BELIZE TOURISM BOARD

MODERNIZATION OF TOURISM POLICY/LEGISLATION AND REGULATION FRAMEWORK: ESTABLISHING A SPECIFIC INCENTIVES REGIME FOR THE TOURISM SECTOR

supported by
CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)

CARIBBEAN HRD PROGRAM FOR ECONOMIC COMPETITIVENESS (CPEC)

Prepared by
Oracle Consulting Limited

May 2004

I. Introduction

Oracle Consulting Limited ("the Consultant") was commissioned in March 2004 by the Belize Tourism Board (BTB) to prepare a report ("this Report") containing recommendations on the establishment of a specific incentives regime for the tourism sector including requirements for policy, legislation and regulations in accordance with the Terms of Reference set out in Appendix 1 hereto. In pursuance thereof, the Consultant conducted consultations with various tourism sector stakeholders and representatives in both the private and the public sector. However, due to the short term nature of the consultancy, the Consultant was severely constrained in canvassing the gamut of tourism stakeholders. The dearth of time series data sets and overall lack of statistical information also limited the detail of local impact analysis and opportunity for forecasting. In fact, much of the statistical figures relied upon in this report for the year 2002 and 2003 only became available after the 28th of June, 2004. Subject to these limitations, this Report is the result of such consultations and research including but not limited to a comparative review of specific incentive regimes for the tourism sector in other jurisdictions of the region primarily those of the Commonwealth Caribbean.

II. Background – Belize's Economy and the Tourism Industry

Belize's economy has historically generally been considered an undiversified agro-economy vulnerable to exogenous shocks with heavy reliance on a few agricultural products like sugar, citrus and banana for export and foreign exchange earnings. During the period from 1980 to 1985, for example, the decline in value of sugar exports by over 50% due in large part to falling sugar prices on the world market tellingly coincided with an average growth per annum in Gross Domestic Product (GDP) at constant (1984) prices of 0.4%.

The experience in agriculture over the past decade has given even more cause for concern as to Belize's economy and its reliance thereon. Unable to enjoy significant economies of scale and be price competitive in homogenous agricultural near-perfectly competitive markets, Belize and its foreign exchange earnings through agricultural exports are being adversely affected by the ongoing dissolution of preferential arrangements and falling world prices. Over the past five years from 1998 to 2003, for example, foreign exchange earnings from sugar (and molasses) has fallen from US$45.6million in 1998 to US$38.1million as production has stagnated and the price of sugar has fallen (save for the offsetting effect in 2003 of the depreciation of the US currency against the Euro). During the same period, falling prices for banana (in excess of 32% between 2000 and 2003) and the devastating effect of Hurricane Iris resulted in a frightening free fall in its foreign exchange earnings dropping from US$32.9million in 2000 to US$16.8million by 2002. Earnings somewhat rebounded to US$26.3million in 2003 in spite of a further fall in the price of banana only because of a 79% increase in production as hurricane-affected farms began once again to produce and planting was intensified in the hopes of enjoying economies of scale. With respect to citrus and its derivative products, between 1998 and 2003, the experience has been a volatile one. Rising from US$21.5million in 1998 to a peak of US$69.5million in 2000, foreign exchange earnings have since fallen down to US$42.8million as prices of orange concentrate have fallen by almost 30%. Notwithstanding the dismal performance of Belize's primary agricultural exports, these three products alone still represent over 55% of Belize total domestic exports falling only 4% since 1998. Marine products has recently shown itself to be a significant foreign exchange earner jumping from US$19.7 million in 1998 to US$55.1 million in 2003 (28.6% of total domestic exports) as numerous aquaculture farms moved from their development stage to their productive stage more than doubling output between 2002 and 2003. The volatility and overall dramatic fall in prices for farmed shrimp, the primary foreign exchange earner in the marine products sector, by over 40% between 2000 and 2003 is not a good omen for this industry and its profit potential however. The net implication is that over 80% of Belize's total domestic exports are experiencing falling prices and volatility due to exogenous circumstances which in turn implies uncertainty, an erosion of profitability and investor confidence and a fall in expected foreign exchange earnings from such exports.

Although for the most part, agriculture still remains a large part of Belize's economic landscape, the economy appears to have been gradually diversifying from away from agricultural activity spurred on by a policy initiative of economic diversification. Whereas agricultural activity represented 12.28% of GDP in 1990 at constant 2000 market prices, as of 2003P agriculture fell to 10.82% of GDP. At the same time, the marine sector has increased from 2.26% of GDP in 1990 to 6.39% by 2003 while the services sector has hovered between 57% and 60% of GDP over the past decade.

Travel & tourism, a primary component of the services sector, is now being recognized as a significant part of the Belize economy. According to World Travel and Tourism Council (WTTC) Tourism Satellite Account (TSA) statistics in *"Belize: Travel & Tourism Forging Ahead"*, the direct economic impact of the travel and tourism industry to Belize's economy is estimated at 8.03% of GDP in 2003 with an expected 11.4% in real growth in 2004 and 5.6% annualized real growth between 2005 and 2014. The broader economy-wide impact, both direct and indirect, is estimated at 21.78% of GDP in 2003 with an expected increase to 23.5% of GDP in 2004 and 29.2% by 2014.

