

The term “all-inclusive accommodation” is one of the key concepts of this draft. Normal language has been followed for the definition of this term as much as possible. It means accommodation where, besides the housing, in any event all

meals (breakfast, lunch, and dinner) and non-alcoholic beverages are included in the price, provided that these meals and non-alcoholic beverages are used on the hotel site. Also other recreational facilities, such as spas or watersports activities, can be included in the price of the housing. However, this does not always have to be the case to fall under the term “all-inclusive accommodation”.

Accommodation where the price of the housing also includes a so-called dine-around program (a program in which the guest can have breakfast, lunch, or dinner outside the hotel site in Aruba) consequently does not fall under the term “all-inclusive accommodation”. For this draft is meant to actually stimulate such programs, because the local Aruban economy benefits from it.

“All-inclusive hotel” means a hotel that exclusively offers all-inclusive accommodation.

The term “all-inclusive license” means the special license required for hotels that offer all-inclusive accommodation. It is a license required beside the already existing, required hotel license.

Re Article I, sections B and C

The proposed amendment to Article 2, fifth paragraph, concerns the modification of the terms “hotel” and “lodging”. We suffice here with referring to the explanation of Article I, section A.

Furthermore, in section B the special licensing system is introduced for hotels that offer all-inclusive accommodations. A hotel can only offer all-inclusive accommodation if it has an all-inclusive license to do so. Furthermore, the hotel has to act in conformity with the regulations of this license.

Subsequently, section C determines what an all-inclusive license gives a right to, notably to offering all-inclusive accommodations up to the number stated in the license. This number is relevant because of the limits set for all-inclusive accommodations in the legislative bill, which will be further explained hereinafter.

Article I, section D

Two new articles will be inserted in the Licensing Ordinance with the proposed amendment. As already mentioned in the general section of this explanation, the government considers it advisable to also regulate matters related to the tourism policy with the Licensing Ordinance, and to allocate an essential role to the Minister in the granting, refusal, and revocation of the hotel licenses and lodging licenses. The Minister will get this role beside the role the Minister charged with public health already has based on the Licensing Ordinance. Because the all-inclusive license only refers to matters related to the tourism policy, the Minister will exclusively be authorized to grant the all-inclusive license.

Particularly important are the second and third paragraph of the proposed Article 19a. The second paragraph stipulates that an all-inclusive license has to contain a description of the number of rooms and the type of accommodation for which the license has been granted. The license will also be attached to a certain period of time, which period will also be included in the all-inclusive license. For, as already explained in the general section of this Explanatory Memorandum, also new players, if any, have to get the opportunity to enter the all-inclusive market. Also existing players have to get the opportunity to supplement their all-inclusive license, if desired. They are given this opportunity as soon as the period for which hotels have been granted a license expires, or if there is room earlier within the national maximum.

According to the third paragraph of the proposed Article 19a, an all-inclusive license will be refused for an all-inclusive hotel, if on account hereof more than 40% of all available accommodation in Aruba offered by hotels would become all-inclusive accommodation, or for another hotel than an all-inclusive hotel, if annually an average of more than 20% of the accommodation nights of that hotel would be offered as all-inclusive. In this manner, two limits are set for the offer of all-inclusive accommodations in Aruba:

1. Hotels that exclusively offer all-inclusive accommodation will only obtain a license if on account hereof no more than 40% of the total accommodation offered in Aruba becomes all-inclusive accommodation. Total offer means here the offer of both fully all-inclusive hotels and mixed hotels. Occupied and unoccupied accommodations are included in the total offer.

2. Hotels with mixed accommodations will only obtain a license if they do not sell more than 20% of their accommodation nights as all-inclusive accommodation annually. The available accommodation nights are included. The percentage of 20 is an annual average. All-inclusive accommodation nights that are sold by a certain hotel with mixed accommodations could consequently exceed the percentage of 20 at some time during the year, provided that at another time of the year less than 20% is sold as all-inclusive accommodations.

As mentioned earlier, these percentages follow the existing situation of all-inclusive accommodations.

Pursuant to the proposed Article 19a, fourth paragraph, annually, before June 1, the holder of an all-inclusive license will have the obligation to send a written statement to the Minister of the average percentage of its accommodations that were all-inclusive in the previous year. This statement gives the Minister an instrument to review whether the relevant hotel meets the conditions attached to the license.

