

September 2, 2016

Senator Orrin Hatch
Chairman
Congressional Task Force on
Economic Growth in Puerto Rico
Washington, DC

Preliminary Recommendations of the Puerto Rico Hotel & Tourism Association to the Congressional Task Force on Economic Growth in Puerto Rico

Dear Mr. Chairman and members of the Task Force:

The Puerto Rico Hotel & Tourism Association (“PRHTA”) respectfully submits the following preliminary recommendations as part of its efforts for promoting the development of the tourism industry in Puerto Rico. The PRHTA is a non-profit private organization representing more than 530 corporate members, comprised of hotels, restaurants, tour and transportation companies, suppliers of hospitality goods and services, airlines, cruise lines and educational institutions. Our ultimate goal is to contribute to Puerto Rico's standing as one of the world's finest tourism destinations.

If you have already examined some of the fiscal analysis related to the economic condition of Puerto Rico, you will know that tourism is a real and quick alternative for promoting economic growth and social development in the Island. As pointed out by the World Tourism Organization (“WTO”), *an ever increasing number of destinations worldwide have opened up to, and invested in tourism, turning it into a key driver of socio-economic progress through the creation of jobs and enterprises, export revenues, and infrastructure development.*¹ In summary, everything that Puerto Rico desperately needs.

In fact, available data demonstrate that *tourism has boasted virtually uninterrupted growth over time, despite occasional shocks, demonstrating the sector's strength and resilience.*² Also, tourism has the ability to attract “new money” into the economy within a short period of time and without significant investment.

According to the WTO, international tourist arrivals have increased from 25 million globally in 1950 to 1,186 million in 2015. Likewise, international tourism receipts have surged from US \$2billion to US \$1260 billion during that same period. The future looks

¹ <http://www.e-unwto.org/doi/pdf/10.18111/9789284418145>

² *Idem*

bright and in the case of the Caribbean region, the WTO projects the arrival of 10 million additional visitors by year 2030.

We need to take advantage of these trends by taking crucial decisions that will foster such additional growth. Accordingly, we need to implement adequate tourism policies that will help Puerto Rico improve its share of the benefits of the tourism industry while overcoming its current challenges.

As we all know, Puerto Rico faces a difficult fiscal and economic crisis,³ where its general obligation bonds have been downgraded by Rating Agencies to their lowest junk rating status.⁴ As a direct consequence of such economic turmoil, the Island's capacity to borrow money is virtually non-existent which cause the lack of the necessary tools to solve its critical situation and promote the local economy.

The above situation is exacerbated when you factor in the high unemployment levels and low labor participation rate that characterizes Puerto Rico's labor market. As a matter of fact, recent local Department of Labor's statistics show that unemployment in Puerto Rico reached 11.4% in July 2016 while the labor participation rate was measured at 40.5% for such same period.⁵ In other words, Puerto Rico's labor force participation rate is among the lowest in the world, with less than half of eligible workers participating in the formal economy, and its unemployment rate has been consistently well above the U.S. mainland's.

Puerto Rico will never be able to pay its debt and restructure its finances if this trend isn't reversed. We understand that a strong and relevant tourism industry will be a key factor for restoring economic growth in Puerto Rico. Tourism is the only economic sector that has the ability to attract "new money" with the least amount of investment and more importantly, on a short term basis.

It is important to note that even in the mist of the financial and economic crisis Puerto Rico is facing, and consistent to the worldwide experience, the tourism industry has

³ <http://www.project-syndicate.org/print/cause-of-puerto-rico-economic-crisis-by-anne-krueger-2015-09>

⁴ http://www.washingtonpost.com/business/economy/puerto-rico-bonds-downgraded-to-junk-levels/2014/02/04/c9495a22-8ddf-11e3-833c-33098f9e5267_story.html

⁵ <http://www.mercadolaboral.pr.gov/lmi/pdf/Grupo%20Trabajador/2016/EMPLEO%20Y%20DESEMPLEO%20EN%20PUERTO%20RICO%207.pdf>

proven its resilience by maintaining limited, but positive signs of growth. For over 66 years PRHTA, as the lead representative of a vast majority of tourism related businesses in Puerto Rico, has urged government officials and other community leaders to embrace the sector as an alternative to strengthen our Island's economic potential. Unfortunately, although reputable economists and financial analysts have highlighted the quick economic potential of tourism to help offset the current economic crisis, no tangible measures have been taken towards that goal. We hope the Task Force recognize this and includes our recommendations as part of the preliminary report it will submit by mid-September and the final report to be submitted by year end.

The equation is simple: Puerto Rico needs jobs and new fiscal resources. Tourism is capable of providing both. It can create jobs immediately for our fellow United States citizens and it can promote the spending of visitors in our economy. This can happen without the need of additional infrastructure investment and by maximizing the use of available resources.