As an alternative method of calculation of tourism overall economy-wide impact on the economy, we apply the coefficients representing the proportion of each sector of the economy's contribution to GDP attributable to tourism used by Blackstone Corporation in **A Tourism Strategy Plan for Belize**. Using this approach, we find that overall tourism contribution (direct + indirect) to GDP at constant 2000 prices was 22.23% of GDP in 2003, effectively the same as the 21.78% above using the WTTC TSA statistics.

The travel and tourism direct and indirect impact can also be seen in employment. The direct impact alone of the tourism industry accounted for approximately 8.5% of total employment in 2003 while the overall impact of the tourism economy accounted for 21.3% of total employment in the same year. WTTC expects these figures to rise to 12.3% and 28.9% respectively by 2014.

In terms of its impact on Belize's international reserves and balance of payments, the importance of the tourism industry to Belize becomes even clearer. The tourism sector has had a markedly different experience than the other primary foreign exchange earning sectors of the economy. In fact, the tourism sector experience over the past five years has been quite different than the experience in the previous five years. Between 1993 and 1997, monthly occupancy rates fell from 30% to 27% while hotel room revenues increased by a mere 2% per annum during the same period. The tourism sector appeared to be in decline. In 1997, Belize's Ministry of Tourism and Environment and the Belize Tourism Board commissioned the development of a National Strategic Tourism Plan which was developed and prepared by Blackstone Corporation in 1998. Blackstone's Ten-Year Tourism Strategy Plan for Belize ("Blackstone Report") was approved by Cabinet and many of its recommendations sought to be implemented including launching an international brand image and marketing strategy to build awareness and increase tourist arrivals, product development and tourism training. Whereas tourism had until 1998 been primarily private-sector driven without any customized investment incentive regime or any specific Government support, the Government made a firm commitment to the development of the tourism industry thereafter. In order to assist the BTB with its brand imaging and marketing efforts, training and awareness building and product development, between 2000 and 2003, the Government gave by way of subvention to the BTB an unprecedented US$6.2million. Not surprisingly, BTB's marketing and promotional expenditures increased from less than US$1million in 1999 to almost US$3million by 2003. At the same time, during the same period, the BTB spent almost US$3million on product development, areas which prior to the Blackstone Report, had never been given priority or specific funding.

Tourism receipts increased from US$99.1 million in 1998 to US$132.8million in 2002 an average increase of over 8% per annum. It is estimated by the Consultant, based on the Belize Tourism Board/Central Bank of Belize *"2003 Visitor Expenditure and Motivation Survey"*, that for 2003, this figure jumped again by more than 8% to over US$144million. This figure slightly understates total tourism receipts as it does not account for cruise tourism receipts. Nevertheless, these figures are even more remarkable considering that during this period, Belize and its internationally sensitive tourism industry suffered through two hurricanes, the global adverse effect of the World Trade Center bombings on September 11, 2001 and the SARS outbreak and a global economic downturn. WTTC estimates that real growth in tourism visitor exports will increase by over 15% in 2004 and by 6.1% on an annualized basis for the next ten years thereafter.

Tourism is clearly now the single largest foreign exchange earner for the country of Belize and one of the largest employers in the economy, accounting for almost one out of every four jobs. Needless to say, the tourism industry has emerged as one of the most important sectors of Belize's economy.

III. Challenges Facing Belize's Tourism Sector and the Case for Targeted Government Support of Tourism in Belize

Whether or not in part due to Government's policy commitment and financial support of the tourism sector in recent years, the statistics given above easily demonstrate that Belize's tourism sector has blossomed over the past five years far exceeding expectations. While the Blackstone Report proposed a moderate target growth rate of 4% increase in visitors per year to approximately 120,000 by year 5 and over 140,000 by year 10, Belize's visitor arrivals at the Philip Goldson International Airport are now in excess of 151,000, an average per annum increase of approximately 8% or double the target growth rate. Tourism receipts of over US$144 million in 2003 far exceed the WTTC visitor exports estimate of around US$125 million. Moreover, whereas cruise tourism was not a significant part of Belize's tourism industry at the time of the Blackstone Report and was understandably not contemplated in the Tourism Strategy Plan, the most dramatic growth in the tourism industry has been in the cruise sector, growing from around 14,000 cruise tourists in 1998 to 575,196 in 2003 and an expected one million in 2004.

The impact of the explosion in mass cruise tourism visitation on Belize's foreign exchange position and the economy is less clear however. In fact, the WTTC in *"The Caribbean: The Impact of Travel & Tourism on Jobs and the Economy"* notably asserts that notwithstanding that the Caribbean attracts around 50 per cent of the world cruise market,[1] its contribution to overall tourism earnings is nonetheless relatively insignificant – accounting for between 8-10 percent of international tourism receipts only. While the short-term cash flow contribution is uncertain, proclamations of the negative impact this form of tourism has on Belize's archaeological sites, national parks and reserves and marine attractions frequented by cruise tourists and tours are now being corroborated with documented studies, for example, the effect on Goff's Caye.

BTB's focus not surprisingly still remains on responsible tourism development and attracting overnight tourists who generally tend to spend substantially more than cruise tourists.

At the same time, serious concerns about the tourism sector still remain. Belize's hotel occupancy rate, though rising from a low of 27% in 1997 to almost 50% by 2003, still remains way below the Caribbean average of 67% and the World Average of 62%.

