

# Sun & Sea Tourism



# Sun & Sea Tourism:

## *Fantasy and Finance of the All-Inclusive Industry*

By

Linda M. Ambrosie, PhD, CPA

Cambridge  
Scholars  
Publishing



Sun & Sea Tourism: Fantasy and Finance of the All-Inclusive Industry

By Linda M. Ambrosie

[tourismfantasyandfinance.org](http://tourismfantasyandfinance.org)

This book first published 2015

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

Copyright © 2015 by Linda M. Ambrosie and contributors

All rights for this book reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner.

ISBN (10): 1-4438-7804-9

ISBN (13): 978-1-4438-7804-3

# TABLE OF CONTENTS

|  |      |
|--|------|
| List of Illustrations .....  | viii |
| List of Tables .....   | xi   |
| Disclaimer and Acknowledgements .....  | xii  |
| List of Abbreviations .....  | xiii |
| Introduction .....   | 1    |
| Creating and Selling Fantasies   |      |
| Important Terms  |      |
| How to Read this Book  |      |
| <b>Part I. Private Enterprise</b>  |      |
| Chapter One.....   | 12   |
| Evolution of Business Models: From Hotel Rooms á la Carte to All-inclusives Floating and Fixed |      |
| Growth of Tourism  |      |
| Hotel Trends—General   |      |
| All-inclusive Trends—Global and National   |      |
| Conclusion—The Paradox of GDP and Employment   |      |
| Chapter Two .....  | 34   |
| Tax Havens, Earnings Stripping and Transfer Pricing  |      |
| Tax Havens, Avoidance and Evasion  |      |
| Key Aggressive Tax Planning and Avoidance Mechanisms   |      |
| Havens, Holidays and Hospitality   |      |
| Conclusion—Benchmarks and Service Bundles  |      |
| Chapter Three .....  | 68   |
| The ET-MNE Barceló Corporación Empresarial (BCE) and its Ilk                                   |      |
| Barceló Corporate Structure  |      |
| BCE and associated Playa Hotels & Resorts (PHR)  |      |
| Barceló is Not Unique  |      |
| Conclusion—Smoke and Mirrors   |      |

## **Part II. Public Sector and Development. Tourism—Silver Bullet or Sacred Cow?**

|   |     |
|---|-----|
| Chapter Four .....  | 110 |
| Tourism Activity and Tax Revenues (Inflows)                               |     |
| Why Cancún Makes for a Good Study   |     |
| Mexico's Duplex Tourism Geneses   |     |
| Cancún—Imagings, Investment and Inaccuracies                              |     |
| Public Policy and Public Investment                                       |     |
| Tourism Activity and Tax Revenues   |     |
| Tourism and Cancún's Municipal Revenues                                   |     |
| Tourism and Public Sector Governance                                      |     |
| Conclusion—From Brilliance to Burden                                      |     |
| Chapter Five .....  | 165 |
| Spending and Social Outcomes of Enclave Tourism                           |     |
| Municipal Spending—On itself  |     |
| Comparing Revenues and Expenditures to Outcomes                           |     |
| Conclusion—Euphoria versus Evidence                                       |     |
| Chapter Six .....   | 186 |
| Tourism: Gaming the System—Employment, Accountability<br>and Productivity |     |
| Gaming Employment—Outsourcing and Pagadoras                               |     |
| Gaming Transparency—Accounting and Accountability                         |     |
| Gaming Productivity—Gross Domestic Product (GDP)                          |     |
| Conclusion—From Silver Bullet to Sacred Cow                               |     |

## **Part III. Governance and Social Responsibility: Private and Public**

|   |     |
|---|-----|
| Chapter Seven.....  | 204 |
| Corporate Social Responsibility, Tax Planning and Transparency            |     |
| Corporate Governance (CG) versus Corporate Social Responsibility<br>(CSR) |     |
| Reporting On and Auditing of CSR and CG                                   |     |
| ET-MNEs' CSR and CG Results   |     |
| Conflicts from Barren CSR policies  |     |
| Sustainability, Tax Planning and Reputational Risks                       |     |
| Conclusion – Growing Risks  |     |

|  |     |
|--|-----|
| Chapter Eight.....                                   | 229 |
| Destination Public Sector Governance                 |     |
| “Tax is State-building in Developing Countries”      |     |
| Public Sector Governance                             |     |
| Conclusion – The Goose and the Golden Egg            |     |
| Conclusion.....                                      | 252 |
| Emerging Economies and ET-MNEs: A Race to the Bottom |     |
| The Enclave Tourism Industry                         |     |
| ET-MNEs, Avoidance Mechanisms and Benchmarking       |     |
| ET-MNE Results                                       |     |
| Enclave Tourism and the Caribbean                    |     |
| The Mexican Caribbean’s Social Outcomes              |     |
| Gaming and Transparency                              |     |
| Corporate Social Responsibility and Governance       |     |
| Public Sector Governance and Social Responsibility   |     |
| Tourism and Globalization                            |     |
| References .....                                     | 269 |
| Index.....   | 298 |

# LIST OF ILLUSTRATIONS

Note: On the website [tourismfantasyandfinance.org](http://tourismfantasyandfinance.org) some figures are provided with greater detail than in the text.

|   |    |
|---|----|
| Figure 1: Total tourism inbound expenditure (1988–2012) .....   | 13 |
| Figure 2. Direct contribution of travel and tourism to GDP (1988–2012).....                                   | 14 |
| Figure 3. Tourism capital investment as a share of the local economy<br>(1988–2012).....                      | 15 |
| Figure 4. Direct employment contribution to travel and tourism (1988–2012) .....                              | 16 |
| Figure 5. Indirect employment contribution from travel and tourism<br>(1988–2012).....                        | 17 |
| Figure 6. Total hotels and rooms owned or operated by the top fifteen chains<br>(1982–2012).....              | 18 |
| Figure 7. Proportion of Passenger Arrivals to the Top 10 Caribbean AI<br>Destinations (2010) .....            | 21 |
| Figure 8. Proportion of Total tourism receipts to each of the top 10 Caribbean<br>AI Destinations (2010)..... | 22 |
| Figure 9. Cancún EP room decrease to AI room increase (2000–11) .....   | 23 |
| Figure 10. Mexican Caribbean room growth (1975–2010) .....  | 24 |
| Figure 11. Growth of CL passengers carried worldwide (1990–2020).....   | 28 |
| Figure 12. Top five Caribbean cruise destinations by passengers (2012–13) .....                               | 29 |
| Figure 13. Cruise passengers and ships to Cozumel, Mexico (1996–2010) .....                                   | 29 |
| Figure 14. Cruise passengers to Mexico and per capita expenditure<br>(1980–2010).....                         | 30 |
| Figure 15: Ideal Netherlands Holding Company Structure to Minimize WHT .....                                  | 52 |
| Figure 16. Caribbean resort hotel performance indicators (2007–12) .....                                      | 59 |
| Figure 17. Caribbean resort hotel operations' revenue proportions (2011).....                                 | 60 |
| Figure 18. RevPAR, ADR and occupancy at selected Caribbean destinations<br>(2012–13).....                     | 61 |
| Figure 19. Comparison of USA resorts and Caribbean resorts (2011).....  | 63 |
| Figure 20. Year-on-year improvements in Caribbean hotel performance<br>(2010–12).....                         | 64 |
| Figure 21: BCE's web of over 90 companies around the world.....   | 72 |
| Figure 22a. Partial Barceló organigram highlighting Mexican companies<br>(circled).....                       | 73 |
| Figure 22b. Partial Barceló organigram highlighting Mexican companies<br>(circled), continued .....           | 74 |
| Figure 23: Playa hotels & resorts Caribbean all-inclusives .....  | 80 |
| Figure 24: REIT Barceló Resorts SL (formerly Playa Hotels and Resorts SL) sales<br>and losses (2008–11).....  | 81 |



