



Reservation confirmed

String of new hotels and direct flights to give new life to Puerto Rico tourism

By John Marino
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Optimism returns as tourism looks for growth again

Industry champions push for more hotels, cruises and airlines, but presses to enact DMO plan



BY JOHN MARINO
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With more than a billion dollars of new hotel projects in the pipeline, and an aggressive push to attract more cruiseships and air routes to Puerto Rico, it's looking like government and private industry finally mean business about growing the island's all-important tourism industry.

Like other sectors of the economy, local tourism has taken its hits during Puerto Rico's six-year depression,

with hotel earnings, visitor arrivals and overall investment suffering. Recently, however, the tourism sector has begun to shake off the bad news with signs of improvement and a growing confidence that more positive developments lie ahead.

Puerto Rico government officials are trumpeting the fact that Puerto Rico sold 3.079 million hotel room nights last year, and hotel occupancy averaged 69.6%, the highest rate on record, according to the Government Development Bank (GDB). And they

say new hotel investment of about \$1.5 billion will boost total hotel rooms on the island to the 15,000 mark and revamp the all-important luxury resort segment.

"We want to develop the cruise sector, air access and our hotel room inventory," said Puerto Rico Tourism Co. Executive Director Mario González Lafuente. "It is an integrated vision that looks to improve our tourism product overall."

Economic Development & Commerce (DDEC by its Spanish initials)

Secretary José R. Pérez-Riera pointed to the government's "active" air and sea access program, the new cruise incentives law and the upcoming concession for Luis Muñoz Marín International Airport (LMMIA) as signs of that improvement.

"Puerto Rico's position as the gateway to the Caribbean is being strengthened," he said.

While the Puerto Rico Hotel & Tourism Association (PRHTA) recognizes and supports the

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government's efforts to attract more cruise and air connections, and spur hotel development, its top official reiterated that the most important need of the industry is a consistent marketing effort through the creation of a destination marketing organization (DMO), an idea that was proposed by Gov. Luis Fortuño at last year's tourism convention but hasn't yet been followed up. The DMO would be controlled by the private sector and would avoid the problem of the tourism industry campaign changing every time a new administration takes office.

"We have to get to the root of the problem and create demand for the destination. Only professionally designed programs by a DMO will accomplish this. Then a lot of these other things—more airlift, more cruises and more hotel rooms—will fall into place," said Ismael Vega, PRHTA board president. "This isn't to criticize the Tourism Co., which has done great campaigns and jobs under different administrations. It is just that we need consistency, and we need tourism industry executives, with many years of worldwide tourism experience, creating and overseeing these campaigns."

However, despite the continuing challenges facing tourism, many in the industry are expressing optimism regarding efforts to attract more cruises and airlines and boost the island's hotel inventory.

SHIFTING INTO CRUISE CONTROL

Nowhere is the enthusiasm more palpable than in the cruiseship market, which appears to be on the rebound after years in decline. Overall cruiseship visitors are still down from their peak in 2007, according to official statistics, but there has been a big surge in passengers in the all-important homeport cruiseship segment over the past two years.

"The proof is in the pudding. Cruiselines are coming back to Puerto Rico, or they are substituting bigger ships for smaller ships," said Michelle Paige, president of the Florida-Caribbean Cruise Association (FCCA). "There is a lot of enthusiasm in the pipeline."

In 2007, there were 1.437 million total cruiseship passengers visiting Puerto Rico, but just 417,137



*Mario González Lafuente,
Puerto Rico Tourism
Co. executive director*

of these were visitors on homeport ships. Homeport visitors typically spend more and often combine their cruise with a hotel stay on the island. In the first 11 months of 2011, some 972,065 cruiseship visitors visited Puerto Rico, but 460,510 of these were on homeport vessels. The FCCA had estimated that a total of 1.17 million cruise passengers visited Puerto Rico last year.

During the current fiscal year ending June 30, total cruiseship passengers are expected to increase 9% to 1,272,741, according to the DDEC. A 25% increase in in-transit passenger movement stems from increased calls by Norwegian Cruise Lines, Holland America, MSC and Carnival Cruises, according to the DDEC.

Last year, Puerto Rico welcomed a brand new ship whose itinerary included San Juan, the Celebrity Silhouette, as well as the inaugural berth of the luxury Azamara Journey. The Celebrity Eclipse also recently made its inaugural call and has now regularly scheduled visits to San Juan.