Most of Belize's hotels are still small. In 2003, approximately 64% of the hotels had not more than ten rooms and 90% had not more than 20 rooms. Only 1.3% of the hotels had more than 50 rooms. The overall average hotel size for 2003 was 10.84 rooms barely increasing from 10.77 in 2002. In fact, Belize's peak year over the last 16 years (for which statistics are available) was as far back as 1991 when it enjoyed an average of 11.22 rooms per hotel. With such small hotel sizes, there is little scope to take advantage of economies of scale to enjoy efficiency gains and larger profit rates.

Productivity is also a concern. While statistics on this issue has been difficult to come by, it has been noted that over the last 10 years, the average revenue per employee has increased by an average of 1.61% per year while the average inflation rate per annum has been 1.73%. In other words, the revenue per employee in real terms has fallen.

Interviews and meetings with key stakeholders in the tourism industry have netted important concerns and challenges. Stakeholders argue, primarily those in the accommodations sub-sector, that they are crippled by high operating costs especially those relating to supplies, labour and utilities. In respect of supplies, hoteliers argue that the scope given to raw materials enjoying duty exemptions is too narrowly construed. They also claim that the broadening of exemptions sought is not merely to save money or reduce costs but it also enables the service provider to provide a better quality product and service at more affordable rates. They add further that without exemptions, some items of input may not be able to be purchased at all. The costs of labour are also of grave concern to the accommodations sector. They point out that their business is a 24 hours per day- 365 days a year business. For all practical purposes, they cannot simply withhold service on Sundays or public and bank holidays. With labour costs therefore one of the major components of a hotelier's operating costs, they seek relief from paying overtime on Sundays and Belize's many public holidays, especially Christmas Day, Good Friday and Easter Monday when overtime is double the normal rate.

As to Tour operators and transportation service providers, they seek relief primarily from fuel and parts. With roads and infrastructure being in its current state, they have high maintenance costs and as well have high depreciation of their transport vehicles. Tour operators also assert that notwithstanding that tour guides now have training available to them, particularly through the BTB Training Unit, they find that tour guides still are generally not equipped to do tours.

comprise the largest component of the government's revenue base (approximately 33% in 2001). With so much of the operating inputs and consumables of tourism and other businesses benefiting from tourism comprising imports, the government benefits substantially from the tourism industry through this source of revenue as well (notwithstanding the fiscal concessions).

Clearly, the overall contribution to the government coffers undoubtedly far exceeds the cost. The same cannot be so easily said of most other industries in the Belize economy especially export-oriented industries.

A comparison of the results of the 2000 and 2003 Visitor Motivation and Expenditure Surveys (VEMS) bear out some of the above-mentioned complaints and concerns and also show that visitor satisfaction has fallen off substantially.

Visitor Satisfaction

Rating of Product Components (%)	2000	2003	
Product Components	Excellent/Good	Excellent/Good	Change (%)
Airline Connection	68.3	74.6	9.22%
Immigration	72.1	70.1	-2.77%
Customs	72.7	70.8	-2.61%
Safety	68.4	61.9	-9.50%
Accommodation	69.6	62.5	-10.20%
Restaurants	58.2	54.1	-7.04%
Entertainment	36.1	37.2	3.05%
Tours	50	53.7	7.40%
Value for Money	72.4	47.5	-34.39%
National Parks/ Reserves	57.5	45.2	-21.39%
Marine Attractions	68.4	55	-19.59%
Maya Sites	52.4	43.7	-16.60%

The survey importantly shows that visitors feel less safe now than before. In addition, as the tourist population seems to be getting younger according to the survey, with a higher percentage thereof either coming alone or with friends rather than with family, it is to be noted that entertainment in Belize continues to be rated low. Interestingly, the visitor satisfaction rating of national parks/reserves, marine attractions and Maya sites have also fallen significantly in spite of the efforts under the Inter-American Development Bank (IDB) funded US$14mn National Tourism Development Project to upgrade, develop and market Belize's archaeological sites and their support infrastructure.

While visitor satisfaction for the most part has fallen across the spectrum of product components surveyed, most notably, tourists' rating of value for their money fell by over 34%. By WTTC standards, out of 212 tourism jurisdictions, Belize ranked 58 in its price competitiveness. Accommodation costs in Belize, for example, rival those in developed countries like the United States of America.

It seems clear that Belize's price-competitiveness, the below-average occupancy rates and the profitability of the industry are matters of serious short and long term concern for both tourism service providers and consumers and should be for policy-makers as well.

IV. The Role of Incentives

Investment incentive regimes comprise one of the tools a government may use to seek to attract investment, whether in tourism or otherwise. A 1990 study, *"The Impact of Tourism Investment Incentives in the Caribbean Region"*, sponsored by the Organization of American States and the Caribbean Tourism Organization, however concluded that no discernible relationship can be detected between the level of incentives offered and the increase in hotel investment. It did surmise that fiscal incentives may have a relatively profound effect in attracting local investors by luring their capital away from competing local investment opportunities. International investors, with a global perspective, are much less easily swayed by fiscal incentives alone. Rather, their decision making depends to a larger extent on broader criteria such as corporate strategy and market strengths and weaknesses like:

- Stable economic and political climate
- Efficient and reliable infrastructural network
- Positive outlook for tourism development in general
- Strong marketing effort displayed by the host country
- Low Crime
- Long term viability of investment
- Cooperative and efficient public sector
- Low cost, efficient, skilled and adequate labour force
- Available, reliable and affordable utilities and effective communication systems
- Public transportation

According to the study, only in the later stages of the investment decision process is incentives considered if they are relevant to a positive assessment of the investment opportunity.