|   |     |
|---|-----|
| Figure 25. PHR SL interest coverage compared to industry benchmarks based on EBIT (2008–11) .....                       | 87  |
| Figure 26. PHR SL interest coverage compared to industry benchmarks based on EBITDA (2008–11) .....                     | 87  |
| Figure 27. BCE interest coverage (operations and total) compared to industry benchmarks based on EBIT (2008–11) .....   | 88  |
| Figure 28. BCE interest coverage (operations and total) compared to industry benchmarks based on EBITDA (2008–11) ..... | 88  |
| Figure 29. BCE dividends received and distributed (2002–12) .....   | 91  |
| Figure 30. BCE's loss carryforwards and future tax credits (euros millions) (2008–12) .....                             | 94  |
| Figure 31. BCE cash outlay for income taxes compared to tax refunds and taxes payable (2008–12) .....                   | 95  |
| Figure 32. BCE's total deductions for international double taxation (2012) .....  | 97  |
| Figure 33. Graphic representation by group of total loss carryforwards (euros millions) (2012) .....                    | 100 |
| Figure 34. Graphic representation by group of tax credits on loss carryforwards (euros millions) (2012) .....           | 100 |
| Figure 35. Graphic representation by group of tax refunds (euros millions) (2012) .....                                 | 101 |
| Figure 36. Conceptualized cross selling of integrated groups .....  | 104 |
| Figure 37. Example of Cancún hotel operations to evade taxes .....  | 105 |
| Figure 38. Map of Quintana Roo state (Mexican Caribbean) and Cancún .....   | 114 |
| Figure 39. Cancún-Benito Juárez and the Mexican Caribbean (Quintana Roo) Population Growth (1970–2010) .....            | 121 |
| Figure 40. Cancún hotel room growth (1974–2010) .....   | 123 |
| Figure 41. Cancún International Airport passengers (1975–2010) .....  | 124 |
| Figure 42. Cancún International Airport flight departures (1990–2010) .....   | 124 |
| Figure 43. QR proportion nationally of federal and state tax total collection (1983–2007) .....                         | 129 |
| Figure 44. QR (Mexican Caribbean) Federal tax collection to state GDP and population (1970–2010) .....                  | 129 |
| Figure 45. Cancún's transfers net of federal tax remittances (1984–2007) .....  | 130 |
| Figure 46. QR (Mexican Caribbean) revenue sources (1978–2007) .....   | 131 |
| Figure 47. QR (Mexican Caribbean) Budget by Source (1989–2012) .....  | 135 |
| Figure 48. QR (Mexican Caribbean) cumulated hotel and payroll taxes (2000–10) .....                                     | 136 |
| Figure 49. QR state (Mexican Caribbean) generated revenue (1970–2010) .....   | 137 |
| Figure 50. QR (Mexican Caribbean) lodging taxes collected (2000–10) .....   | 139 |
| Figure 51. Cancún hotels' estimated federal VAT and state hotel tax (1995–2010) .....                                   | 139 |
| Figure 52. Cancún International Airport estimated annual departure taxes collected (1992–2010) .....                    | 144 |
| Figure 53. FONATUR-BMO annual maintenance expenditure in Cancún (1999–2007) .....                                       | 146 |
| Figure 54. Cancún's annual budget (1980–2010) .....   | 147 |

|  |     |
|--|-----|
| Figure 55. Comparison of municipal revenue sources and importance of transfers in annual budgets (1980–2009) .....                               | 149 |
| Figure 56. Cancún's revenue proportions (1986–2010) .....  | 150 |
| Figure 57. Cancún's municipal property taxes to population (1980–2010) .....   | 151 |
| Figure 58. Cancún hotel occupancy by type (1997–2010) .....  | 151 |
| Figure 59. Cancún hotels average daily rate by hotel type (1997–2010).....   | 152 |
| Figure 60. Cancún's taxes and fees to total revenue (1980–2010) .....  | 153 |
| Figure 61. Indebtedness— QR state debt increase and Fitch ratings decline (2006–14).....   | 155 |
| Figure 62. Indebtedness—QR state debt increase and Fitch ratings decline (2006–14).....  | 156 |
| Figure 63. Indebtedness—Cancún's per capita debt based on state and municipal borrowing (2006–13) .....  | 157 |
| Figure 64. Cancún's change in land values as a proportion of total assets (2001–10).....   | 157 |
| Figure 65. QR (Mexican Caribbean) total federal tax remittances to federal transfers received (1983–2007).....                                   | 159 |
| Figure 66. QR (Mexican Caribbean) per capita federal transfers minus QR collection of federal taxes (1983–2007).....                             | 160 |
| Figure 67. Cancún expenditure proportions (1980–2010).....   | 164 |
| Figure 68. Comparison QR municipal expenditure to Cancún (1980–2010).....  | 165 |
| Figure 69. Cancún municipal expenditures (1989–2010).....  | 166 |
| Figure 70. Mexico's HDI compared to select countries (1980–2013) .....   | 169 |
| Figure 71. Mexico's social performance—sectorial composition of public investment as a percentage of total public investment (1965–2006).....    | 170 |
| Figure 72. Mexico's social spending performance—comparative social spending among national average, QR and Baja California Sur (1971–2006) ..... | 171 |
| Figure 73. QR's and Cancún's social performance—HDI QR and Cancún (2000–2008).....   | 171 |
| Figure 74. QR's and Cancún's social performances—Gini coefficient household and per capita (1992–2010).....                                      | 172 |
| Figure 75. Cancún and QR social performance—food poverty (1992–2008) .....   | 174 |
| Figure 76. Cancún and QR social performance—capacity poverty (1992–2008).....  | 175 |
| Figure 77. Cancún and QR social performance—patrimony poverty (1992–2008).....   | 175 |
| Figure 78. Cancún and QR education lag—lacking the minimum education level (1995–2010).....  | 177 |
| Figure 79. Cancún and Mexican Caribbean security lag—no access to social security (1995–2010) .....  | 178 |
| Figure 80. Cancún and QR housing conditions (1980–2010).....   | 179 |
| Figure 81. HotelBeds outsourcing company receipt.....  | 186 |
| Figure 82. Outsourcing SICOSS (RIU hotels) generic letter of reference.....  | 187 |
| Figure 83. 2013 RIU self-declared social responsibility indicators .....   | 210 |
| Figure 84. Self-reinforcing cycle of public sector governance's seven best practices .....   | 231 |