With the proposed fifth paragraph of Article 19a, the Minister can grant exemption from aforementioned limits for special cases. One may think for instance of conferences with many foreign participants, in which an all-inclusive stay is part of the conference program (as may be the case with so-called MICE events (“Meetings, Incentives, Conventions, and Exhibitions”)).

Article 19a, sixth paragraph, provides the opportunity to modify the percentages referred to in the third paragraph by National Decree, containing general administrative orders, if the need to do so is established. In that manner, one can anticipate on a changing market. The assessment that will take place every five years based on the proposed sixth paragraph of Article 19b can also give rise to modification of the percentages.

The proposed Article 19b describes what happens when room becomes available to apply for an all-inclusive license, for instance because the period for which a certain hotel has been granted an all-inclusive license expires or because an all-inclusive license for a hotel is revoked. The Minister will publicly announce this once per calendar year, if the limits referred to in Article 19a, third paragraph, have not been reached as yet. Then he will invite hotels to submit an application for an all-inclusive license. Both hotels that already have an all-inclusive license but want to supplement it and (future) hotels that do not have an all-inclusive license yet can submit an application. If the limits referred to in Article 19a, third paragraph, are not reached with the new applications, the applications will be granted. If the applications

exceed the limits, the Minister will have to choose who to grant an all-inclusive license. He will do so based on the business plans submitted by the applicants. The proposed fourth paragraph of Article 19b stipulates that the application [sic!] will be granted to the hotel that will invest most in the Aruban economy as evidenced by the business plan. One may think of plans that stimulate employment, plans for expansion, large-scale alteration and renovation of the hotel, but also of plans for a substantial increase in the excursions offered. In any event, it has to concern plans that will have a positive influence on the local economy of Aruba.

To ensure that the business plans are adequately concrete and will also actually be carried out by the hotel that will be granted the all-inclusive license, the plans have to be accompanied by an opinion of a registered accountant, according to the proposed third paragraph of Article 19b.

Granting an application of course cannot result in excess of the limits referred to in Article 19a, third paragraph, which is why the proposed fourth paragraph of Article 19b contains the phrase “until the percentage referred to in Article 19a, third paragraph, has been reached.”

Pursuant to the proposed fifth paragraph of Article 19b, the Minister can set further rules concerning the submission and the processing of an application. These can be procedural rules as well as rules that further work out the assessment framework laid down in the fourth paragraph.

Article I, section F

The proposed amendment to Article 32 concerns the desire to make room available to new players on the all-inclusive market. Determining that an all-inclusive license can be revoked if the relevant hotel is not operated in conformity with the regulations of the all-inclusive license prevents hotels from having but not using all-inclusive licenses. The Minister can subsequently proceed to revoking the license.

Article I, section G

Only an error in the text is corrected with the proposed amendment to Article 40, fourth paragraph.

Article II

A transitional provision is proposed in this section, in keeping with the desire of the government to respect the existing situation of all-inclusive accommodations. The Article stipulates that an all-inclusive license will be granted by operation of law to a hotel that had a hotel license on March 1, 2016 and at that time offered all-inclusive accommodation, either exclusively or in part, for no more than 20% of all accommodation the hotel offered. These hotels are guaranteed an all-inclusive license valid for a period of 20 years. New hotels or hotels that do not meet the requirements referred to in this article have to apply for an all-inclusive license.

The date taken as a starting point is related to the date on which this legislative bill will have been announced publicly. This will be done through a press conference, as well as a letter to all existing hotels. The hotels have already been informed of the Minister's plans more than six months before that time.

Information obtained shows that in practice a broad majority of the hotels currently offer less than 20% per year of their accommodations as all-inclusive accommodations, on average. For the case in which certain hotels do exceed this percentage, a transitional provision has been inserted. They will have the opportunity to proportionately reduce their all-inclusive accommodations to a maximum annual average of 20% for a period of two years. In this manner, the relevant hotels are given a reasonable period to adjust their operations.