At the same time, it is recognized by another study, *"Caribbean Tourism Sector Taxation"*, that there exists a feeling among government policy makers that incentives are a "condition" to attract new investments. Moreover, given the fact that most jurisdictions have some form of an investment incentive regime, countries become caught in a fiscal "Prisoner's Dilemma" strategically compelled to have such a regime to maintain a "level playing field" and minimize the risk of forsaking investment by not having an incentive regime when everyone else has one.

Far from merely being used for the purpose of attracting new investment, however, incentives can also play a role in seeking to direct investment, encourage best practices, correct market distortions or defects and develop and maintain standards.

In understanding the role of incentives from a theoretical standpoint, we look at the organization of production. Standard producer theory is concerned with how prices determine the optimal choice of inputs and outputs. Input and output decisions form only one subset of production decisions however. The owners of various factors of production have to be motivated to contribute in various ways to the production process. Accurately measured input contributions and the efficient organization of production could be achieved through a system of prices only where there is no information cost. Where information is incomplete and costly, however, alternative methods of organization and techniques for measuring and rewarding input contributions may be more economical than using prices. Because individuals care about their self-interest, any method of organizing production must ultimately rely on incentives.

A condition precedent to the organization of production, however, is the decision to produce or to invest in production. In other words, there first exists a participation constraint. That is, the intended producer's or investor's expected utility from producing must exceed his reservation utility. In the instant case, the position is slightly different. The participation constraint that the policy maker faces is that the intended investor's expected utility or rate of return on investment from investing in tourism in Belize must exceed his expected utility or rate of return from investing in something other than tourism in Belize whether within Belize or outside. Incentives can play a significant role in ensuring this constraint is satisfied by enabling the expected rate of return on investment in Belize to be comparatively higher. On its own, incentives will unlikely play a significant role, except on a short-term first-mover advantage basis, since the prevalence of similar incentive regimes across jurisdictions merely operate to set off one against the other thereby marginalizing the intended impact of creating a local comparative advantage. If it is nevertheless satisfied, then new investment will be attracted to Belize. Incentives can then play a further role in directing such new investment provided the constraint remains satisfied.

Incentive theory, at the level of organization of production, independently from the decision to invest in production, has been dealt with extensively in the examination of the principal-agent problem. Agency relationships arise whenever the person who undertakes an action (the agent) is not the same as the person who bears the consequences of that action (the principal). In other words, the principal is vicariously liable for the actions of the agent. When the agent's action cannot be observed and directly specified in a contract, he may not have the incentive to undertake the appropriate actions for the principal. This is known as moral hazard and refers to incentive problems which arise when productive actions taken by one person cannot be observed by another person or be observed by a third party. A principal would in such instance, with information being costly and incomplete, have to establish an optimal incentive scheme incentivising the agent to take one action out of a range of actions which the agent may otherwise be more inclined to take but which maximizes the principal's profit or rate of return on investment and which would at the same time satisfy the above-mentioned participation constraint.

In the instant case, we seek to stretch this incentive theory at the level of organization of production to apply to tourism investment and the tourism sector in Belize. We assume government or the state ("the State") has a primary interest in driving or otherwise fostering economic growth in Belize through, *inter alia,* the tourism industry with a long term time horizon. In this regard, in investing in infrastructure and providing other forms of support to the tourism industry including but not limited to forgoing tax revenues by providing fiscal concessions/incentives to private tourism investors, it stands in the position of an investor in the tourism industry. At the same time, with a long term time horizon, the State also has an interest in the long term sustainability of the industry as well. We therefore assume the State as the principal seeking to maximize its long term profit or rate of return on investment in a sustainable tourism industry. The private tourism investor similarly has a rational self-interest in maximizing his profit or rate of return on investment in tourism. We assume however that he has a shorter time horizon than the State. His self-interest will therefore not necessarily coincide with that of the State. Furthermore, we assume that the State's investment success is dependent on the private tourism investor's actions. In other words, the State, though not exclusively, bears the consequences of the actions of the private tourism investor. As such, a principal agency relationship definitionally arises with the State as the principal and the private tourism investor as the agent. The moral hazard problem also arises as the actions of the private tourism investor cannot be fully observed by the State. It would behoove the State as principal in such instance to establish an optimal incentive scheme incentivising the private tourism investor as agent to take one action out of a range of actions which the agent may otherwise be more inclined to take but which maximizes the State's long term profit or rate of return on investment in a sustainable tourism industry and which would at the same time satisfy the above-mentioned participation constraint.

V. Incentive Options Available for Tourism Investment and their Impact

Given the absence of disaggregated statistical data to make statistically based inferences, we examine on a theoretical basis the impact of incentive options that have been used in jurisdictions across the globe to incentivise investment in tourism.

Import Duty exemptions

The grant of import duty exemptions on items needed to develop a project is a commonplace investment incentive. This is a plain vanilla incentive tool which simply seeks to reduce the investment cost in a country with limited locally produced goods.