This year, the luxury line Sea Dream Yacht Club has expanded its San Juan homeport itineraries to include different stops in Puerto Rico such as Fajardo, Ponce, Caja de Muertos and Mayagüez, as well as the offshore islands of Vieques and Culebra. In addition, the MSC

Poesia began making biweekly visits to San Juan as part of its Eastern Caribbean itineraries.

Royal Caribbean has been evaluating Ponce as a port in the Caribbean, but no confirmation has been made regarding a set itinerary, while the Fortuño administration has been working closely with the company to make Pier 3 in Old San Juan compliant with its Oasis-class vessel.

Meanwhile, the 4,000-passenger Disney Fantasy is slated to begin visiting San Juan later this year.

Last month, Carnival said it would move its 2,974-passenger Carnival Valor from Miami to San Juan next year, making it the newest and largest ship ever to sail year-round out of the Puerto Rico capital, the company said. The move is part of the cruise

announcements in the near future, Paige said, pointing to the passage of new cruise industry incentives last summer and Puerto Rico's hosting of a major cruise convention later in the year, which has generated a lot of excitement about the island within the industry.

The October staging of the FCCA Conference was a "huge milestone" for the destination, Pérez-Riera said. The government promoted cruise market improvements to all attending cruiseline chief executives, including Micky Arison of Carnival Corp., Adam Goldstein of RCCL, Richard Fein of RCL, Richard Sasso of MSC, Kevin Sheehan of NCL and Dan Hanrahan of Celebrity.

Paige said the cruise market suffered over the past several years as



industry leader's strategy to boost its presence in the Southern Caribbean in 2013. It will replace the smaller, 2,758-passenger Carnival Victory, which will move to Miami.

"This is a good indication that the cruise industry is moving in the right direction in Puerto Rico," Pérez-Riera said of the announcement.

Puerto Rico's \$245 million cruise industry brings in nearly 1.2 million passengers per year and promotes more than 4,000 direct and indirect jobs on the island, according to the DDEC. A cruiseship carries an average 2,550 passengers and 480 crewmembers, who spend a total of \$285,773 during a port-of-call visit, according to the FCCA. Passengers spend about \$100 apiece, while crewmembers about \$150.

The government of Puerto Rico is also negotiating with a number of cruiselines to bring new business or expand their presence here, officials told CARIBBEAN BUSINESS.

There should be more

the local Ports Authority raised fees without improving its facilities or service, and the private sector also failed to invest in its product in the false belief that the cruiselines would continue to come regardless.

Today, she sees a different attitude.

"We have an excellent relationship," she said. "Puerto Rico has set the stage with the new cruise incentives. All the executives were very impressed and enthused. There are going to be many positive developments from the convention. There is now mutual respect and appreciation."

The incentives (see sidebar) are a model for other destinations to follow, Paige said.

Puerto Rico has taken other steps to bolster relations with the industry.

These include resolving an eight-year-old legal case with Carnival Corp. that limited its growth here. Transit calls for Carnival Corp. grew

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by 32% from fiscal 2009 to fiscal 2010, mostly due to increases in calls by Holland America and Carnival.

A second major initiative to see completion was the removal of the canopy at Pier 3, DDEC officials said, which has paved the way for a visit by the Carnival Dream this year.

The government has also improved the traffic flow of tourism transportation at the piers through the construction of a staging area for excursion buses and taxis.

IMPROVING THE PRODUCT

Most importantly, Puerto Rico is also improving its offer to cruiseship visitors.

“Puerto Rico has gone to great lengths to improve its product. Without the cruise passenger having the proper experience and wanting to come to Puerto Rico, there is nothing you can do to attract more lines,” Paige said. “Passengers today are very astute and want a broad range of things to do. They have been to Puerto Rico before. You have to address their wants, needs and desires.”

Along with inducements to bring more cruiseships to Puerto Rico, incentives were also granted to tour operators and other businesses that provide services to the cruise market. Tours for cruiseship passengers were limited to two companies, but the incentives “removed that impediment” and opened the door to robust competition, Paige said.

Now cruise companies are making alliances with other local tour operators to greatly expand the offering to cruise passengers, although the fruits of this effort will be more fully felt during the next tourism season, González said.

“The bottom line is we want to diversify the offer,” the Tourism Co. chief added.