# LIST OF TABLES

|  |     |
|--|-----|
| Table 1. Alphabetical list of havens by region.....  | 37  |
| Table 2. Estimated range of global cross-border flows of unrecorded capital .....                            | 41  |
| Table 3. Caribbean hotel construction costs per square meter of gross<br>internal floor space (2013) 3. .... | 56  |
| Table 4. Operation benchmarks for tourism compared to all industries .....                                   | 61  |
| Table 5. Financial benchmarks for hotels.....  | 65  |
| Table 6. BCE Caribbean and Latin America (excluding Mexico), sales to total<br>group sales (2000–7) .....    | 69  |
| Table 7. BCE sales (turnover) in Mexico (2002–7).....  | 70  |
| Table 8. BCE proportional losses from Caribbean resort properties (2006–10) ....                             | 79  |
| Table 9. BCE's operating ratios compared to industry (2007–11) .....   | 81  |
| Table 10. BCE's debt to equity (D/E) ratios (2001–10).....   | 82  |
| Table 11. BCE's net earnings to sales (2008–12).....   | 83  |
| Table 12. BCE long-term deposits versus long-term loans (2009–12) .....                                      | 86  |
| Table 13. BCE interest expense to cash disbursement for interest (2007–12) .....                             | 86  |
| Table 14. BCE long-term loans to its family members and from foundation<br>(2008–12).....                    | 87  |
| Table 15. Board-member loans to BCE group (2008–12) .....  | 87  |
| Table 16. Inter-group comparisons of sales, earnings and taxes (euros millions)<br>(2012).....               | 95  |
| Table 17. Mexican Caribbean's ranking in federal tax effort.....   | 127 |
| Table 18. Revenue sources from federal to state to municipal .....   | 130 |
| Table 19. Mexican Caribbean's rank in state tax effort.....  | 133 |
| Table 20. Airport fees collected in the Mexican Caribbean and earmarked<br>uses (2007–2010) .....            | 140 |
| Table 21. Fundación Barceló philanthropic activities in the Dominican<br>Republic (2007–2012).....           | 203 |
| Table 22. Tourism-dependent countries development assistance receipts<br>to tax losses.....                  | 219 |

# DISCLAIMER AND ACKNOWLEDGEMENTS

## **Disclaimer**

There are legitimate uses for offshore financial centres, holding companies and trusts, as well as intercompany transfers of goods and services and/or the transfer of either active or passive income (interest and dividends). I do not intend to suggest or imply that any places, persons, companies or other entities included in this book have broken any laws. Any errors or omissions are the sole responsibility of the author.

## **Acknowledgements**

A heartfelt thanks to many people and not the least important among them being Arne Heayn, Dr. Irene Herremans, librarian Elizabeth Watson, biologist Martha Abundes, historian Eduardo Turrent y Díaz, economist Pedro Donde Escalante, and tourism academics Dr. Alfonso Jiménez Martínez and Dr. Pricila Sosa Ferreira. Thank you to my independent editor Graham Clark as well as Cambridge Scholars Publishing for providing direction and publishing. In addition to my mother and father, these are only a few to whom I owe a debt of gratitude.

## LIST OF ABBREVIATIONS

|                |   |
|----------------|---|
| <b>\$</b>      | US dollars—current unless otherwise indicated   |
| <b>€</b>       | Euros—current unless otherwise indicated  |
| <b>£</b>       | British pounds or sterling—current  |
| <b>ADR</b>     | Average daily rate (see Footnote)   |
| <b>AI</b>      | All-inclusive hotel and/or resort (the property not the destination)                  |
| <b>BCE</b>     | Barceló Corporación Empresarial SL  |
| <b>BJ</b>      | Benito Juárez municipality (city of Cancún)   |
| <b>bn</b>      | Billions  |
| <b>CG</b>      | Corporate governance  |
| <b>CIT</b>     | Corporate income tax  |
| <b>CL</b>      | Cruise lines or ships   |
| <b>CSR</b>     | Corporate social responsibility   |
| <b>CTO</b>     | Caribbean Tourism Organization  |
| <b>DJSI</b>    | Dow Jones Sustainability Index  |
| <b>DMC</b>     | Destination management company  |
| <b>EBIT</b>    | Earnings before interest and taxes  |
| <b>EBITDA</b>  | Earnings before interest, taxes depreciation and amortization                         |
| <b>EBITDAR</b> | Earnings before interest, taxes, depreciation, amortization and rent                  |
| <b>EMAS</b>    | Eco-management and audit scheme (Europe)  |
| <b>EP</b>      | European plan (room only)   |
| <b>ET</b>      | Enclave tourism (the fully integrated service chain that includes the AI hotel or CL) |
| <b>ET-MNE</b>  | Enclave tourism multinational enterprise  |
| <b>EU</b>      | European Union  |
| <b>FB</b>      | Fundación Barceló (Barceló Foundation)  |
| <b>FDI</b>     | Foreign direct investment   |
| <b>GDP</b>     | Gross domestic product  |
| <b>GRI</b>     | Global reporting initiative   |
| <b>IFRS</b>    | International financial reporting standards   |
| <b>ISO</b>     | International Organization for Standardization  |
| <b>km</b>      | Kilometre   |
| <b>LDC</b>     | Least developed countries   |
| <b>LLC</b>     | Limited liability company   |

|               |  |
|---------------|--|
| <b>mn</b>     | Millions   |
| <b>MNC</b>    | Multinational corporation  |
| <b>MNE</b>    | Multinational enterprise (the group of related companies)                          |
| <b>MXP</b>    | Mexican Pesos—current unless otherwise indicated                                   |
| <b>NOI</b>    | Net operating income   |
| <b>OECD</b>   | Organization of economic cooperation and development                               |
| <b>OFC</b>    | Offshore financial centre  |
| <b>PAR</b>    | Per available room   |
| <b>PHR</b>    | Playa Hotels & Resorts SL (now Barceló Hotels & Resorts SL)                        |
| <b>PIT</b>    | Personal income tax  |
| <b>REIT</b>   | Real estate investment trust   |
| <b>RevPAR</b> | Revenue per available room (see Footnote)  |
| <b>QR</b>     | Quintana Roo state (the Mexican Caribbean)   |
| <b>TBL</b>    | Triple bottom line reporting   |
| <b>TI</b>     | Transparency international   |
| <b>TJN</b>    | Tax Justice Network ( <a href="http://www.taxjustice.net">www.taxjustice.net</a> ) |
| <b>UK</b>     | United Kingdom   |
| <b>UNCTAD</b> | United Nations Conference on Trade and Development                                 |
| <b>UNWTO</b>  | United Nations World Tourism Organization  |
| <b>USA</b>    | United States of America   |
| <b>VAT</b>    | Value added tax  |
| <b>VCA</b>    | Value chain analysis   |
| <b>WTTC</b>   | World Travel and Tourism Council   |

