SLHTA

SAINT LUCIA HOSPITALITY & TOURISM ASSOCIATION

14th April 2020

To:
Christian Wayne
Economic Attaché & Second Secretary
to the ECS Embassies

Dear Christian,

Thank you for inviting me to write you a note about the state of the hospitality and tourism industry in Saint Lucia in my capacity as President of the Saint Lucia Hospitality and Tourism Association.

For your information, the SLHTA updates its members on COVID-19 related information via link http://www.slhta.com/coronavirus .

It is my hope that by highlighting the state of the industry, we can work together with you and the OECS to find solutions that would not only assure the survival of our hospitality and tourism businesses, but even allow us to come back stronger, more resilient and more competitive on the global tourism scale.

Please allow me to elaborate first and then offer some recommendations in the latter part of this letter.

As we all know and agree, COVID-19 is an unprecedented global crisis.

In regard to the global economy, it has been acknowledged that the tourism industry is one of the worst hit.

According to the WTTC, global travel & tourism represents 10.3% of global GDP and supports 330 million jobs on the planet, or 1 in 10 jobs, making it a critical driver of economic growth and the backbone of many economies around the world.

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The WTTC's recent research highlights that due to COVID-19, 75 Million jobs at risk worldwide and $2.1 trillion in revenue lost with these number no doubt climbing further.

The U.S. Travel Association alone projects a loss of 4.6 million jobs through May, a figure also likely to increase. As a matter of fact, hotel and tourism CEO's and executives visited the White House in recent weeks pleading for $150 billion in direct grants for hotels and their suppliers "within days," and an additional $100 billion for other tourism businesses such as attractions, recreation, retail and rental cars, dwarfing roughly $50 billion requested by airlines in a combination of tax relief, federal grants and loans.

Jamaica's Minister Ed Bartlett recently highlighted that "just by way of straight data of the 20 most dependent countries in the world on tourism, the Caribbean has 10 led by the British Virgin Island with 92.6**%** dependence. And of course, this is followed by Antigua and Barbuda, and Aruba, and a number of other countries – Barbados, The Bahamas, Saint Lucia, and Jamaica. "

Here in Saint Lucia, tourism activity directly employed and supported approximately 14,000 workers and their families, but the trickle-down effect and financial benefits of tourism activity reached far beyond. In fact, as a collective, tourism related industries account for 37.7% of persons employed in Saint Lucia and the direct contribution of travel and tourism to the country's GDP stood at 42% in 2018 according to WTTC.

As of the ending of March 2020, most hotels and guest houses had to close their doors, triggered by the many travel bans internationally and also locally. There are some exceptions inasmuch as some hotels and guest houses are used for medical purposes and quarantine accommodation or housing of medical support staff but obviously, these arrangements are mad**e** either on a complimentary basis or with a severely reduced rate.

The situation of the industry is more than dire at this current time and the situation is not likely to improve any time soon.

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When will the crisis be over ?

One of the biggest challenges of the COVID-19 crisis is the open ended-ness of it. As long there is no vaccine, it is extremely difficult to forecast when travel will be deemed safe again and when individual countries will ease up on the current restrictions. The fragile state of Saint Lucia's healthcare system, not a unique problem in the Caribbean, requires a careful analysis, how and when visitors could be invited back, without putting the entire population at risk. Yet, at the same time, with the economy so heavily dependent on tourism activity, a solution needs to be found.

Consumer confidence in airport & airline safe operations and in destination and resort health and hygiene measures will play a key part in the recovery.

The "new normal" post Covid-19 travel scenario will have to involve COVID-19 reliable, quick testing methods of visitors on arrival and regular testing of hospitality workers to mitigate the risk of infection, combined with heightened hygiene, health and safety protocols.

Whilst there is an anticipation by some industry professionals that some travel activity will have come back by June, other see a fall scenario more likely.

Will different tourism segments and destinations recover at the same time?

Operators dependent on cruise activity will be impacted seriously due to the current state of the cruise industry which is generally anticipated to take the longest time to recuperate. On the other side, the cruise industry will be able to pour millions into marketing when the time has come to reverse this to some extent.

It is expected that the luxury accommodation segment and special interest travelers will bounce back quicker than other segments. Also, some destinations and regions will be more popular than others. Saint Lucia is considered a highly desirable destination.

Most of the many current post-Covid-19 travel related webinar presentations suggest that the Caribbean will rank highly among places to visit post Covid-19.

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The overall recovery, however will depend greatly on the recovery of our source markets, which- in case of Saint Lucia- are the UK, Canada and the USA.

But the recovery of the UK, USA and Canada alone will not automatically lead to tourist arrivals in Saint Lucia or elsewhere in the Caribbean. Once these source markets have recovered, it is likely that travelers will avoid places in the beginning where crowds gather such as airports, on trains or on planes.