Puerto Rico’s cruise law is unique because it provides incentives for activities beyond the actual cruise-lines, and it was written taking into account widespread suggestions by the industry. Paige said Puerto Rico’s previous law was also strong, but last year’s update makes it even better.

The Bahía Urbana project, a long-term effort to remake the San Juan Bay waterfront from the Convention Center District in Miramar to Old San Juan, will also greatly improve



St. Regis Bahía Beach, Río Grande

San Juan’s offering for cruise passengers, officials said.

The first phase, currently under construction and slated for completion this year, involves a park and entertainment complex right on the bay near the cruise docks, providing such amenities as a trapeze school and a balloon lift, as well as other attractions.

FLYING HIGH FOR NEW ROUTES

The number of airlines serving Puerto Rico has also suffered during the long recession. Airlines have been harmed by events outside Puerto Rico’s control as well, such as big operational changes at the nation’s airports following the terrorist attacks of Sept. 11, 2001.

In response to the attacks, restrictions at airports across the U.S. required all international passengers to present visas to clear a U.S. Customs & Border Protection checkpoint, even passengers merely changing planes at a U.S. airport to continue to another foreign destination. Prior to the restrictions, international passengers could catch connecting flights to other international destinations via international air transit lounges through which they could avoid having to pass through customs or obtain a visa.

Paige said a reduction in airlift in Puerto Rico has also had an impact on the cruise market as it has placed additional burdens on customers wanting to originate cruises from the island, especially for homeport

cruises. Airlift is also a key ingredient for hoteliers.

At one time, Puerto Rico had some 26 international airlines operating through LMMIA in Isla Verde but, by the beginning of 2009, the number had been whittled to five airlines, and only one, Spain’s Iberia, was a major carrier. Government and industry officials say the post-9/11 restrictions are a major factor in the erosion of international air traffic.

The Fortuño administration has been intensively lobbying Obama administration officials for a waiver to reopen LMMIA’s international transit lounge. They have also reached out to officials in the Eastern Caribbean’s tiny, tourism-dependent islands that will also see big benefits from an international transit lounge in San Juan, since it would expand the airlift to their countries as well.

However, while local government officials found some sympathetic ears in Congress and at the White House, security concerns have so far won the day, CARIBBEAN BUSINESS sources said. U.S. government officials are also concerned because stateside airports have made similar requests.

Increases in landing fees, coupled with the deterioration of neglected local airport facilities, also played a hand in driving airlines from the market. American Airlines, which filed for bankruptcy in November 2011, has cut back its operations on the island in recent years after once dominating the island’s air market.

In 2008, major cutbacks announced by American Airlines—which at that time had close to 50% of all continental U.S. departures from Puerto Rico—harmed the island’s airlift.

The good news, however, is that other airlines, led by JetBlue, have stepped up with more routes so that the seats eliminated during American’s cutback have been regained. Delta and Continental have also increased flights, and in markets where American is still serving the island, it too has increased frequency, González noted.

Total weekly departures increased 5% when comparing February 2012 figures with the same period in 2009, according to DDEC statistics. Total U.S. departures increased 2%, international departures increased 86%, and Caribbean departures increased 1%.

Puerto Rico’s airline base is now more diversified. JetBlue has become the airline with the largest seat capacity, with a 25% share. Next is American Airlines, with a 21% share, and American Eagle has the third-largest share with 11%.

Airlift has actually improved on important routes between the island and New York, New Jersey, Chicago, Detroit, Washington, D.C. and Orlando, and there are 32 weekly flights to developing markets, which are also important, local officials said. Routes that American abandoned, which include Tampa, Chicago, Baltimore, Hartford and Boston, have been filled by other airlines.

The government is also targeting important western U.S. routes such as Los Angeles, Salt Lake City, Denver and Phoenix, as well as underserved airports in regional markets such as Austin, Ft. Myers, Raleigh/Durham, Richmond, Indianapolis, Milwaukee, Buffalo and Rochester.

González pointed to resumed British Airways service to London, as well as new service to Toronto, via WestJet, and Frankfurt, via Condor, as important new routes that will help develop new markets. The government is also working to increase travel with Spain, another strong natural market.