## INTRODUCTION

### CREATING AND SELLING FANTASIES

The United Nations World Tourism Organization (UNWTO) defines tourism as “travel to and lodging at places outside one’s usual environment for not more than one consecutive year.” Yet, well before travel is realized, there is the fantasy. The tourist begins cognitively by fantasizing about the next journey. These imaginings have been heuristically grouped into three broad categories (Echtner & Prasad 2003). The first is the fantasy of the “unchanged,” visiting legendary pasts. The second is the “uncivilized,” where civilisation is absent and nature is savage. The third is the fantasy of the unrestrained—luxuriant nature, well-equipped amenities and submissive hosts catering to every sensual desire. As individuals save their hard-earned salaries, each fantasizes about the next journey and then selects the destination that best subscribes to that fantasy within the allotted budget. Travel guides, travel agencies and tour operators offer advice and services allowing tourists to travel comfortably to legendary pasts at the Taj Mahal, safely visit the savage nature of the Amazon or luxuriate in 24-hour orgies of food, alcohol and entertainment at all-inclusive resorts. Tour operators such as First Choice, Thomas Cook, TUI and Barceló facilitate these travels by offering transportation, lodging and even local tours to fulfil those dreams. Tourism destinations submit to the fulfilment of these dreams because of the promise of economic development and well-being. As we will see, tourism as a development strategy is often based on fantasies too. There is the promise of economic growth that cascades down to local populations, improving well-being. There is the hope of profound cultural exchange and greater understanding. But what do we really know about the benefits of tourism? Do the benefits inevitably trickle down to all sectors of the local population, as was assumed in the 1970s and 1980s? Or do the benefits accrue to a limited number of investors while the public sector contributes hard-earned taxes, unwittingly subsidizing the international tourist?

“Tourism” is simply too broad a concept to answer the questions above as it encompasses all travel motivations (business, leisure and others like

family visits) and all modes of transportation. Of particular focus here are developing countries, especially those that have selected tourism as a strategy to alleviate poverty through the hosting of tourists at specific sites, in this case beach destinations through “sun & sea tourism.” Much has been written about this form of mass tourism, both advocating and excoriating the policies, the industry and the tourists. The sharp division of opinion and a desire to provide data to help clarify certain elements of an important and vast debate are what motivate this book.

Immiserizing growth is an increase in economic activity while, not due to technological or other efficiencies, unit values decrease. One example is the steady increase in tourist numbers with declining per-tourist expenditure when they vacation on cruise lines (CL) or at all-inclusive resort (AI) enclaves. In addition to immiserizing growth, many sun & sea destinations also have declining real wages for hotel employees and low tax collections thanks to artificially constructed losses through webs of companies. Paradoxically, these same countries are experiencing GDP growth so they push for more hotel construction. The destinations with the greatest AI reputations, such as Mexico, the Dominican Republic and Jamaica, have above average public debt, even bankruptcy, decreased permanent employment and greater income inequality. Income inequality impairs GDP growth because of lower access to effective education and health services. Furthermore, slow growth accelerates wealth concentration. Many of these effects began in the mid-1990s, a period in which AIs flourished. Simultaneously, many local businesses have disappeared while the multinational enterprises (MNEs) behind these enclave properties show extraordinary financial profits with massive tax loss carryforwards in the billions of dollars. Is this coincidental or correlated? My goal is to unravel these simultaneous events by “following the money.”

For the hosts, these emerging economies, the tax loss carryforwards mean billions of dollars in lost revenues. The impact acquires added significance when we analyse just one country, such as Mexico, for long-term unrecorded cross-border private financial capital flows. These financial losses contribute significantly to the erosion of the domestic tax base. In real dollars (2000), the unrecorded outflows from all industries and individuals, not just tourism, were an estimated \$56.4 bn in the 1970s, \$36.8 bn in the 1980s, \$64.0 bn in the 1990s and \$106.3 bn in the 2000s. In other words, in just four decades Mexico lost an estimated \$263 bn (Henry 2012, 23). During the same period, Mexico lost an additional \$299.1 bn from earnings on unrecorded offshore assets invested abroad beyond the reach of domestic tax authorities (Henry 2012, Appendix III).



To be clear, not all of these unrecorded outflows are motivated by tax evasion. Other motives include:

(1) short-term speculation (“hot money”), (2) longer-term portfolio diversification, (3) asset protection (including protection against political risks and illegality), and (4) more dubious motives, like money laundering, income tax evasion, “round-tripping” (taking money offshore, dressing up in secrecy structures then pretending to be “foreign” investors in order to take advantage of tax breaks and exchange rates only available to “foreigners”); avoidance of import duties; corruption and more.

(Henry 2012, 23)

Latin America is considered one of the most permeable regions in the world. Short-term currency speculation, e.g. outflows and inflows, is not a major factor there. Instead, it is one of the three other motives (diversification, asset protection and evasion) that drive unrecorded outflows. The resulting long-term decapitalization creates an overdependence on the extraction and sale of natural resources, primarily fossil fuels,<sup>1</sup> and leads governments on insatiable quests for new income sources such as sun & sea tourism, also now a source of decapitalization.

Many will claim that this book adds nothing new and that the arguments here have been studied before. This is far from true, and such knowledge claims are subjective rather than objective. As is often the case in business academia, business itself outstrips academic investigation into an industry’s evolution, mechanisms and trends. In keeping with this academic tradition there is a paucity of studies on the impact of the AI trend on the destination countries, the current players and policy impacts, especially tax effort and evasion. Studies on AIs are either outdated (e.g. Issa & Jayawardena 2002; Poon 1998); unique case studies (e.g. Anderson 2012; Mbaiwa 2005); focused on consumer decision criteria (e.g. Anderson 2007); and/or comparisons of specific tourist expenditure (e.g. Anderson et al. 2009; Global Development Solutions LLC 2010; Gonzalez Herrera & Palafox Muñoz 2009). There is some literature on tourism and taxation, but the majority of the studies focus on efficient tourism-targeted taxes within jurisdictions (Bird 1992), reduction of tourism leakage

---

<sup>1</sup> It is notable that the top four of the forty Latin American countries included in the study are also the three top petroleum producers in the region: Brazil, Mexico and Venezuela. These three countries alone accounted for 68% of the capital flight and 63% of earnings on unrecorded offshore assets. When the fourth country, Argentina, was added they accounted for 87% of the capital flight and 86% of earnings on unrecorded offshore assets in the region (Henry 2012, Appendix III).