The Minister of Public Health, Elderly Care, and Sports,

[signed]

The Minister of Tourism, Transportation, Primary Sector, and Culture,

[signed]

The Minister of Justice,

[signed]

Annex 3: Relative Caribbean Tourism Destination Quality Rankings (Resonance, 2015).

Indexed Ranking

Overall Ranking	Country	Hotels	Outdoors	Amusements	Food Experiences	Museums	Performances	Culture & Landmarks	Nightlife	Restaurants	Shopping	Crime	Flights
01	TURKS & CAICOS ISLANDS	5	1	1	7	16	14	5	7	2	2	19	20
02	BARBADOS	9	15	13	2	17	6	10	6	15	1	7	9
03	TRINIDAD & TOBAGO	22	4	10	1	10	1	6	5	6	26	23	1
04	MARTINIQUE	23	8	12	3	3	4	7	25	4	9	3	14
05	ANGUILLA	2	5	3	24	6	14	12	4	1	3	24	20
06	BERMUDA	13	6	11	12	1	14	4	8	12	6	12	20
07	SAINT KITTS & NEVIS	11	7	2	10	5	14	2	3	11	20	25	11
08	SAINT VINCENT & THE GRENADINES	1	2	14	24	4	14	1	1	3	22	26	20
09	GRENADA	3	11	8	5	13	3	8	24	13	8	20	20
10	CUBA	24	25	25	23	2	2	3	2	9	23	1	3
11	BONAIRE	4	3	5	8	9	14	15	21	10	16	28	12
12	SAINT LUCIA	10	13	4	6	18	14	14	16	22	14	18	8
13	CURACAO	21	12	15	11	7	14	11	9	19	21	16	6
14	JAMAICA	12	22	6	9	20	5	17	14	21	24	14	2
15	GUADELOUPE	20	9	18	4	12	14	24	23	5	12	10	16
16	ARUBA	26	17	17	21	25	7	19	10	14	5	2	5
17	ANTIGUA & BARBUDA	8	16	7	16	15	14	22	18	18	11	15	10
18	DOMINICAN REPUBLIC	19	18	20	20	14	8	18	12	17	17	4	4
19	PUERTO RICO	28	20	22	15	8	10	9	20	8	15	5	17
20	U.S. VIRGIN ISLANDS	27	21	9	14	22	13	16	15	23	4	13	19
21	SAINT MARTIN	7	26	19	24	27	14	13	13	7	10	21	20
22	CAYMAN ISLANDS	18	10	27	13	19	12	21	26	24	13	8	15
23	BRITISH VIRGIN ISLANDS	15	19	23	17	21	9	23	11	20	19	9	20
24	BAHAMAS	14	24	26	18	23	11	26	19	26	25	6	18
25	SAINT BARTHELEMY	16	23	21	24	11	14	25	22	16	18	27	20
26	SAINT MARTIN	25	27	24	22	28	14	27	17	27	7	17	13
27	HAITI	17	28	28	19	24	14	20	27	28	27	11	7



Annex 4: Nominal Tourism Receipts (in Afl million) by Accommodation Type

Type	#rooms	2014			2015		
		TR-Banks	TR-FA	Gross TR	TR-Banks	TR-FA	Gross TR (Δ)
AI	1839	45.2	231.4	276.6	48.8	258.3	307.1 (+11%)
EP	3615	460.10	163.4	623.5	499.4	120.5	619.9 (-1%)
TS	3315	123.80	13.6	137.4	112.3	15.4	127.7 (-7%)
Other	318	12.70	0	12.7	16.9	0	16.9 (+33%)
Total	9087	641.80	408.4	1,050.20	677.4	394.2	1,071.6 (+2%)
Tourism Receipts		2430	438	2,861	2,514.2	426.4	2,940 (+2.8%)
TAR (percentage)				37%			36%
AI TAR (percentage)				26%			29%
EP TAR (percentage)				59%			58%
TS TAR (percentage)				13%			12%
Other (percentage)				1%			1%
FA transfer							
AI						0	185.8
EP						1.7	83.5
TS						246.5	174.4
Other						1.7	27.4
Total						250.1	471.1



Annex 5: Glossary of Key Terms

Accommodation capacity: The measure of accommodation stock at a defined destination. May be given by various different measures: e.g. number of establishments; number of main units within an establishment (e.g. rooms, available room nights).