The administration is now working toward securing a direct flight from South America, from either Colombia or Brazil. It is also targeting Mexico, a robust market producing

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54,800 annual passengers. Colombia, meanwhile, puts more than 25,000 passengers in the air annually, and Brazil produces more than 11,000 passengers. DDEC officials point to the recent announcement by President Obama to increase nonimmigrant visa processing capacity in Brazil by 40% in 2012 as boosting the odds of establishing direct air contact with the country.

"Our vision is to increase air service for our primary markets and our developing markets. Both are important," González said, adding that the government is looking to bolster service to traditional East Coast markets as it blazes new trails into Latin America and Europe.

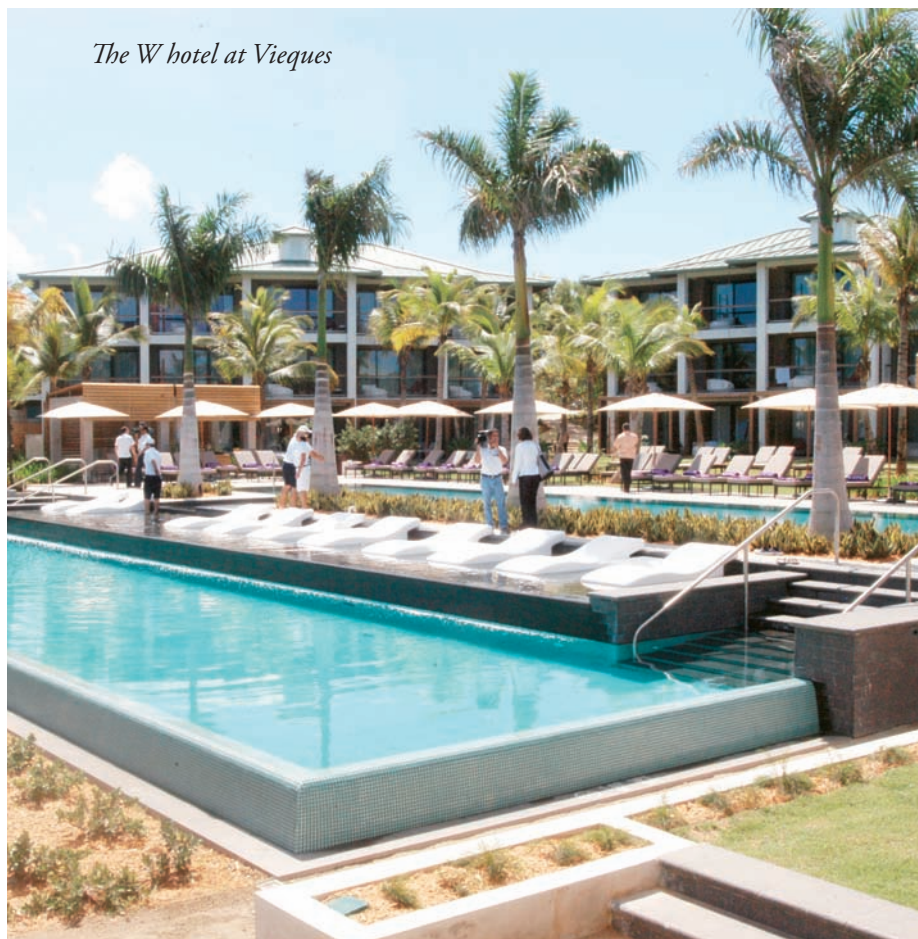
It is also working to promote increased regional service so as to build on San Juan's natural position as a hub for routes to other Caribbean destinations, and to have the U.S. carriers serving San Juan expand their services to other Caribbean stops.

Puerto Rico is served by more than 20 airlines, which include: Air Canada, Air Tran, Air Sunshine, Cape Air, United-Continental, Delta, Fly BVI, Insel, Liat, Vieques Air Link, US Airways, Condor, Copa, JetBlue, Spirit, WestJet, American Airlines, American Eagle, British Airways and Iberia, according to the DDEC. Of these, 41% are network carriers, 36% are low-cost carriers and 21% regional carriers.

Puerto Rico remains the largest air service market in the Caribbean, with the most U.S. flights, serving three times more passengers than the next largest destination. There are more than 60 daily nonstop flights to more than 20 U.S. mainland destinations. Seven regional airlines serve 22 Caribbean destinations with 87 daily nonstop flights. Another seven airlines provide close to 70 weekly flights to seven international destinations.

