

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

on a financing proposal which did not receive a favourable opinion from the EDF Committee, under the internal agreement on financing and management of Community aid (art. 15 § 2)

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ment of Community aid (art. 15 § 2)

The Directorate General for Development and Co-operation presented the financing proposal annexed (Doc. VIII/1400/74 - F rév. 2) to the 97th meeting of the Committee of the European Development Fund on February 25th, 1975.

The project in question concerns the provision by the European Development Fund of Antilles Florins 7 320 000 (roughly equivalent to u.a. 3 390 000) in non-repayable aid for the widening and extension of the landing strip on Bonaire island, to make it suitable for aircraft of the DC 8 and Boeing 707 type. This improvement is considered a "sine qua non" condition by all the investors interested in building hotels in Bonaire, as well as by the travel agencies approached by the Antilles authorities with a view to including Bonaire island in their programmes.

When examined by the Committee of the European Development Fund, only four delegations were in favour of the project. This did not amount to the qualified weighted majority of 67 votes required by article 13, § 3 of the internal agreement on financing and management of Community aid.

The Commission is therefore not able to make a financing decision on the project. Under article 15, § 2 (1) of the internal agreement, it is nonetheless able to require a decision from the Council.

(1) The article reads :

"If the Commission decides to differ from the opinion expressed by the Committee, or if the latter does not decide in favour, the Commission may withdraw its financing proposal or apply to the Council, which takes a decision under the same voting system as the Committee".

Before having recourse to this possibility, the Commission has considered it appropriate to bring certain new aspects of the project to the attention of the Committee of the European Development Fund. These derive from forecasts which have reached the Commission in the meantime and would appear to answer the preoccupations expressed by some members of the Committee on February 25th. With this in mind, the Commission has drawn up a second proposal which it considers would allow a new assessment of the project without altering its cost or characteristics. This financing proposal, also annexed (Doc. VIII/210/75 - F), has been presented to the EDF Committee, within the statutory time limits, for consideration at its 98th meeting on April 22nd, 1975.

However, one of the delegations has expressed the opinion that the internal financing agreement does not allow the Committee of the European Development Fund to be required to reconsider a project which it rejected in a previous session. Although not of this opinion, the Chairman of the Committee has decided to remove the project from the agenda in order to avoid a debate on procedure. The Commission consequently finds itself back in the situation following the vote of the 97th meeting of the Committee, viz. it must apply to the Council if it does not wish to withdraw its financing proposal.

The arguments in favour of application to the Council are as follows :

- one of the two delegations considering themselves unable to accept the project at the 97th meeting preferred not to vote. This delegation is principally opposed to the idea that the tourist accommodation envisaged on Bonaire should be primarily intended for "well-off" customers (Americans and Canadians); the delegation considered

that a development aid investment should benefit ordinary rather than privileged tourists;

- the other delegation against was opposed to developing the tertiary sector when the primary and secondary sectors remained very inconsiderable in the Netherlands Antilles in general, and in Bonaire in particular. This delegation further expressed concern over the turn international tourism might take in view of the present economic situation of the United States and the consequences of this trend for the profitability of the investment under consideration. The delegation was furthermore opposed to the form of financing (non-repayable aid) proposed by the Commission's services.

The Commission can advance the following considerations to meet these preoccupations :

1. The island authorities, the promoters and the hotel-keepers are anxious to avoid the problematic choice between "luxury" and "mass" tourism because they are aware that Bonaire owes its tourist potential to the calm, rural beauty of the island and the simplicity of its daily life. They would prefer discreet, sport-orientated tourism to either choice.

In this context, the present "Bonaire Hotel" intends to promote comfortable but relatively cheap accommodation. On their side, the group of Dutch promoters expressing interest in the island would like a "flag-ship" hotel in their large-scale programme (800 to 1000 rooms), but are above all concerned to promote something quite different from luxury, casino-style tourism. The group's initial projects, which are already at a very advanced stage, show real concern for architectural concepts adapted to the island's landscape and sky-line.