There is a proven economic effect where “new money” outside the jurisdiction is immediately injected into the local economy by just increasing the number of visitors. Taxi drivers, hotels, restaurants, shops, among others, benefit from this new influx of resources. The government also benefits from the collection of additional taxes and fees. In fact, important studies such as the “*Report by the President’s Task Force on Puerto Rico’s Status*”⁶, the Federal Reserve document on the “*Competitiveness of Puerto Rico’s Economy*”⁷, as well as various reports issued by the different rating agencies, have concluded that tourism has become one of the strategic sectors of the Island’s economy and that government needs to promote its development and growth.

Again, it is important that Task Force acknowledge this reality and support our industry accordingly. Tourism in Puerto Rico has the capacity to duplicate its impact on the economy on a short term basis but only if we take the right steps necessary to help us reach that potential. As an example, based on available data, the economic impact of 200,000 additional visitors arriving to Puerto Rico is estimated to exceed \$240 million.

But in order to achieve the above, Puerto Rico needs to rethink its public policy and planning of tourism, considering the evolution in the industry’s marketplace. A crucial and basic element that needs change is the manner in which the efforts of marketing and promoting Puerto Rico as a destination are conducted. This is an area where performance

⁶ https://www.whitehouse.gov/sites/default/files/uploads/Puerto_Rico_Task_Force_Report.pdf

⁷ <https://www.newyorkfed.org/medialibrary/media/outreach-and-education/puerto-rico/2014/Puerto-Rico-Report-2014.pdf>

measurement and evaluation has become mandatory and an area we continuously neglect and fail.

It is time to change how Puerto Rico is marketed as a Tourism Destination and to emulate effective strategies used by other successful destinations. To that effect we propose that the Task Force considers and recommends the establishment of a Destination Marketing Organization (“DMO”) for Puerto Rico based on the following four pillars:

1. The DMO must be an independent non-profit private entity outside the government control;
2. The marketing efforts of the Puerto Rico Tourism Company (“PRTC”), shall be transferred to the DMO;
3. The majority of the DMO Board of Directors shall represent the tourism industry private sector and;
4. The DMO must have fiscal autonomy by allocating a defined percentage of the room tax revenue.

As described in the report “*Governing National Tourism Policy*”⁸, new models of tourism marketing continue to be sought and today, marketing and promotion is generally the responsibility of national tourism organizations (“NTOs”) led by the private sector. In fact the report states that governments in a growing number of countries *have withdrawn from many of their traditional responsibilities and activities (such as marketing and promotion) in favor of public-private sector NTOs* similar to the DMO described.

Our proposal not only makes sense but also replicates initiatives implemented by successful tourism destinations. We must alert the Task Force that one of the main problems our industry faces is the inconsistent message, fragmented efforts and the reduced efficiency on how tourism marketing dollars are spent in Puerto Rico. This is an essential area that the Task Force needs to take a closer look at and support our recommendations with Congress and with the Financial Oversight and Management Board created by the PROMESA Act.

For decades the general practice in Puerto Rico has been to change tourism marketing and promotional campaigns whenever a new administration takes office or even when the leadership of the PRTC changes. The end result is wasted money and an improper use of the funds without achieving concrete goals. This erratic practice has prevented Puerto Rico to have a defined image and brand and as a destination thus promoting a continuous conflicting message which is confusing to the tourism marketplace.

⁸ <http://www.wttc.org/-/media/files/reports/policy-research/governing-national-tourism-policy-final.pdf>

A DMO will maximize the use of all available marketing funds by investing strategically and by giving continuity to marketing and promotional efforts, within a well-conceived marketing plan with clear goals and objectives, not subordinated to political or administrative changes. As part of the efforts of reestablishing fiscal discipline in Puerto Rico, the creation of a DMO capable of implementing efficient marketing strategies and ensuring an adequate use of available resources is a goal we all must embrace and is consistent with the intent of PROMESA.

On a different topic, the PRHTA express its full support to the recommendations presented to the Task Force by the Private Sector Coalition (“Coalition”). Said recommendations cover critical areas hindering economic development in Puerto Rico. Of particular interest to us are the energy initiatives suggested by the Coalition.

Energy costs in Puerto Rico are unsustainable and unpredictable. As representatives of an industry comprised of many businesses that operate 24 hours a day, 7 days a week, we cannot stress the huge financial impact these costs represent. The Coalition has presented a comprehensive energy reform plan that if implemented, will help to jumpstart all economic sectors in our Island. For that reason we support that plan and urge the Task Force to embrace it accordingly.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Miguel Vega', with a stylized flourish extending from the end.

Miguel Vega
Chairman of the Board