However, industry leaders say more needs to be done to increase both the quantity and quality of Puerto Rico's airlift, and government officials agree.

"Many of the kinds of tourists we want to attract to higher-end properties require a certain level of service," Vega said. "They are used to traveling first class and business class and

The W hotel at Vieques

we need to replace those seats the island lost with [the scaling back of] American."

A NEW ERA FOR P.R. AIRPORTS

The government is also immersed in finding a private partner to operate LMMIA.

Six world-class consortia vying to run LMMIA under a long-term concession will submit final bids next month, and the government hopes to pick a winner over the summer.

The public-private partnership (PPP) arrangement will not only shore up the local Ports Authority's battered finances, but also will transform the airport to realize its full potential as an economic-development asset. The deal is expected to generate a sizeable upfront payment of at least \$1 billion, with most of the proceeds used to retire some \$800 million in outstanding debt held by the cash-strapped authority.

The government said a major factor in picking an operator will be a group's proven ability to develop new air routes and increase passenger traffic, as officials aim to remake Puerto Rico's airport into the gateway to the Caribbean, with more connections with U.S., Europe and Latin America sought.

The finalists are: Flughafen Zürich AG, Public Sector Pension

Investment Board, Camargo Corrêa Investimentos em Infra-Estrutura & Gestão e Ingeniería IDC; Fraport AG & Goldman Sachs Infrastructure Partners; GMR Infrastructure & Incheon International Airport Corp.; Grupo Aeroportuario del Sureste & Highstar Capital; Grupo Aeropuertos Avance (Macquarie and Ferrovial Aeropuertos); and Puerto Rico Gateway Group (GE Capital Aviation, Allegheny County Airport Authority, Teachers Insurance & Annuity Association-College Retirement Equities Fund [TIAA-CREF], OpTrust and Airmall USA).

If completed, the deal will likely be the largest airport PPP in the U.S. under a Federal Aviation Administration (FAA) pilot project. Once the local Public-Private Partnerships Authority (PPPA) picks a winner, the deal is still subject to an FAA-required 60-day public review, but officials have said they are confident the deal will be completed before the November election.

While LMMIA is still the busiest airport in the Caribbean, it has stagnated over the past two decades, with outbound boardings fluctuating between four million and five million annually, about half of its potential market. Meanwhile, officials added, LMMIA is currently using a bit more than half of its facilities,

while other airports from Miami to Panama have gained ground as Caribbean gateways.

"Puerto Rico should have the preferred airport in the Caribbean, whether for business, pleasure, visiting relatives or simply making a connection, because passengers know they will have a pleasant experience," PPPA Executive Director David Álvarez said recently regarding the importance of the deal. "That is our vision."

Inconsistent development and administration of the Carolina facility, coupled with the financial incapacity of the Ports Authority, have weakened the airport's lure and Puerto Rico's position as a destination as a whole. Government officials are convinced that bringing in private management will be the "game changer" needed for the airport to finally take off and realize its potential.

Vega, of the PRHTA, questioned how a PPP at the airport would translate into more air traffic.

"You need more than a facelift of the airport to increase airlift," he said, again underlining the importance of a sustained marketing effort.

In response to this concern, government officials have pointed to other airports that have increased traffic through PPPs. The Dominican Republic, whose Las Américas Airport is the region's second busiest with 2.5 million annual outbound boardings, placed its six airports under private management in 2000, while Jamaica and Curaçao leased out their major airports in 2003. During the 1990s, most South and Central American nations leased out their airports and, more recently, England, Germany, India, Australia, China and Singapore have gotten into the game.

In most cases, the results have been positive. The Cancún airport, for instance, which was leased out in November 1998, saw its passenger base grow from 7.7 million annually in 2000 to 12.4 million in 2010, while the Sydney airport has seen its annual passenger base surge to 35.6 million in 2010 from 23.9 million in 2002, when it was first leased out.

Meanwhile, Lima's airport registered 8.8 million passengers in 2009, more than double the 4.1 million it registered in 2001, the first year of private management.

"This is very important because it

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will put the airport at a whole new level," González said. "It is important in terms of better infrastructure, increased marketing for Puerto Rico and attracting additional air routes."

A BILLION-DOLLAR HOTEL PIPELINE

Improving access to Puerto Rico is only part of the challenge, however, and there is also a big effort to expand and improve the island's current inventory of hotel rooms.