2. The development of the primary and secondary sectors would doubtless constitute a more solid foundation for the Antilles' economy. However, the climate, the arid soil and the lack of natural resources are fundamental obstacles to this development. It was hoped that these could be overcome in the framework of the Association by attracting suitable industries for export to Europe, but this hope proved unfounded, largely because of the obstacles set up by the definition of product rules of origin.

New hopes may be entertained now that these obstacles have been partly removed under the Lomé Convention, but little can be expected in the short term. There is also the fact that the industries setting up in countries like Bonaire, without natural resources or favourable conditions for industrial activity (1), are often of a "mobile" character unsuited to large, permanent investments (2); their first concern is to profit from cheap labour or advantageous fiscal conditions, they cannot offer a steady, dependable contribution to the economy of the country where they establish themselves and they often constitute an element of uncertainty and a risk of social unrest in the country involved because of their flexibility (varying turnover and labour force...).

3. The Commission, like the EDF Committee, has considered the possible consequences for tourism of the worsening economic situation in the world and more especially in the United States. It has come to the conclusion (see Doc. VIII/1400/74 annexed) that there are grounds for expecting favourable developments in tourist areas with a reputation for social and political tranquility and suitably served by the international airlines. While studying the project, the Commission has been strongly aware of the necessity of assessing tourist investments against as thorough an examination as possible of the possibilities offered by the American market; it notes that the existing agreements between the Antilles authorities and the promoters of hotel schemes require these schemes to be governed by management contracts with hotel companies of good repute. No hotel building can therefore begin without a major hotel firm being convinced of its success, and such firms are naturally closely aware of tourist problems.

Moreover, a special condition of the forthcoming financing Convention will tie the EDF runway improvement project to the start of construction on at least one big hotel : the investment requested from the EDF will therefore only become effective after a hotel firm has undertaken responsibility for running this, or these, hotels.

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- (1) Except for harbour facilities (natural), a favourable geographical situation, etc.
- (2) For example, assembly plants for photographic or electronic equipment, small industrial workshops, etc.

4. It is estimated that the project will break even economically when Bonaire island has 600 hotel rooms. The island currently has 60 "luxury" and 85 "tourist" class rooms. Another 78 "luxury" rooms are being built and 40 more will follow. In the tourist class there are a number of serious projects : a 200 - room hotel would bring the number of available "luxury" rooms to 373 and "tourist" rooms to 190, providing a total of about 575.

5. The forecast use of the airport is based on the hypothesis that the island will offer 575 rooms by 1977 for 42,700 tourists per year, and 1,000 rooms by 1983 for 107,000 tourists per year. (see page 15 of Doc. VIII/1400/75 annexed). The forecast is based on fares recently in force at Curaçao airport and on the recommendations of experts from the "Rijksluchtvaartdienst", (the Dutch national air transport service).

The forecast is equally based on the reasonable hypothesis that the level of occupancy will rise from 40 % in 1977 to 82 % in 1983, and that the average length of stay will rise from 3,7 days in 1977 to 5,0 days in 1983.

Although, other things being equal, an increase in average length of stay would be advantageous to the hotel business, it would have a negative effect on the operation of the airport because of the implicit reduction in the number of passengers and aircraft. This explains why the hypotheses considered show a modest but positive result for several years' operation of the airport and then a negative result for 1984. If other conditions remain unchanged, or unchanged relative to each other, an increase in the airport company's charges would no doubt be necessary at this point.

The net annual results will in any case remain excessively poor. At one point a loan on special conditions was considered, at 1 % interest for 30 years (the length of the investment's economic life) : this loan would require an annual payment of about Ant.f. 283,000 to offset interest and repayments and would involve the business running at a permanent loss.

Another consideration is the Antilles authorities' wish to adapt the rhythm and even the amount of investments to the availability of labour and to the necessity of safeguarding the natural beauty of the island. This desire to limit the volume of tourism will affect the results of running the airport.

The financial situation of the controlling authority will therefore never be brilliant, but it should not run at a loss either, provided the airport is not loaded with debts from the start.