Add-on: any component of a package tour that is not included in the package price

All-inclusive: A form of package holiday where the majority of services offered at the destination are included in the price paid prior to departure (e.g. refreshments, excursions, amenities, gratuities, etc). An all-inclusive resort is a holiday resort that includes a minimum of three meals daily, (alcoholic) beverages, gratuities, and possibly other services in a fixed, pre-paid price.

Allocentric: Of a minority of tourists: adventurous, outgoing, self-confident, independent, needing little tourist infrastructure. Enjoys high contact with locals. The opposite of psychocentric.

Alternative tourism: In essence, tourism activities or development that are viewed as non-traditional. It is often defined in opposition to large-scale mass tourism to represent small-scale sustainable tourism developments.

American plan: type of rate that includes the price of the hotel room, breakfast, lunch and dinner. AP is the common abbreviation.

Average room rate: the total guest room revenue for a given period divided by the number of rooms occupied for the same period. Since it can be related to investment, this statistic is frequently used as a measure of economic feasibility.

Balance of payments: The balance of payments is a statistical statement that summarizes transactions between residents and non-residents during a period. It consists of the goods and services account, the primary income account, the secondary income account, the capital account, and the financial account

Carrying capacity: The amount of visitor activity that a site or destination can sustain before it decays.

Destination: the place to which a traveler is going. In the travel industry, any city, area, or country which can be marketed as a single entity for tourists.

Dine-around plan: a plan that permits tourists to dine at a variety of restaurants using vouchers and coupons on a tour

Direct spending: money that goes directly from a tourist into the economy of the destination

Disruption: Accelerated change caused by human activity or extreme natural events.

Diversification: The process of developing new products for new markets, in order to achieve business growth.

Diversity: variety; multiplicity; range; assortment

Ecologically sustainable: Using, conserving and enhancing the community's resources so that ecological development is maintained, and the total quality of life can be sustained now and in the future.

Ecosystem: an area where living and non-living things interact; a dynamic system of plant, animal, fungal and micro-organism communities, and the associated non-living physical and chemical factors.

Ecotour: a tour designed to focus on preserving the environment of environmentally sensitive areas

Ecotourism: Responsible travel to natural areas that conserves the environment and sustains the well-being of local people; Ecotourism: Ecologically sustainable tourism with a primary focus on experiencing natural areas that foster environmental and cultural understanding, appreciation and conservation.

European plan: an accommodation arrangement that consists of the price of the room only, not including meals and/or beverages

Evolutionary theories: Theories of tourism which see destinations evolving, in the sense that the types of tourists change, or evolve, over time.

Excursion: journey where the traveler returns to the original point of departure

Externalities: Those costs or benefits arising from production or consumption of goods and services which are not reflected in market prices.

Fixed expense: an expense related to the tour as a whole, which does not vary with the number of passengers such as a meal or a per person entrance to an attraction

Heritage: Things of value that are inherited which people want to keep. Heritage can be natural, cultural, tangible, intangible, personal or collective. Natural heritage is often conserved in places such as reserves and national parks. Cultural heritage practices are often conserved through ongoing traditions and practices.

High season: the period of the year when occupancy/usage of a hotel or attraction is normally the highest. High usage invariably means higher prices for rooms or admission. Also referred to as on-season or peak season.

Impacts: Effects, which may be either positive or negative, felt as a result of tourism-associated activity. Tourists have at least three kinds of impacts on a destination: economic, sociocultural and environmental. Tourism also has effects on tourists, in terms of possible attitude and behavior changes.

Mass tourism: Traditional, large scale tourism commonly, but loosely used to refer to popular forms of leisure tourism pioneered in southern Europe, the Caribbean, and North America.

Natural attraction: a tourist attraction that has not been made or created by people

Package: (1) pre-arranged combination of elements such as air, hotel, sightseeing, and social events put together and sold at an all-inclusive package price; (2) to package, meaning to combine elements as above into an all-inclusive package product

Package travel arrangement: a combination of several travel components provided by different suppliers, which are sold to the consumer as a single product at a single price; a package tour, package vacation, or package holiday comprises transport and accommodation advertised and sold together by a vendor known as a tour operator. Other services may be provided such a rental car, activities or outings during the holiday. Transport can be via charter airline to a foreign country, and may also include travel between areas as part of the holiday. Package holidays are a form of product bundling. Dynamic packaging is a method that is becoming increasingly used in package holiday booking procedures that enables consumers to build their own package of flights, accommodation, and rental car instead of a pre-defined package.