Reduced taxes on income and/or profits

This is probably the second most popular form of investment incentive although it has taken on a variety of different innovative and creative forms across jurisdictions. Examples include full or partial tax holiday on income and/or profits, reductions in taxes due to job creation and employment, accelerated depreciation, capital allowances, deductions for reinvested profits, tax deduction for foreign exchange earnings, tax credits, property tax exemptions, tax free dividends and deductions for other specified forms of expenditure. Each of these variants has differing desired effects but in each instance, the incentive is given in order to make it cheaper to do a desired act by the investor, whether it may be generally to invest in tourism or labour-intensive sub-sectors thereof or to invest in foreign exchange earning ventures or even to spend on marketing, training or otherwise.

Non-restrictive Foreign Exchange Control

Such features of an incentive regime are attractive to foreign investors as it provides a level of comfort that they may freely repatriate profits, dividends or pay interest, royalties and other funds for the repayment of debt.

Employment Policies

Though a politically sensitive issue, a liberal and bureaucratically efficient work permit policy may be a useful tool that may be attractive to investors as it enable the employer a wider market for labour and thus a greater opportunity of procuring cheap labour.

Finance

A government may source finance in any number of ways for investment that it wants to encourage in numerous ways. It may give an outright grant. Grants are usually tied to the type of the specific investment, the geographic area of the investment and job creation. It may also provide assistance with project financing whether by offering interest rate subsidies or by actually providing loans with favourable terms and interest. It can even engage in equity participation in certain projects. The immediate effect of these forms of finance would be to reduce the cost of doing business. It may also enable finance to be sourced by providing government guarantees for the loan payments. This not only allows an investor to access finance without collateral but it also in many cases allows it to get cheaper finance than it would have otherwise gotten without it.

An interesting scheme, known as the debt-equity swap has been used in Mexico. In the case of Mexico, an approved investor assumes the desired amount of Mexico's foreign loan obligation on the grey market at a large discount. The Mexican government then repurchases the debt in pesos at a price higher than was paid by the investor but lower than the face value of the loan. The investor then uses the peso to invest in Mexico. This scheme was useful in reducing Mexico's foreign debt as well as in creating new investment. Besides lightening a government's foreign debt burden, its effect is to allow investors in approved projects to invest in a country at a sharply reduced cost.

VI. Investment Laws and Incentives Regime of Belize and Selected Jurisdictions

In light of the role and theoretical perspective on incentives highlighted above, we undertake a comparative analysis of Belize's incentive regime with other selected jurisdictions in the Caribbean and Central America that may arguably offer a competitive substitute to Belize's tourism product.

Belize

The Government enacted a series of legislation in the early 90's to allow for a range of incentives to encourage private, local, and foreign investment, namely, the *Fiscal Incentives Act* of 1990, the *Export Processing Zone Act* of 1990 and the *Commercial Free Zone Act* of 1994. Unfortunately, unlike other jurisdictions, there are no specific tourism investment incentive regimes in Belize. Nevertheless, tourism and tourism related service providers have sought fiscal concessions and incentives primarily under the Fiscal Incentives Act although there are a number of businesses that have sought to procure the benefits offered under the Export Processing Zone Act and the Commercial Free Zone Act particularly in the casino and re-export retail services businesses. The latter two legislation are dealt with first.

The investment incentives offered to an EPZ business though curtailed recently still remain extensive:

- An EPZ business shall be permitted to import such quantity of goods and supplies free of customs duty, tariffs consumption taxes, excise taxes, trade turnover taxes or other taxes as are necessary for the production and operation of the business including specified service and utility vehicles and spare parts in respect thereof and fuel where required for energy generation purposes provided it is not retailed.
- All exports of an EPZ business out of an EPZ shall be exempt from all customs duties, tonnage taxes, consumption taxes, excise taxes, trade turnover taxes, foreign exchange taxes, or other taxes.
- Each business shall be exempt from income tax, withholding tax, capital gains tax or any new corporate tax adopted by the Government of Belize after the commencement of this Act for a minimum of the first twenty years of operation ("tax holiday period"), with an option to extend the exemption for a further period of time. Once this tax holiday period expires, then the EPZ

business shall pay business tax at the rate of 2%. Any dividends paid by an EPZ business shall also be exempt from tax in perpetuity.

- If an EPZ business incurs a total net loss over the twenty years of the tax holiday period, that loss may be carried forward and deducted against profits in the years following the tax holiday period.
- Any proceeds from the sale of stock or other partial or complete ownership interest in an EPZ business shall be exempt from any capital gains tax.
- All real property within an EPZ shall be exempt from any property or lands tax. Any sale of real property within an EPZ shall be exempt from any transfer tax.
- All goods or services sold by an EPZ business enterprise outside the Belize customs territory shall be exempt from any value-added tax, consumption tax, sales tax, excise tax or trade turnover tax.
- The Immigration Department may grant work permits to applicants who will serve an EPZ business in senior management or technical position and such permits shall remain in effect until the holder of such work permits cease to work in the positions for which such permits have been granted.
- In addition, the Immigration Department may grant work permits for up to fifteen per centum of the workers of an EPZ business as designated by the EPZ business.
- Goods in transit through the national customs territory bound for an EPZ or from an EPZ to a destination outside Belize are also expressly exempted from sales tax by the Sales Tax Act.