It should also be understood that the financial situation of the Bonaire island authorities will never be comfortable either. Whatever the future political configuration of the Dutch Antilles, Bonaire island will always depend financially on a central government. The Government of the Dutch Antilles faces an extremely worrying economic situation (see Doc. VIII/310/75) : the cost of living index rose by 21 % in 1974 due to imported inflation; the balance of payments has so deteriorated that a catastrophic deficit is predicted for 1975 (more than u.s. 100 million), which will wipe out gold and foreign currency reserves in one year; and various "mobile" industries have laid off workers in large numbers. It therefore follows that the social situation is tense, especially in Curaçao, the main island in the Dutch Antilles and the seat of the central government. There have been several demonstrations in recent months (1).

The Commission therefore considers -quite apart from the fact that the credit available for the Dutch area under the 3rd EDF in the form of loans on special conditions has already been allocated to another project in the Antilles- that it is perfectly justifiable to finance the present project by means of a grant.

(1) In the island council elections on April 25th, 1975, the Castro-styled "Frente obrero" party increased its representation in the island council from 3 to 8 seats.

The arguments presented above to justify, on economic grounds, allocating to this project the Community aid set aside for the Dutch Antilles under the 3rd EDF, should be seen in the light of the Dutch Antilles Government's political desire to avoid further increasing discontent among the Bonaire population, who consider themselves discriminated against in the development field compared with other islands. This government, which has been informed of the difficulties facing Community financing of the project up to now, recently informed the Commission that it was keeping the project among its priorities and hoped for a final decision on it as soon as possible.

In conclusion, the Commission, making use of the possibility offered by article 15, § 2 of the internal agreement on financing and management of Community aid, presents the annexed financing proposal to the Council and proposes that it take the following decision :

"THE COUNCIL,

"HAVING REGARD to article 15, § 2 of the internal agreement on financing and management of Community aid (1),

"HAVING REGARD to the proposal of the Commission,

"CONSIDERING the supporting arguments presented in the financing proposal and in the Commission's communication to the Council,

"CONSIDERING that the Committee of the European Development Fund did not deliver a favourable opinion at its meeting on February 25th, 1975,

"HAS DECIDED :

"to approve under the conditions laid down in the proposal before it, the project described hereunder :

Registration number	Title of project	Commitment proposed as a grant
AN/309/74	Improvement of landing strip, Bonaire island	Ant.f. 7 320 000 roughly equivalent to u.a. 3 390 000

"to grant commitment authorisation for a total sum of Ant.f.
"7 320 000, equivalent to approximately 3 390 000 u.a. (rounded off),

"to instruct the Chief Authorising Officer of the European Develop-
"ment Fund to arrange for any modifications that prove necessary to
"ensure the smooth execution of the project under the best economic
"and technical conditions."

COMMISSION
OF THE
EUROPEAN COMMUNITIES

FINANCING PROPOSAL

Third EDF

TITLE OF PROJECT	Improvements to the Bonaire runway	
TYPE OF PROJECT	Economic infrastructure investment (Article 19(1) of the second Yaoundé Convention)	
RECIPIENT STATE	Netherlands Antilles	
AUTHORITY SUBMITTING THE PROJECT	The Netherlands Government by Letter No 2815 of 21 May 1973 from the Netherlands Permanent Repre- sentation	
REGISTRATION NUMBER OF THE PROJECT	AN/309/74	
COMMITMENT PROPOSED AS A GRANT	<u>In local currency</u> Ant. f. 7 320 000	<u>Equivalent in u.s.</u> 3 390 000 (rounded off)

Reference documents:

- VIII/137(71)-F Memo on measures proposed by the Community in the Netherlands Antilles
- VIII/328(71)-F Memo on the Economic Development of the Netherlands Antilles

I. THE PROJECT

The purpose of this project is to widen and extend the runway on Bonaire to make it suitable for DC-8 and Boeing 707 type aircraft.

II. BACKGROUND OF THE PROJECT

Bonaire airport has already been the subject of a Community scheme financed from the third EDF by which the Commission approved (financing proposal for project AN/300/70 - document VIII/145(71)-F) the financing of the construction of a new air terminal with a control tower and a parking apron, a project which is currently being carried out.