Quality: The degree to which a set of inherent characteristics of a product, service and/or experience fulfils customer requirements, expectations and desires.

Pull strategy: A marketing approach that creates demand at the customer level by generating awareness, interest, and desire so customers pull a product through a distribution channel by demanding it.

Push strategy: A marketing approach that creates demand at the distributor level by providing resellers with an incentive to push (sell) a product to end consumers.

Regulation: Control through formalized processes.

Responsible tourism: Type of tourism which is practiced by tourists who make responsible choices when choosing their holidays. These choices reflect responsible attitudes to the limiting of the extent of the sociological and environmental impacts their holiday may cause.

Restoration: Returning existing habitats to a known past state, or to an approximation of the natural condition, through repairing degradation, removing introduced species, and revegetating using native locally occurring species.

State: A set of officials with their own preferences and capacities to effect public policy, or in more structural terms a relatively permanent set of political institutions operating in relation to civil society'. The state includes elected politicians, interest or pressure groups, law enforcement agencies, the bureaucracy, and a plethora of rules, regulations, laws, conventions and policies.

Sustainable development: Development carried out in such a way as to meet the needs of the present without compromising the ability of future generations to meet their needs.

Sustainable tourism: The purposeful and responsible management of all tourism resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity, and life support systems.

Themed tour: a tour designed around a specific theme; special interest tour.

Tourism employment: Tourism employment is a measure of employment in tourism (direct) and related tourism industries (indirect).

Tourism engagement: The personal connection of a tourist to a destination (or brand) as manifested in cognitive, affective, and behavioral responses beyond the purchase decision. Tourism engagement is a higher-order construct, comprising five sub-dimensions, including enthusiasm, attention, absorption, interaction, and identification. In general terms, tourism engagement describes an emotional connection a tourist feels towards a destination, or related destination product, which shapes his or her behaviors and level of involvement. Tourism engagement also involves the nature of the destination activity - if the tourist feels mentally stimulated; the trust and communication between the tourist and service provider; the ability of a tourist to see how their experiences contribute to their personal aspirations; the opportunity to share these personal experiences; and the level of

pride a tourist has about traveling to the destination and being associated with the destination.

Tourism Exports: Tourism Exports is spending by foreign visitors on goods and services delivered in the host country or travel destination. *Related term - Tourism receipts:* Expenditure of international inbound visitors including their payments to national carriers for international transport, including any other payments made for goods and services received in the destination country.

Tourism flows: The major movements of tourists from specific home areas to destinations.

Tourism geography: the knowledge of countries, regions, major cities, gateways, famous icons, monuments, building structures, and geographical features such as rivers, seas, mountains, deserts and time zones

Tourism income multiplier: The effect of a change in tourism expenditure on an area's income.

Tourism industry: a group of businesses that provide services and facilities for consumption by tourists

Tourism infrastructure: roads, ports and utilities to serve not only the local residents but also the tourist influx (suitable accommodation, restaurants and transport terminals form the superstructure of the region)

Tourism product: For the tourist, the product is the complete experience resulting from the travel arrangement purchased, from the time they leave home until their return.

Tourism satellite account: System of accounting at national or regional level which reveals the total direct impact of tourism on the economy.

Tourism system: A framework that identifies tourism as being made up of a number of components, often taken to include the tourist, the tourist generating region, the tourist destination, and the sectors comprising the destination's tourism and hospitality industry.

Tourist attractions: Special 'locales', either natural or man-made, for visitors' excursions which are routinely accessible to visitors and tourists, and often organized in a tour.

Value: The relationship between the (tangible and intangible) benefits associated with a product or service and the (tangible) costs of obtaining the product or service.

Zoning: Different eco-systems may be zoned and demarcated in terms of their robustness to pressures from tourism in an attempt to mitigate environmental damage.