(Unluonen et al. 2011; Wanhill 1994), or critiques of the tax burden on the private enterprise of specific tourism taxes (Durbarray 2008; Gooroochurn & Sinclair 2005; Sheng & Tsui 2009; UNWTO 1998a). Almost invariably, there is an absence of linkages between industry actors, business models and international tax strategies that include transfer pricing, dividends and interest, and not simply flow-through lodging, and value-added and departure taxes. In-depth studies linking specific companies with aggressive tax planning exist for other industries, but not tourism (Action Aid 2010; Leigh 2009).

For the destination, taxation is not simply a series of rules, a game of cat and mouse, but a test of a nation's legitimacy. Studies show a spike in evasion when governments are perceived as corrupt and failing (Everest-Philips 2012). Few studies, if any, have analysed systematically the public policy environment and fiscal implications of this recent Enclave Tourism (ET) business model.<sup>2</sup> Meanwhile, industry reports abound and stay abreast of business trends that offer high and fast returns (IBISWorld 2012; MG 2013; Mintel 2003; PKF 2013; RLB 2013; RLB et al. 2013a).

In our travels through the bowels of the tourism industry, we introduce some large multi-national tourism firms such as Barceló and TUI (Part I, chapter three), and ask what they offer the tourist and how they operate in different countries. Mirroring these firms, we introduce local politicians and local policies, such as those in Mexico, which endow many local resources like land, taxes and infrastructure (Part II). Sometimes, the local politicians are partners in these hotel investments or the current owners of property that was previously expropriated below market value to be resold at market price or gifted to wealthy investors already flush with cash. Gifting land, taxes and fees removes risk to well-financed international conglomerates that then can avoid taxes. Aggressive tax planning impoverishes the country further while improving corporate liquidity and "shareholder value." Caribbean destinations, especially the Mexican Caribbean and Cancún, provide important examples and lessons.

The policy goals of Cancún were to generate foreign currency and mitigate migration to Mexico City. Although the 1970s were difficult, Cancún was a boon to the national economy for two decades (Part II, chapter four). Since 1995, continued investment has been a net burden, partly due to the new tourism models of floating and fixed all-inclusives

---

<sup>2</sup> One exception is a World Bank report on Kenya's tourism industry, (WB, 2010, May) that provided an overview of the public sector impacts of certain tourism business models with reference to tax losses. The comprehensive study does not focus specifically on all-inclusives or public policy linkages but provides important clues including surveys and data in the appendices.

(Part I, chapter one). The number of cruise ship visits has exploded in the past fifteen years, with a six-fold increase in passengers to Cozumel (Mexico). The cruise lines require local infrastructure for shore visits, pollute the waters and damage reefs. Meanwhile, they provide little local employment and pay only a token “head tax.” Permanent AI resorts owned by Enclave Tourism Multinational Enterprises (ET-MNE) pay increasingly small amounts of tax due to transfer-pricing strategies (Part I, chapter two) among reservations, transportation and the AI resort. At the destination, a malleable product mix of ground services, food and lodging is modified on paper to lower the tax burden (Part I, chapter three). AIs employ fewer personnel than regular hotels, thus generating less payroll taxes, which are eroded still further by minimum-rate pay and tax-free benefits (Part II, chapter four). While the same AIs complain of over-taxation, they continue to build in Cancún and along the 120 km coastline to the south. From two hundred in 1972 to more than 67,000 by 2014, the number of rooms keeps growing.

The volatility inherent in tourism due to seasonality, consumer tastes, and various crises (recessions, hurricanes and pandemics such as H1N1) is aggravated by local institutional factors, like a push for growth measured by Gross Domestic Product (GDP), which is then fuelled by nepotism and a lack of accountability (Part II, chapter six). The apparent success of destinations like Cancún fosters more resorts, but as AI resorts owned by ET-MNEs. In their euphoria and a myopic race for votes, local politicians push for more federal funds and increase local debt. Debt, rather than financing long-term expenditures, finances current expenses of bloated and inefficient local and regional governments. Cancún’s per capita debt more than tripled in five years from 2004 to 2009 due to state and municipal borrowing. Both the municipality and the state were declared bankrupt in early 2011 (Part II, chapter four), as was Jamaica in 2012.

The confluence of industry and local governance factors critically erodes tax compliance, reducing funding for social projects and environmental protection in Mexico, which has one of the lowest tax efforts of the OECD countries<sup>3</sup> and Latin America. Our visit to Cancún will show that while mega-resort infrastructure investment initially provided economic benefits by creating jobs, generating foreign currency and providing surplus tax revenue, the development no longer translates into greater security (economic, social and physical), more social programs or improved education, especially in the new millennium (Part II, chapter five). Employees, caught between private enterprise and fractious public

---

<sup>3</sup> Mexico is a member of the Organization for Economic Cooperation and Development (OECD).

administrations, have seen their access to social security, housing benefits and pensions eroded as hotels and tourism companies employ outsourcing companies. Inequality is growing rather than shrinking (Part II, chapter six).

But all is not lost. Citizen and shareholder activism is increasing. Local activists have successfully prevented additional construction on fragile and finite coastlines. Examples include the Xcel turtle sanctuary on the Mexican Caribbean that was sold to Mélia in the late 1990s and then construction permits cancelled following demonstrations. More recently, in 2012 permits were withdrawn from another Spanish consortium headed by Hansen for the construction of a twenty-thousand room tourist city offshore from Cabo Pulmo (Baja California Sur, Mexico) (Part III, chapter eight). Not only local activists but distant shareholders increasingly opt for responsible investments (Lumanta 2011). These investors are knowledgeable about the funds in which they invest and look for companies with management that addresses sustainability. Also referred to as “impact investing” or “responsible ownership,” studies show that “36 per cent of adults with investments want to know more about ‘impact investing,’ i.e. investment designed to yield both a financial return and a broader benefit to society or the environment ... this figure rose to 43 per cent among 18-24 year olds” (Shepard 2011). It is notable that many of the responsible funds weathered the 2007–8 financial crisis better than high-risk, high-return aggressive funds (Nieuwenberg 2013). This is understandable because companies that ignore environmental protection, for example, run the economic, legal and reputational risk of highly-publicized fines and litigation (Part III, chapter nine). This is especially true for hotels whose brands are built to be synonymous with high standards and credibility. To prevent scandals and improve governance, greater numbers of companies are certified in ISO14001 (environmental management) and ISO26000 (social responsibility). As well as improved internal controls, these and other compliances and eco-labels differentiate the organization from its competitors, keeping it above the fray.