As explained in the above-mentioned document the dry climate and the fact that there is usually no layer of fertile soil have caused the island to concentrate on fishing, attracting industries and, most important of all, tourism.

Thus the decision to finance the new air terminal was aimed at promoting the island's tourist industry. This new air terminal, which was planned to replace a small building with an area of 60 m², was moreover complementary to a scheme financed by Dutch aid for lengthening the existing runway to 1 750 metres to make it suitable for DC-9 type aircraft, a facility which it was considered would give the initial impetus to developing tourism.

Although the Netherlands Antilles Government had wanted a runway of approximately 2 600 m and suitable for DC-8 and Boeing 707 type aircraft to be constructed, the authorities responsible for Dutch aid to the Antilles considered the lengthening of the runway to 1 750 m as a provisional measure, to be followed by a larger scheme if the development of tourism produced encouraging results. The lengthening of the runway to 1 750 metres made it possible for aerial links to be established, including route flights to New York (with two refuelling stops), which would bring in a sizeable number of tourists.

Now since the runway has been lengthened Bonaire has shown an encourage in growth of tourism. Because of the fact that the island could as a result be served by DC 9-type aircraft belonging to the national airline the Bonaire Hotel, with 74 rooms the island's largest hotel, was taken over by new owners who by means of cleverly directed publicity have managed to obtain more than satisfactory bookings. However, no DC-9 aircraft other than those of the national airline which provide the link between Curaçao, Aruba and Bonaire has landed at the airfield since the runway was lengthened, which means that the envisaged direct international links have not materialized. There are various reasons for the non-realisation of these expectations.

To begin with, the airlines which carry passengers between North America, Central America and Latin America no longer use DC-9 type aircraft on those routes. Consequently, the possibility is automatically excluded of their making stops in Bonaire and there remains only the possibility, which moreover is more realistic, of DC-9 charter aircraft.

However, aviation has developed in such a way that DC-9 aircraft are virtually no longer used for intercontinental flights. Because of this in the United States - the prime market for tourism to the Caribbean - the DC-9 is now mentally associated with the inter-city aircraft providing transport between the main American towns. Consequently this type of aircraft is not much favoured for holiday flights particularly over the sea¹. The route flight between New York and Bonaire would moreover include one and probably two refuelling stops while in recent years people have become increasingly accustomed to long-distance flights without stops.

¹At present flights over the sea lasting more than five hours by aircraft with only two engines are no longer allowed.

Finally, the increased price of fuel has intensified the characteristic differences between the various types of aircraft. Thus, although as early as 1970 it was distinctly cheaper to run a DC-8 rather than a DC-9 for the New York-Bonaire flight, the break-even point today for the New York-Bonaire flight at the same fare would be reached if 115% of the seating capacity were filled in the case of a DC-9 and 69% in the case of a DC-8!

It follows that the price of a charter seat in a DC-9 has to be very much higher than that of a charter seat in a DC-8. However, it is obvious that travel agencies will refuse to offer a trip which is considered less comfortable at a higher price than that of identical trips offered by other agencies.

Because they are conscious of this aspect all investors interested in the construction of hotels on Bonaire are making the execution of their project dependent on the possibility of direct flights by DC-8 or Boeing 707 between New York and Bonaire, which they consider as a prerequisite.

In recent years, given that they had the DC-9 runway, the Bonaire authorities have approached a number of international tourist organizations asking them to show an interest in Bonaire. Without exception the reply they received was that Bonaire was undoubtedly an attractive tourist centre and that they would be delighted to organize tours to Bonaire as soon as the island's runway could accept DC-8 and Boeing 707 aircraft.

When the Bonaire authorities approached investors in hotels and hotel-operators they usually received the same reply. Nevertheless, there are currently a number of serious and realistic hotel projects.