The CFZ Act provides that any person may apply to establish and operate a wholesale and/or retail business as a CFZ business. The proposed business must conduct trade and investment activities such as commercial, office, warehouse, manufacturing, insurance services, financial services, banking services, offshore financial services and any other professional or related activities. The incentives offered are similar to the Export Processing Zone incentives but not as extensive:

- All goods entering a CFZ for commercial purposes shall be exempt from import duties, stamp duties and revenue replacement duties. All fuel and goods, including building materials, furniture, equipment, supplies and parts required for the proper functioning of a CFZ business are also exempt from all duties and taxes and charges. Motor vehicles and fuel for personal use entering a CFZ shall not be exempted from the taxes and duties referred to above.
- All imports and exports of a CFZ to or from whatever destination shall be exempt from all customs duties, consumption taxes, excise taxes, export

duties, in transit taxes or export taxes, except those destined for and directly entering areas subject to the national customs territory.

- A social fee of 1.5% is charged on the value of goods and services other than fuel imported into a CFZ. In respect of fuel, the social fee is 10%.
- Whereas the corporate tax on income is 25% under the *Income and Business Tax Act*, CFZ business pay income tax at reduced rates ranging between 2% and 8%. At the same time, tax credits are given in accordance with the number of Belizean workers employed on a continuing basis of up to 2% of taxable income.
- During the first ten years of its operation, a CFZ business shall be exempt from income tax or capital gains tax or any new corporate tax levied by the Government of Belize, and any dividends paid by a CFZ business shall be exempt from such tax for the first twenty years of its operation.
- Where a CFZ business incurs a total net loss over the five years tax holiday, that loss may be carried forward and deducted against profits in the three years following the tax holiday period.
- Gross receipts tax and any form of value added tax shall not apply within a CFZ.
- The operations of CFZ businesses may, upon approval, open twenty-four hours, seven days a week.
- The Immigration Department may grant work permits to non-resident persons required to serve within a CFZ in managerial or technical positions.
- Goods in transit through the national customs territory bound for an CFZ or from an CFZ to a destination outside Belize are also expressly exempted from sales tax under the *Sales Tax Act*.

The *Fiscal Incentives Act* is designed to encourage genuine investment in Belize by assisting local and foreign investors through the development stages of their investment project. The fiscal incentives offered under the Act include relief from taxes and duties for a specified period of time. During the tax holiday period, all profits and gains up to the total amount invested by the shareholders may be exempted. The tax holiday period is normally for five years from the date of commencement of production. However, the Minister responsible for investment may, upon later review, extend the tax holiday period for a term not exceeding ten years. In addition, companies that are engaged in agriculture, agro-industry, mariculture, or manufacturing, whose operations are strictly for export and highly labor intensive, may receive a tax holiday for up to twenty-five years. During the duty exemption period, the approved enterprise may import into Belize, free of customs and stamp duty, all building materials, plant, machinery, equipment, tools including specialist hand tools (but not including other hand tools), utility and transport vehicles, fixtures and fittings, office equipment, appliances, spare parts on plant and plant related machinery and agricultural machinery, and any raw materials or other items imported for use in the approved enterprise subject to such terms and conditions set by BELTRAIDE. Further, except in the case of an export enterprise exporting to non-CARICOM countries, no duty exemption shall be granted for any raw materials or articles which are available in Belize or in a CARICOM CSME country provided that they are of comparable price. The duty exemption period shall be for not more than fifteen years commencing from the date the company becomes an approved enterprise under the Act. However, the said Minister may in the case of an export enterprise renew the duty exemption period for a further term not exceeding ten years. In the case of a company that is engaged in agriculture, agro-industry, mariculture, or manufacturing, whose operations are strictly for export and highly labor intensive, the duty exemption period may be for up to twenty- five years.

The *Fiscal Incentives Act* was recently amended in 2002 to make specific provision for small and medium enterprises (SME's). Those enterprises are specifically defined to include only those enterprises with investment less than BZ$300,000 carrying on numerous activities including tourism related activities such as auto rental, arts and cultural activities, handicraft, woodcraft and jewelry making, hotel, restaurant and other tourism related activities. SME's may enjoy duty exemption periods for up to two years at a time but may not be extended beyond five years. SME's are not entitled to tax holidays.

At the same time, all approved enterprises, whether small, medium or otherwise, remains subject to sales tax, currently 9% and environmental tax, currently 1%. Such approved enterprises are also subject to business tax PROVIDED THAT in the case of a company enjoying, as of the 1st of July, 1998, an income tax concession (wholly or partially) under the *Fiscal Incentives Act*, the Minister responsible for Finance may grant a reduction not exceeding fifty percent of the business tax payable by such company for the remaining period of its tax concession and FURTHER PROVIDED THAT the Minister responsible for Finance may waive the whole or part of business tax payable by such company if he is satisfied that it is necessary to do so to alleviate hardship or financial difficulty. In addition, the business tax of fifteen percent normally payable on interest on loans to a non-resident shall not be deducted if interest is paid on capital used in the approved enterprise, the Minister is satisfied with the ratio of paid-up share capital to loan capital and tax is not chargeable on such interest payments in the country of residence of the person to who such interest is paid (provided that the Minister may waive this requirement if he is satisfied that the loan capital could not be reasonably procured in Belize). Such approved enterprise, deemed a specified development industry or project, would be exempt from income tax on any interest payable on capital or on dividends of up to US$500.00 irrespective of whether a tax holiday is granted.