Using a variety of sources such as longitudinal accounting data, statistics, company reports and media articles among others, I demonstrate why public sector investment in AI sun & sea tourism no longer generates sufficient revenue for social improvement or further economic development. The current characteristics of a global industry (Part I) is followed by the local institutional setting (Part II). Combining the two explicates the governance of both the public and private sector and the interlocking mechanisms of mega-resort investment, local government policies and fiscal inefficiencies. Tourism and hospitality constitute a

mammoth industry that straddles borders by necessity and with many means at its disposal to reduce tax liability because of the “unevenness and porosity of the treaty network [that] undermine its regulatory effectiveness” (Picciotto 1992a, 38). The interplay of global companies, ineffective local governance, unsuspecting tax authorities and porous tax treaties results in a race to the bottom among economies that compete for fixed and floating sun & sea dedicated ET-MNEs for whom corporate social responsibility (CSR) is tokenism (Part III).

## **Important Terms**

First is a look at the localities of interest. The United Nations World Tourism Organization (UNWTO) and the World Tourism and Travel Council (WTTC) list Mexico with North America. However, the Caribbean Tourism Organization ([www.onecaribbean.org](http://www.onecaribbean.org)) has 40 members, among them the eastern-most Mexican state of Quintana Roo (Cancún, Cozumel, Riviera Maya, Tulum, etc.), under the heading of the Mexican Caribbean, the same classification used here. Quintana Roo is a member of the Caribbean Tourism Organization (CTO) because it flanks the Caribbean Sea. As part of the Caribbean ring, the state and other Caribbean nations in the region are conditioned by similar histories of colonization, piracy, post-colonial politics and modern development. The region’s development strategy is now dependent on a globalized tourism industry that is heavily dependent on the American market. The term “Mexican Caribbean” serves to highlight the territory as part of a flow of events that impact locally but transcend national borders.

As for companies, corporations or groups, I prefer the term Multinational Enterprise (MNE). Studies show that few international corporations are truly transnational corporations (TNC), i.e. headquartered and controlled from a variety of countries simultaneously (Drucker 1997). Most international groups are headquartered in one country, such as Spain, the UK or the USA. From the main base, operations radiate worldwide, often retaining the governance characteristics of the beneficial owners. MNE is less ambiguous than a multinational corporation (MNC), because the latter could refer to one company (subsidiary) within a large group with global sales. In order to be clear, MNE refers to the group of companies, irrespective of share-holding, with substantial control over the assets.

Hotel assets have myriad classifications depending on the country and are based varyingly on letters, numbers, stars or diamonds (UNWTO 2004). Here, the focus is on one-price bundled services called “plans,” ranging from room-only to all-inclusive (AI). Mounting services are

bundled in one price and are highly variable by resort and destination (Greenberg 2008). Nonetheless, the generally-accepted hotel plans are as follows:

- European Plan—the hotel price is for lodging only; food or other services provided by the hotel are billed separately
- Continental Plan—a continental breakfast (usually fruit, bread or baked goods, coffee, tea and juice, and sometimes hot foods) is included in the room rate.
- Half Pension/Half Board/Modified American Plan—the price includes breakfast and either lunch or dinner. Drinks and activities are not included
- Full Pension/Full Board/American Plan—the room rate includes three meals: breakfast, lunch and dinner, all provided by the hotel. Drinks and activities are not included
- All-Inclusive—while varying among hotel resorts, the bundled hotel services generally include round-trip airport transfers, all meals and snacks; alcoholic and non-alcoholic beverages; activities such as dinner shows, non-motorized water sports and supervised child centres sometimes called “kids’ club”; and often all tips.<sup>4</sup>

There is added confusion regarding terms referring to AI hotels as some refer to this business model as “resort tourism,” which can also mean the leisure-dedicated destinations (Clancy 2001) such as Cancún. It can also suggest large hotel properties that are not necessarily AI. Here, I use the term “resort” to refer to the privately owned property(s). “Destination” refers to the locality where the private property is located and for which the infrastructure is a public good paid for by taxes.

Adding to the confusion is the classification of AI resorts by the range of services offered. Examples include full-service enclaves in the Caribbean,<sup>5</sup> air-transfer-hotel packages in Spain (Anderson 2007; 2010; 2011; Anderson et al. 2009), and safari-ocean resort hotel bundles in East Africa (WB 2010). To differentiate this business model from the non-AI

---

<sup>4</sup> For a summary of some of the various services included or excluded based on the AI resort plus a sample of prices, see P/Greenberg, “What do ‘All-inclusive’ Vacations Really Include?” NBC News Today, 2008, [http://www.today.com/id/23828622/ns/today-today\\_travel/t/what-do-all-inclusive-vacations-really-include/#.Uw0PRc5eMQJ](http://www.today.com/id/23828622/ns/today-today_travel/t/what-do-all-inclusive-vacations-really-include/#.Uw0PRc5eMQJ).

<sup>5</sup> Even within the Caribbean all-inclusives, bundles vary at these resorts with the greatest number of services branding themselves as “superclubs” (Mintel 2003).

hotels, Anderson (2011, 361) defines them as Enclave Tourism (ET), meaning:

a trip prepaid in advance and which includes a number of services that the tourist might need for the trip and vacation at the destination. The services include a return ticket, ground transfers, accommodation, all meals and drinks, sporting activities, entertainment, clothes and other items.

This describes more clearly the current hospitality business model of tightly controlled service chains offered in multitudinous glossy brochures promising hedonistic, stress-free vacations and sold by large operators increasingly vertically integrated from travel agencies to airlines to the destination property, which I call Enclave Tourism-Multinational Enterprises (ET-MNE). However, Anderson excludes cruise ships, which are similar with the exception that these enclaves float between jurisdictions and, until recently, excluded alcohol from the package price (Shaw-Brown 2012). Therefore, cruises are briefly introduced here because of their equally important impact on local and regional employment and taxes. Moreover, many ET-MNEs such as TUI now include cruise lines in their product offering. For the purpose of this investigation, I start with Anderson's (2011) ET definition of properties fixed within a nation (AI), and add cruise line or ship (CL). Although similar, the CL has the advantage of sailing between destinations with flags of convenience and without the need to circumvent labour laws or tax jurisdictions. But ET is broader than simply the AI or CL tangible assets, as it integrates door-to-destination services including, among other things, reservations, transportation, lodging, food and entertainment.

Lastly, a word about currency. Amounts are provided as current US dollars (\$) and/or Euros (€), unless otherwise indicated. If possible, real amounts are indicated to improve comparability. As the Mexican Caribbean is the key example of destination governance, MXP stands for Mexican Pesos. As to exchange rates, the US dollar to euro is simply \$1.3 to €1.0. Conversely, the Mexican peso to US dollar exchange is based on the average exchange rate in the year of the data. As a note, exchange rates were fixed by the Mexican central bank at MXP 12.50 to \$1 until 1976, when the peso was allowed to float. Amounts in millions are followed by "mn" and billions by "bn."