These involve in particular the Bonaire Hotel the owners of which (a group of private individuals) are about to start building a 78-room extension, bringing the capacity of the hotel to 150 rooms, and an initial group of 40 condominiums, each able to accommodate six persons. In two years the owners hope to start building a second group of 40 condominiums and at the same time the central facilities for a new 200-room hotel, followed by the final phase consisting of the completion of the hotel and a third group of

condominiums. The hotel owners have, however, stated that they cannot carry out the second phase of their extension projects or increase the capacity of the hotel beyond 150 rooms and 40 condominiums unless the customers no longer have to make their journey via Curaçao, in other words unless they can fly directly to Bonaire by DC-8 or Boeing 707.

The same attitude was met with at the Palace Hotel Bonaire, owned by a group of three Venezuelan businessmen which has acquired a long building lease for the site of the Sorobon hotel project and which is considering building a 250-room hotel on it. The members of this group, who intend to have their hotel run by a well-known hotel chain, have also stated that their project will be realized only if Bonaire airfield is made suitable for DC-8 or Boeing 707 aircraft.

A third project, by far the largest of the remainder, is that of a group of Dutch firms¹. The group has acquired an option on the long building lease for the coastal strip at Lac with a view to building four 200-room hotels. The group also hopes to be able to take over the lease for the Sorobon project and thus be able to build a fifth 200-room hotel.

The programme, which will cost a total of Ant. f. 100 million (29.8 million u.a.) and which is a full-scale project to be completed before 1980, comprises the construction of:

- i. a low-rise hotel made up of a central building and detached buildings providing 200 rooms to be completed at the same time as the runway extension is completed;

¹ Turnover of the largest firms: Ant. f. 700 million (approximately 208 million u.a.); orders in hand: more than Ant. f. 1.000 million (approximately 298 million u.a.)

- ii. a prestige 200-room hotel to be completed four to six months after the low-rise hotel;
- iii. possibly a second 200-room hotel (Sorobon project);
- iv. a 200-room hotel offering flat-type accommodation;
- v. a hotel with a country club atmosphere, also of 200 rooms.

A provisional agreement has already been signed between the public authorities and the private company in formation. In this agreement the Dutch group makes the realisation of its projects conditional on the drawing up of managing agency agreements with hotel development companies of good standing, and has made it an essential condition of carrying out its projects that the Bonaire runway be extended to accept DC-8 and Boeing 707 aircraft. The group, which is not asking for any government aid or guarantee, has, however, requested that the Bonaire authorities, with the tourist potential of the island in mind, should agree to draw up a development plan for the island which will enable the natural sites and beauty of the island to be protected from the consequences of any uncontrolled tourist development but which will still permit orderly development. Although they are happy with the infrastructure which will shortly be provided (except as regards the airport), the group has asked that the public authorities constantly adapt this infrastructure to the possible needs of an expanding tourist industry.

Although this is not included in the original agreement, the group has also applied for a long-term lease on the old Aruba-Ambwana plantation, where it intends to grow the vegetables for the hotel restaurants (1).

(1) Using, after purification, the waste water from the hotels.

Conscious of the fact that a very rapid development of tourism would provoke - as far as manpower is concerned - problems which could be solved only by spreading out the demands over the period, the Antilles authorities wished of their own accord to limit the pace and even the importance of investments.

For this reason it has been decreed:

- that a construction permit will not be granted for the third, fourth and fifth hotel projects of the private company until it is certain that at least 50 % of the administrative personnel, 70 % of the staff of the bar, restaurant and kitchen, and 90 % of the domestic staff are available on the ground for the bringing into operation of the project under consideration;
- that the percentages will be equally valid for the development of the first two projects of the private company;
- that in addition, and therefore apart from the percentages mentioned, recruitment of expatriate personnel will not be permitted except where Antilles candidates are not available;
- that the private company is required to provide a plan - by number and grade - of the personnel necessary for the development of each individual project, to inform the public authorities of the training methods envisaged, and to cooperate actively in the training of personnel of all categories.

On this side, the public authorities at Bonaire undertake to contribute in equal parts to the training of future employees.

III. ASSESSMENT OF THE PROJECT

A. Social and economic aspects

Introduction

It would be desirable, as explained in memo No VIII/328(71)-F on the Economic Development of the Netherlands Antilles, for the efforts to develop the Antilles economy to be directed firstly to the development of the primary and secondary sectors.