The Fiscal Incentives Act generally does not discriminate in its treatment of local versus foreign investors save and except that where the investment shall be less than US$125,000.00, only a Belizean company, defined to mean a company in which Belizean nationals own not less than fifty one percent of the share capital, may apply without the payment of any application fee. Apart therefrom, so long as the applicant is a company incorporated in Belize, the ownership thereof, whether it be local or foreign, is not relevant for purposes of the application and approval process under the *Fiscal Incentives Act*.

As far as the WTO is concerned, fiscal incentives granted under this legislation would not likely fall into the category of "prohibited subsidies" though there exists strong concern with respect to the EPZ Act and the CFZ Act, the EPZ Act almost certainly being deemed "prohibited subsidies" legislation.

The *Income and Business Tax Act* does offer certain forms of tax relief to investors in certain specified circumstances. As mentioned above, approved enterprises under the *Fiscal Incentives Act* are exempt from income tax on interest payable on capital and on dividends paid to a shareholder up to US$500.00 in any basis year. As to business tax, the Minister responsible for Finance may also exempt from the payment of business tax a newly-established business or industry during the first two years of its operation if in his opinion it is necessary to do so to alleviate hardship or financial difficulty. More extensive exemption periods and allowances exist for agricultural and agro-processing but not for tourism.

Interest on loans paid to non-residents attract a business tax rate of 15% however the Minister does have a discretion to exempt this tax where used in development industries or projects. The Minister has not yet specified such industries or projects.

Trinidad and Tobago

Since the 1990's, the government of Trinidad and Tobago has increased its interest in, and commitment to, tourism dramatically. Its economic policy actively encourages foreign investment and has since enacted legislation to remove restrictions on foreign investment and seek to remove foreign exchange control. The Government has also made a wide range of fiscal incentives available to the foreign investor through the Tourism Development Act of 2000 generally taking the form of import duty concessions and other tax allowances. Particular incentives to hotel and tourism industries include:

- Tax exemption for a period of 5 to 10 years.
- An accelerated depreciation of depreciable equipment owned by the hotelier.
- A capital allowance in respect of approved Capital Expenditure.
- Free repatriation of capital and dividends.
- Carry over of losses incurred by owner and/or operator during the tax exemption period.
- Tax exemption on dividends accruing to the owner and/or operator.
- Tax exemption to the financial institutions on interest on approved loans for a maximum period of 10 years or the period of the loan, whichever is less.
- Customs and Excise Duty Exemption on building materials and articles of hotel equipment to be used exclusively in connection with construction and equipping of a hotel project.
- Double Taxation Relief where applicable.

The definition of a Hotel Project includes the following:

- Construction of a new hotel.
- Alteration or renovation of an existing hotel.
- Conversion of an existing building into a hotel.
- Furnishing and equipping of a new or renovated hotel or a building that is converted to a hotel.

Notably, individuals and corporate equity investors are allowed a tax credit equivalent to 25% of the equity investment, claimable over a three (3) year period. Approved Hotel Projects with a minimum capital cost of US$15 million and/or 200 rooms and Approved Tourism Projects with a minimum capital cost of US$15 million will have access to a Loan Short Fall Guarantee Scheme up to US$5 million. The investment criteria for Hotel Projects are:

- a minimum of 40 rooms
- a newly constructed hotel
- a refurbishment or renovation of a hotel with a minimum of 10 rooms where the capital cost for the upgrade exceeds US$12,000 per suite
- an addition to an existing hotel where the room capacity is increased by 25% or 100 rooms whichever is greater
- an upgrade of an existing hotel where the minimum investment is US$100,000.

- an ecolodge of no fewer than 20 rooms.

The investment criteria for Tourism Projects are:

- a minimum capital investment or equipment cost of US$83,333 or TT$500,000.
- rental of villas, townhouses and condominiums should be available exclusively to visitors or be part of a bona fide time-sharing programme for at least 5 months of the year.

Barbados

The Tourism Development Act is the primary legislation that provides benefits and incentives to investment in the tourism and hospitality sector. The Special Development Areas Act provides incentives for approved developers for carrying on specific activities in defined geographical areas in Barbados.

The Tourism Development Act 2002 focuses on incentives beyond the traditional accommodations sector. Incentives are offered in the new Act to restaurants, recreational facilities and services, development of attractions that emphasize the island's natural, historic and cultural heritage and for the construction of properties in non-coastal areas. Provision is made in the Act for investors in tourism projects to benefit from write off of capital expenditure and accelerated write off of interest at 150%; there is also exemption from import duty, value added tax and environmental levy in respect of furniture, fixtures and equipment as well as building materials, supplies and equity financing.

To be eligible for incentives/concessions under the Tourism Development Act, a project must fit into one of the following categories:

- Construction of a new hotel, the alteration or renovation of an existing hotel or the conversion of a building into a hotel;
- Furnishing and equipping of a building to be utilized as a hotel;
- Provision of tourist recreational facilities and tourism related services;
- Construction and equipping of a new restaurant or the alteration or renovation of an existing restaurant;
- Construction of a new attraction or alteration or renovation of an existing attraction;
- Restoration, preservation and conservation of natural sites;
- Construction and furnishing of villas and timeshare properties;
- Addition to a tourism product of facilities or services intended to increase or improve the amenities that the tourism product provides.