## **How to Read this Book**

Parts of the book are necessarily pedagogic for those readers unfamiliar with public and/or private finance. Key terms are briefly

explained. Part I addresses ET private industry and its evolution. Since the book focuses on taxes, chapter two looks at taxation, evasion, avoidance, aggressive tax planning and havens with simple explanations of these terms and mechanisms. For those well-versed in these topics, this chapter can be skipped. From the more general terms and statistics, chapter three provides specific examples of how key ET-MNEs arrange companies, results and tax losses with an explanation of financial indicators and how they are derived. This chapter is one of the most revealing and detailed, again with the introduction of key concepts for the uninitiated.

From the global industry in Part I, in Part II I move to the sun & sea destinations and public sector policies that allow ET-MNEs to proliferate. Forty years of Mexican Caribbean public sector accounts show the evolution of tax capture and local expenditure. Public sector results are then compared to destination well-being. Chapter four analyzes tax legislation and collection, chapter five assesses destination expenditure and social indicators, and chapter six combines these to illustrate some of the perverse incentives of ill-conceived policies. These chapters combine both public finance definitions as well as results. Part III then looks at some solutions for both the private ET-MNEs increasingly running afoul of tax authorities, and the destination public sector running up debt. Each addresses governance and sustainability. Rather than simply conceptual, the recommendations are concrete and cited for further reference.

Although the entire book is recommended as each chapter builds on the previous, the three parts are relatively standalone with links to key sections if read separately. Also, if only the private sector is of interest, then chapters one, two and three can be read with the recommendations in chapter seven. Conversely, if destination governance is of greater interest, then chapters one, four, five, six and eight are the most suitable.



# **PART I**

## **PRIVATE ENTERPRISE**

## CHAPTER ONE

# EVOLUTION OF BUSINESS MODELS: FROM HOTEL ROOMS Á LA CARTE TO ALL-INCLUSIVES FLOATING AND FIXED

“Pay no attention to that man behind the curtain.”

—The Wizard of Oz

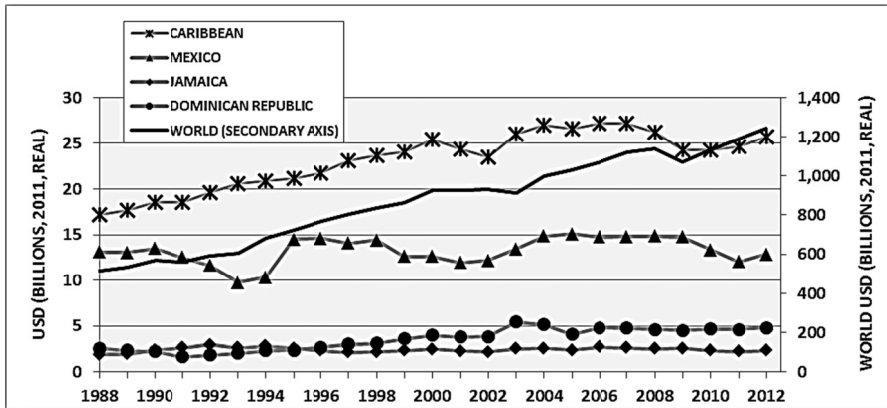
In all industries, business models evolve and tourism is no exception. But too little has been written about fundamental changes to the mass leisure tourism models, especially the growth in AI resorts and cruise ships since 1995. To illustrate how resort tourism models have changed and the impact on local economies of this *modus-operandi*, Cancún is compared to worldwide trends. Cancún and the Mexican Caribbean are reliable archetypes of current mega-resort trends that will explain impacts both for Mexico and other destinations. AI resorts and cruise ships are now the pre-eminent mass tourism model in most sun & sea destinations beyond Mexico, including the Caribbean, the Mediterranean and Pacific Islands among others. These models now dominate many destinations while nearby local communities and finances, originally buoyed by tourism, are increasingly burdened.

### **Growth of Tourism**

Although this research focuses on the supply side of tourism, especially mass tourism (resort hotels and cruise lines), no study of tourism would be complete without some discussion of tourists, the demand side. Between 1950 and 1995, international tourist arrivals grew twenty times from 25.3 mn tourists to 530 mn worldwide. Between 1995 and 2012, international tourism arrivals doubled again to more than 1 bn (UNWTO 2013). Total tourism exports or total tourism inbound

expenditure<sup>1</sup> increased globally from \$513 bn (2011, real) to \$1.3 trillion (2011, real) in 2012 (WTTC, 1988–present). In addition, the increase is steady despite economic downturns (see Figure 1 below). However, global statistics obscure local trends, and thus the importance of deconstructing these statistics to the level of regions and countries.

Figure 1: Total tourism inbound expenditure (1988–2012)



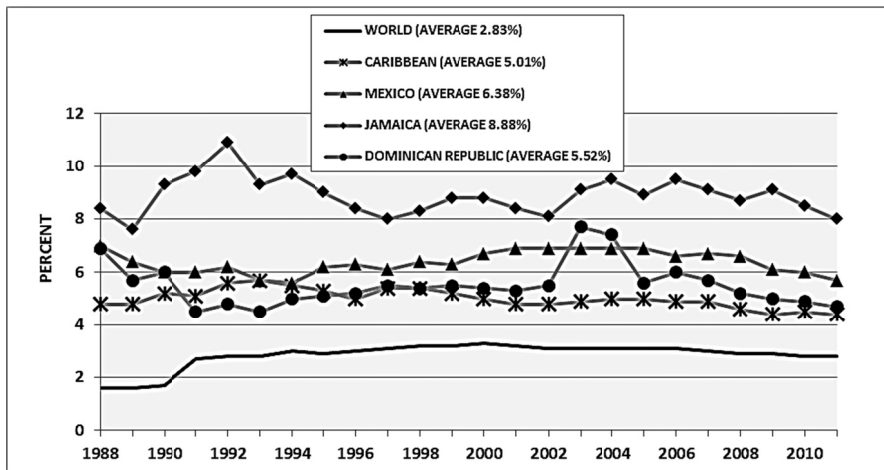
Source: WTTC (1988–present; 2013).

The Caribbean, a haven for mass tourism, mirrors the same unabated expenditure growth as worldwide trends (see Figure 1 above). But countries within the Caribbean, such as the Dominican Republic, Jamaica and the Mexican Caribbean, reflect less dramatic expenditure growth over a quarter century, being relatively flat compared to their regional peers.

Expenditure is flat but economic activity (GDP contribution) and capital investment are growing. Between 1998 and 2013, the direct contribution of travel and tourism to GDP worldwide was a relatively constant 2.8% (see Figure 2 below). For the Caribbean countries, it was twice the worldwide average at 5.5% of GDP. Tourism contributed an average of 5.5% in the Dominican Republic and 6.4% in Mexico (WTTC 1988–present). However, when the Mexican Caribbean is isolated, tourism’s contribution to the region’s economy is overwhelming.

<sup>1</sup> Tourism expenditure is spending within a country or countries by international travelers for either leisure or business including transportation.