MMGY, a leading travel and tourism marketing agency, believes that demand will rapidly increase in the latter part of the second quarter, that is in June, and the number of trips will increase substantially in July and August. They are of the view that domestic leisure trips by car will the first to show growth, with international trips following. Airlines will offer extremely low fares to get people to travel again, while the cruise lines may find it much more difficult to generate demand.

Another survey suggests travel will start to grow in the late second quarter but

- They'll stay in the country. International travel will fall out of favor as people stay closer to the safety of home.
- They won't travel far from home. "Staycations" and road trips will be favored over flying or cruising.
- They'll make it quick. A softer economy will mean the traditional two-week summer vacation could turn into a long weekend.

But this may be too optimistic.

James Hepple, a well known regional tourism analyst commented: “It does not allow for the fact that many customers internationally will have been financially harmed by the consequences of the social distancing regulations, lock- downs and shut down of non-essential businesses in their respective countries, which started in March and may very well go into May or June. **Tourism Economics** is of the view that the industry will show a substantial decline in 2020 with modest recovery in 2021 and full recovery not occurring until 2023 although the high end luxury market may bounce back more quickly than the overall market.

This is a similar pattern to what happened after the September 11, 2001 terrorist attacks where it took the industry close to three years before it fully recovered. It

is also thought the airline industry will be very different in 12 months' time from what it is today, with probably fewer airlines and fewer available air seats.

And it is possible that the US federal and state governments as well as the UK Government mandates that leisure trips can only be made within the USA or the UK to help revive the country's own tourism industry.

Given these constraints it would be reasonable to suggest that demand for international travel will probably not begin to become significant until well into the third quarter of 2020 and will begin to start slow recovery in the fourth quarter, provided there is no second wave of infection."

In regard to Sant Lucia's recovery, James Hepple stated: "The likeliest scenario is that Saint Lucia re-opens its borders sometime in June of 2020. Airlines will be slow to provide service as demand for international travel will remain weak. June through September will see some visitor traffic but probably at levels 70% - 80% below those of the same months of 2019. Demand should begin to pick up in October and continue to grow throughout the balance of the year but probably at levels about 60% - 70% below those for the same three months of 2019. 2021 will see slow growth in demand with large scale recovery not coming until the latter half of 2022."

What is the current situation?

As stated on page 2, the closure of tourism businesses and resulting unemployment in Saint Lucia impacted a significant percentage of the workforce, with many persons out of work and without their normal income for many months.

A major concern has to be that crime may begin to rise substantially as persons attempt to obtain income to support themselves and their families. It will therefore be important in the long run that Saint Lucia protects its image as a safe destination and that rigorous law enforcement practices are put in place to prevent any largescale upswing in crime. Critical to crime mitigation strategies will be the strong execution of social stabilization programs to ensure the basic needs of displaced workers and the less fortunate are met. This social stabilization strategy should also include virtual training and development interventions to excite the minds and attention of our workforce as we prepare them for socio-economic recovery.

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The Saint Lucia Tourism Authority, like many other destinations, will have to spend considerable sums of money on marketing to bring back business. **At the same time, it may well have to invest large sums of money to guarantee airlift at a time of reduced demand.** Whether those funds will be available in sufficient quantity is debatable.

At the same time, tourism businesses also cannot afford to "go dark" and must remain visible in the market place with the appropriate messaging which means that there will be continued expenditure related to marketing.

Tourism businesses also cannot afford to leave their place of business unsecured and un-maintained which also attracts ongoing cost as does the skeletal team of workers required for that purpose.

There is no cash flow activity, this is expected to last for at least 2 more months. With the predicted slow recovery curve, there will be a significant challenge re-opening tourism businesses with significantly less occupancies. With cost of operations in the region high, the breakeven points are usually very high too. Business will have to be prepared and able to sustain losses in the first few months of recovery.

When will the industry be profitable again?

No one doubts that travel will come back strongly and that the industry will be profitable again, but: Even with travel returning, it is anticipated that occupancies, ADR and REVpar would be considerably lower and that it may take up to 2- 3 years for travel to reach PRE-Covid19 results.

Operators would need to find ways to reduce cost of operations. This would no doubt include redundancies, lay-offs, reduced work hours, reduced compensation, renegotiation of charges for goods and services and lobbying for reduced cost of utilities.

And while cost cutting will be essential it is equally important to not let the excellence of the experience be affected.

Creating a more sustainable, resilient, energy efficient framework in the Caribbean has now become a must.

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What is the financial status of hotel and tourism operators?
Without guests in beds, no visitors coming in, massive cancellations and guest deposit reimbursements the entire industry is in dire straits and requires urgent assistance. Business interruption insurance policies do not cover pandemics. Even pre- COVID 19, operators were highly indebted. Tourism businesses depend heavily on cash flow to keep their operations going. The businesses usually do not have many cash assets.