Customs Duty or Income Tax concessions may be granted under the Tourism Development Act in respect of:

- Duty-free importation (including waivers of Value Added Tax (VAT) and Environmental Levy) of building materials and equipment during construction and rehabilitation;
- Duty-free importation (including waivers of Value Added Tax (VAT) and Environmental Levy) of supplies for refurbishment of hotels, restaurants, villas and sports and recreation facilities for tourism purposes;
- write-off of capital expenditure and accelerated write-off of interest;
- 30% investment tax credit;
- 150% deduction of expenditures in the training of employees;
- 150% deduction of expenditures in marketing.
- 150% write off of interest in refinancing of loans
- 150% deduction of expenditures in product development and research
- Tax credit of 20% of capital cost of waste water disposal system

Costa Rica

Companies may request both fiscal and non fiscal incentives. Various legislations have been passed to support national tourism policies relating to investments as well as to the adherence of standards.

Incentives can be obtained in the following areas:

- Services of the Hotel Industry
- Local and international air transport of tourists.
- Vehicle rental to local and foreign tourists
- Tourist aquatic transportation
- Inbound tourism activities for travel agencies exclusively dedicated to this activity
- Upon request and approval, some of the benefits granted to the above mentioned activities are exemptions from tax and surtax on the import or purchase of essential goods, and advanced depreciation of assets.

Bahamas

The Bahamian fiscal regime is unique in that there are no direct taxes, relying primarily on import duties and license fees for government revenues.

Companies pay no taxes on personal or corporate income, capital gains, dividends, interest, royalties, sales, estate, inheritance or payrolls.

The Hotel Development Act provides for duty-free entry of approved construction materials, furnishings, and fixtures for hotel development. The Act reduces the demand on cash flow for hoteliers and encourages regular property renovations. Recent amendments to the Act have reduced the number of rooms required for new hotels to access this incentive to five rooms for hotels in the Family Islands. This reduction is expected to stimulate an expansion in small, eco-sensitive hotels and guest houses.

Comparison of Laws and Types of Incentives Available for Tourism Investment

Although Belize has numerous investment incentive laws, none of them are targeted directly to stimulating investment in the tourism industry. *The Export Processing Zone Act* is intended to attract both local and foreign investment. Any proposed EPZ business must produce goods and/or services solely for export or sale to buyers who are not residents of Belize. This legislation though extensive in the incentives it offers is location-dependent and as such for the most part will only be relevant for fixed location service providers like casinos, hotels and restaurants. Moreover, proper physical safeguards would need to be put in place to ensure that there is no unchecked filtration of products and services between each EPZ and the customs territory since residents cannot purchase products or services from an EPZ business without full duty and tax implications. The fact that one of the conditions for being granted the incentives and exemptions is that the proposed business must be an export business would also very likely deem such incentives and exemptions "prohibited subsidies" under World Trade Organization Rules and the Agreement on Subsidies and Countervailing Measures. It is not likely therefore that this legislation will continue without amendment beyond 2007.

The *Commercial Free Zone Act* was also established to attract investment in Belize primarily though not strictly for re-export. Similarly with the EPZ Act, the CFZ Act is location dependent. In addition, as drafted, the legislation and the concessions granted thereunder seem to be product-oriented rather than service-oriented though there is some room for a more inclusive statutory interpretation. Another limitation of the Commercial Free Zone Act is that no person shall be allowed to ordinarily reside within a CFZ. Further, there are clear restrictions that the exemptions only apply when sales are made in certain specified circumstances. At the same time, since the incentives and exemptions are not explicitly dependent on export performance, they may not necessarily be "prohibited subsidies".

Given the above-mentioned shortcomings of these legislation among others, most tourism service providers to date continue to seek fiscal concessions under the Fiscal Incentives Act which although legally offers income tax holidays, in practice, only yields duty free exemptions. The new SME Fiscal Incentive Program has also generated renewed interest and usage in the tourism sector of this legislation for procuring duty exemptions. For example, in 2003, while 27 companies were granted development concessions under the general Fiscal Incentive Program, 68 SME's were granted concessions under its corresponding program.

In all the other jurisdictions we examined, duty exemptions were essentially the jumping off point in terms of investment incentives being offered. The scope of the duty exemption was a matter of concern raised by Belizean private sector stakeholders. Whereas BELTRAIDE assures that the duty exemptions granted to tourism service providers seek to address the needs of the provider and generally includes supplies, private sector stakeholders say otherwise. In fact, they ask for specific amendments to the Fiscal Incentives Act to include duty exemptions for marketing materials, furniture, fuel, hotel and restaurant guest supplies, water crafts and aircrafts. The Barbados Tourism Development Act leaves little doubt as to what items will enjoy duty exemption by scheduling and extensive list of materials and supplies therein. Moreover, while the Fiscal Incentives Act is skewed in its application to products (especially agricultural related products) rather than to service, for example, longer length of tax holiday and duty exemption periods for such products, the Barbados Tourism Development Act is obviously customized for tourism and clearly and transparently sets out what types of tourism businesses would be eligible for the incentives and concessions.

With the discretionary grant of development concessions under the Fiscal Incentives Act and the extent thereof, notwithstanding provision for grant of income tax holidays thereunder, the policy in practice has been to grant duty exemption periods but not income tax holiday periods. Business tax on gross receipts generally applies across the board. Whereas Bahamas has no income tax whatsoever, Trinidad offers income tax holidays. Barbados doesn't. On the other hand, it offers a number of tax deductions for expenditures on such areas as training, marketing, product development and research at an accelerated rate of 150%. Both Costa Rica and Trinidad provide for accelerated depreciation.