Figure 2. Direct contribution of travel and tourism to GDP (1988–2012)



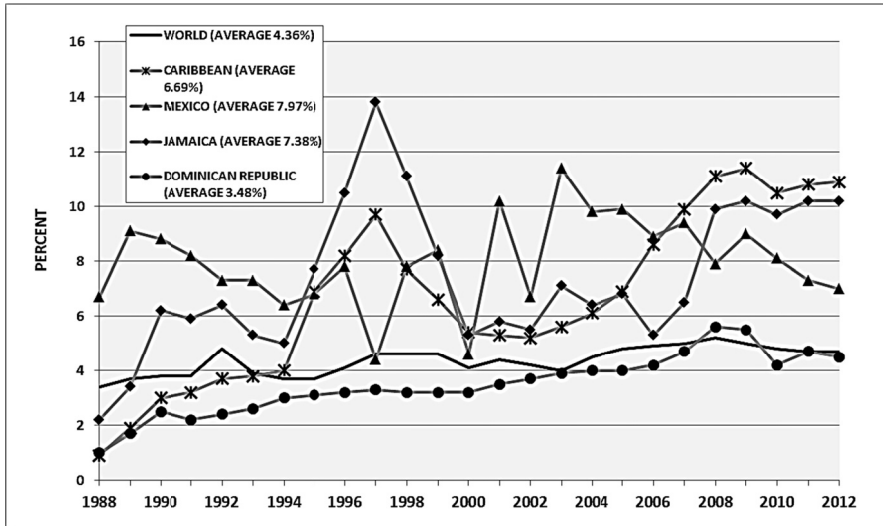
Source: WTTC (1988–present; 2013).

The contribution of tourism to the Mexican Caribbean is four times the global average and almost twice that of the Caribbean at over 10% of local GDP. As a region, the Mexican Caribbean contributes 1.4% of national GDP but 20% of Mexico's tourism GDP. Within Mexico, hotels and restaurants (hospitality) contribute 2–3% of GDP, of which one-fifth is generated within the Mexican Caribbean<sup>2</sup> (INEGI 2013). The hospitality industry requires heavy investment in buildings and equipment, so necessarily capital investment mirrors this economic activity.

In the past twenty-five years, Caribbean tourism capital investment averaged 6.7% (see Figure 3 below). Mexico averaged higher at approximately 8%, similar to Jamaica's 7.4%. Between 1999 and 2011, there was almost \$2 bn in foreign direct investment (FDI) to the Mexican Caribbean. Of this FDI, 54% was hotels and restaurants with an additional 24% listed as "construction" for a total of 78% in tourism or tourism-related projects. If tourist arrivals, GDP contribution, capital investment and FDI are growing, logically employment should increase as well. Paradoxically, this trend no longer holds.

<sup>2</sup> The other important destination is Baja California Sur, which generates 15% or more of Mexico's hospitality GDP. Combining the Mexican Caribbean and Baja California Sur, the two generate at least 35% of all hospitality GDP in Mexico.

Figure 3. Tourism capital investment as a share of the local economy (1988–2012)

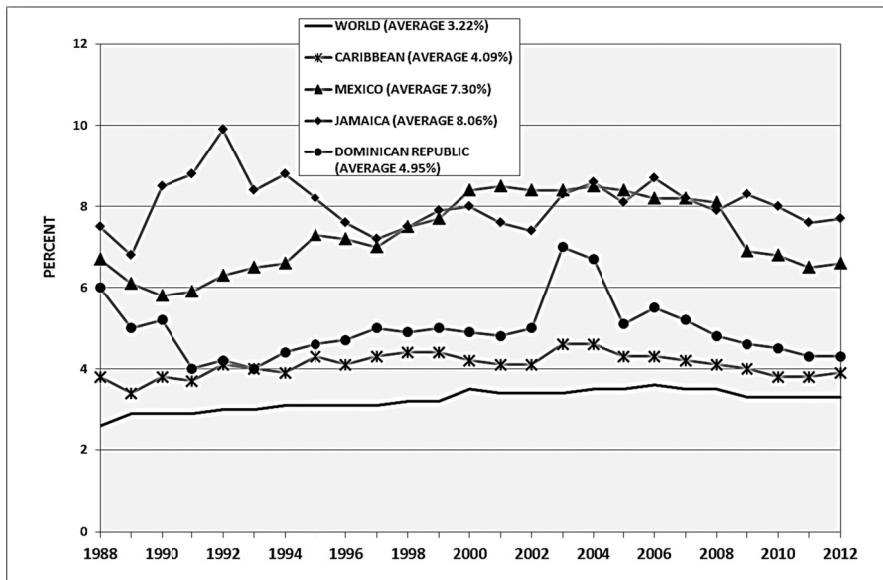


Source: WTTC (1988–present; 2013).

Employment, both direct and indirect, the most persistent and enduring argument for continued public sector support and investment in tourism, is flat at best, or declining. Direct employment refers to the jobs within the travel and tourism industry, such as permanent positions at restaurants, hotels and airlines. The Caribbean averages more than 4% direct employment while Jamaica and Mexico exceeded 8% until 2008 (see Figure 4 below). By 2011, Mexico's tourism industry employed an estimated 5.8% of all remunerated workers. Work in restaurants, bars and nightclubs grew while lodging employment declined by 1.2% between 2011 and 2012. As for remuneration, pay for the average tourism worker is now 10% lower than the average in other industries in Mexico (Reyna-Quiroz 2014).<sup>3</sup>

<sup>3</sup> According to the International Labour Office of the United Nations, in purchasing power parity Jamaica's average monthly wage in 2009 was \$1,135, while Mexico's was \$609 and the Dominican Republic's \$462. In 2013–14, these countries' legislated minimum hourly wages (in purchasing power parity) were \$2.11 in Jamaica, \$0.87 in Mexico and \$0.77 in the Dominican Republic. Mexico's minimum wage is estimated to be one-half that needed for a living wage ([www.livingwage.org](http://www.livingwage.org)).

Figure 4. Direct employment contribution to travel and tourism (1988–2012)



Source: WTTC (1988–present; 2013).

Indirect employment refers to jobs created through capital investment by all sectors involved in the travel and tourism industry. This includes construction of new accommodation, passenger transportation and leisure facilities. It also encompasses government spending for tourism promotion and other public services. Finally, it incorporates tourism sector inputs to service the industry, such as supplies. In 1992, the combination of direct and indirect employment peaked at almost 30% in Jamaica. Today, the United Nations Environment Programme estimates that Jamaica depends on tourism for one out of every three jobs (UNEP, n.d.). Similarly, in Mexico, employment has decreased 5% to 13% (see Figure 5 below). Direct and indirect employment have not accelerated as fast as investment in Caribbean destinations, and are even declining in the case of Mexico and the Dominican Republic (see Figure 4 above and Figure 5 below), locations with the highest numbers of AI properties and among the five most important Caribbean CL ports of call (see All-Inclusive Trends—Global and National below).