Even though hotels are closed some costs cannot be deferred, such as cost of keeping the physical plant in good condition, security and skeletal staffing.

Tourism businesses could use the down time to invest in their physical plants, whether by renovation or construction (creating some economic activity in the process), become more sustainable and possibly offer training opportunities to the laid off team members but this requires capital which at this point is not readily available.

BUILDING REGIONAL RESILIENCE
On a much grander scale, I want to draw your attention to the article in NewEnergyEvents.com, in which guest contributors David Gumbs, James Fletcher and Justin Locke framed for us a vision for how regional governments, with the help of multilateral institutions and global philanthropy, can take this opportunity to fast-track clean energy investment as part of a broader bid to build resilient island nations

http://newenergyevents.com/coronavirus-the-caribbean-is-the-first-domino-to-fall-but-there-is-hope/?fbclid=IwAR1gyYm6FXcGTpCzzjLl7-3AEdnHCct3kzUHofqNoJ9cBHHfapcMXlGrqQs

What has been done so far to assist the industry?
Moratorium of mortgages and tax deferrals were highly appreciated by the industry but this will not be enough.

The Government of Saint Lucia has announced a modest unemployment benefit scheme for the next 3 months, but it is feared that this will not be enough.

Saint Lucia has not yet announced an economic stimulus strategy but this is expected to be announced shortly. Whilst an economic stimulus plan is absolutely critical, it will however not be able to provide the hotel- and tourism sector with the magnitude of the financial bail out that is required.

What needs to happen?

Just like our counterparts in the U.S.A, we want to highlight the urgent need to assess the industry requirements and appeal to your institution to assist the industry in Saint Lucia but possibly the Caribbean region to
be able to attract funding for the next 6 months.

While a deferment of loan payments on borrowings by hospitality companies is being offered by all banks in the OECS, interest will continue to accrue on the borrowings, and will require an extension of the term of the loans.

The deferment of loan payments will be a significant improvement to cash-flows, as most hospitality companies are highly geared, and have significant current and long-term borrowings on their balance sheets. It is estimated that many large hotels in Saint Lucia have borrowings amounting to as much as US$180,000 per room.

It is unlikely that Governments in the region will be able to bail out hospitality companies, as they simply do not have the funding to do so.

The SLHTA asked one of our members, Richard Peterkin of Grant Thornton, to offer some recommendations:

" Some of the alternative options that may be possible include:

1. In collaboration with the ECCB, ensure that the deferment of loan payments will not result in these borrowings being classified as non-performing or delinquent. This will be a benefit to the Banks.

2. Encourage the Banks, as an industry, to allow loans to hospitality companies to be restructured, providing for lower LIBOR rates of interest, and longer

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repayment terms or balloon payments at the end of the loans, to reduce loan payments after the 6-month deferment.

3. Negotiate a Resolution Hospitality Loan Facility, whereby the loans from hospitality companies can be taken over by a special-purpose institution, run by the ECCB, and guaranteed by the countries from which the loans emanate. This will allow the companies to access new loan financing, without the securitization or repayment of the old borrowings. The new facility could repackage the debt into bonds that would be held by the respective countries, or floated on international capital markets, or multi-lateral financial institutions.

4. Negotiate with Banks and Governments to allow the hospitality company borrowings to be converted into Redeemable Preference Shares by the companies, issued to the Governments, and converted by Governments into long-term bonds which would be issued to the Banks for the borrowings. The shares would only be redeemed if future conditions allowed but would rank ahead of common shares for dividends paid by the companies in the future.

Other initiatives to reduce the cost of inputs

The deferment of loan payments, and the transfer or reclassification of the borrowings of hospitality companies will enhance the cash flows of these companies, but these initiatives alone may not be enough for the accommodation sector and the tourism industry to return to pre-COVID levels.

The industry in the Caribbean, and, in particular, the Eastern Caribbean countries, has always had to contend with higher input and resource costs that the industry in most other parts of the world. Many of these costs will not be reduced when the hospitality companies re-open, so other initiatives and Government supports may be critical to ensure that the companies cash flows are sustainable.

Other initiatives could include:

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- Wage and salary cuts, supported by social stabilization programmes that provide the employees with a guaranteed income if they are laid-off, furloughed or have their wages and salaries reduced for a period of 6 – 12 months.

- Agreements with utility and telecommunication companies that would defer an element of the costs of energy, water and telecommunications.

- Shared marketing programmes for the destination that would reduce or contain the marketing costs for individual properties, while allowing for robust marketing of the destination and the properties.

- Duty waivers and VAT reductions on the importation and local purchase of the most significant inputs and resources.

- Increased procurement of goods and supplies from local manufacturers, who may be able to pass on savings from Government support, and greater use of alternative energy equipment "

I hope that this has given you the information you required and I look forward to continue our dialogue.

With best regards

Karolin Troubetzkoy
President
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