This year, both the \$100 million Condado Vanderbilt Hotel, adjacent to La Concha, and the \$342 million Ritz-Carlton Reserve in Dorado, are slated to open. Along with the recent opening of the \$172 million St. Regis Bahía Beach in Río Grande in late 2010, the three five-star properties, along with the W in Vieques, are revamping the island's high-end market.

A bigger luxury segment is part of the expanded diversity the island's tourism product needs, said Vega of the PRHTA.

"These openings are extremely important. They add to the high-end portfolio of our luxury market, which hasn't been catered to for a while," González said, adding that the American Express advisory board just wrapped up two trips to the island and were very enthused about the new properties.

There are plenty more projects in



the pipeline, government and industry officials said.

While the Ritz-Carlton Reserve is expected to be completed by the end of the year, developer Federico C. Stubbe, president of Prisa Group, is pushing ahead with a second phase that will entail the construction of an additional 32 luxury units at an investment cost of \$55 million this year. The GDB, through its Tourism Development Fund (TDF), is expected to provide guarantees on a FirstBank loan to undertake the deal.

The Ritz project is a renovation of the former Dorado Beach Hotel, and the developer also plans to renovate its shuttered sister property, the former Cerromar Hotel, a \$214 million project that will add another 400 hotel rooms to the island's inventory.

Preconstruction and site preparation work are already underway on the \$244 million JW Marriott Coco Beach resort in Río Grande, and three more properties are expected to start construction soon after wrapping up final details for financing, and are also expected to get a boost

from the TDF: the \$65 million, 120-room Wyndham property in Barceloneta and two Hyatt Place properties, a \$50 million, 156-room hotel in Bayamón and a \$38 million, 104-room hotel in Manatí.

Another project near fruition is a \$20 million Best Western renovation of the closed former Diamond Palace Hotel in Condado, which will add another 156 rooms to the local inventory, government officials said.

Meanwhile, industry sources said developers are pushing a \$25 million, 156-room Hyatt Place property and a \$22 million, 99-room Hyatt Summerfield Suites property for the Convention Center District in the Miramar section of San Juan.

Finally, a group of developers is arranging financing to undertake a complete redevelopment of the ill-fated Cayo Largo hotel in Fajardo. Developed early last decade, a judicial dispute between project partners kept the 400-room resort from opening as it was being completed. Industry sources said the developers are looking to raise the Four Seasons flag on the property, but it will require a \$277 million investment.

A number of small inns have also opened throughout Puerto Rico. "We are putting a lot of emphasis on diversifying our overall hotel product and fortifying our natural competitive advantages," González said. ■

Cruise incentives change P.R.'s course

Reaching beyond cruiselines to encourage new tours, services

BY JOHN MARINO
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The new cruise incentives passed last summer turned Puerto Rico into a welcoming place to do business from a destination that had become increasingly indifferent to the \$245 million cruise sector in recent years, as fees were raised while the product was allowed to deteriorate, industry officials said.

The Law for the Promotion & Development of the Cruiseship Industry of Puerto Rico replaced Law 76 of 2005, which offered cruiselines traditional breaks based on passenger quotas and homeport incentives, among other benefits. However, the new incentives built on this by

incorporating into the offer other key segments of the cruise industry such as its supply chain, service providers and tour operators.

The new incentives, which apply to all ports, not just San Juan, grant cruiselines \$4.95 for the 10,000th passenger to 39,999th passenger, and \$7.45 for the 40,000th passenger and beyond. There is also a homeport incentive of between \$1 and \$4 per passenger.

On top of the cash incentives to the lines, industry and government officials wanted a range of incentives to bolster other sector players, such as tour operators and cruiseship passenger service providers, to improve the product and leverage the industry's impact on the local economy.

Cruiselines get a 10% discount on the purchase of local provisions or the contracting of maintenance and repair services in Puerto Rico, and a 5% discount on the purchase of goods manufactured in Puerto Rico.

Incentives are also granted for the sale to non-residents of travel packages that include a cruise and a stay in a hotel in Puerto Rico. This is aimed at spurring local hotel stays and increased tours aimed at cruise passengers.

The legislation created two funds, one managed by the Puerto Rico Tourism Co., the other run by the local Ports Authority, that are supposed to simplify the cruiseship industry's dealings with the government. ■