The dry climate and the fact that there are no natural resources have, however, so far prevented successive governments from effectively developing the primary sector. Nevertheless, the construction of a plant for purifying waste water, financed by bilateral Dutch aid, will shortly provide Curaçao with irrigation for the cultivation of crops for local consumption. Moreover a project to improve the irrigation infrastructure of an old plantation on Curaçao is currently being examined by the Commission. The final study on financing the project from the funds of a possible fourth EDF will shortly be launched. If the project is carried out it would be possible to cultivate relatively large quantities of market gardening crops.

As regards development of the secondary sector, the limiting factors are the absence of raw materials and the fact that the local and regional markets are small or even non-existent. Added to this, any hope of being able to attract industries exporting to Europe within the framework of the Association was destroyed because of the conditions for defining the origin of products.

This does not mean that the Antilles authorities would out of disillusionment cease their efforts to attract industries. Thus for example after many setbacks a project for building a ship repair yard at Curaçao now has brighter prospects.

It is clear from the above that the Antilles Government cannot afford not to seize genuine opportunities in the tertiary sector, particularly in the field of tourism.

1. General aspects of tourism

- (a) 83% of world tourism is regional, in other words 83% of recorded movements are in respect of travel within the continent where the tourist lives, for example between the countries of Europe or between the United States and Canada (Annex I)¹.

¹Economic study of World Tourism (1972) by the International Union of Official Travel Organizations (IUOTO).

In 1969 Canada, the United States and the ten main industrialized countries of Europe accounted as source countries for approximately 71% of interregional tourism (see Annexes I and II).

Considering interregional tourism alone, i.e. between continents, (26.5 million tourists in 1969, including 18.9 million from these twelve countries), Canada and the United States produced 60% of the traffic. Moreover these two countries are not only the most important two suppliers of tourists in absolute figures but are also the keenest on interregional journeys (number of interregional passengers per 1 000 inhabitants) (Annex II).

(b) Tourism in the Caribbean

It can be seen from Annexes I and III that Latin America and the Caribbean have managed to attract only a fraction of world tourism although their share has been increasing at a higher rate than that of world tourism. The drop recorded in 1970 for the whole of the Caribbean was caused by the decline in tourist traffic to the Virgin Islands.

Given that at least 50% of tourists going to the Caribbean come from the United States and Canada, it may be concluded from Annexes II and III that despite their relative proximity only 10% of the interregional tourists from those two countries chose the Caribbean. This is because the Caribbean tourist trade is in the luxury class, as is shown by the Table in Annex IV.

It follows that in 1970 the cost of holidays abroad for an American on average exceeded the cost of holidays taken in the United States, without taking into account transport costs, by:

- 33% when taken in Europe
- 22% when taken in the Middle East
- 39% when taken in Africa
- 76% when taken in Asia/Australia
- 160% when taken in Latin America/the Caribbean.

(c) Some conclusions on tourism in the Caribbean

From the above it may be concluded that:

- i. For some time to come the Caribbean will have to seek its tourists in the United States and Canada not only because of the proximity of the United States and Canada, but also because of the tendency towards interregional travel which is evidently greater in these countries than elsewhere;
- ii. the customers for such tourism will be people who are at the least well-to-do and who - being accustomed to comfort - will object to non-direct flights;
- iii. because these customers are well-to-do, fluctuations in the American economy will have less effect on American interregional tourist traffic to the Caribbean than on that to Europe;
- iv. the increase in the cost of fuel and in air fares will have little effect on the development of American tourism to the Caribbean because of the relatively short distance involved and also because the traffic is made up of customers who are less affected by transport cost increases.

These conclusions might seem false when compared with information given at a recent meeting of the Caribbean Travel Association in Martinique. According to this information, in Puerto Rico and the Bahamas for example the governments have had to take over hotels which were in financial difficulties, the hotels in Jamaica are going through a very difficult period, etc.

It is clear that world inflation and particularly the increase in oil prices (electricity, desalinated water) have had the effect of enormously increasing the expenses of running hotels in the Caribbean, while it has hardly been possible to increase the scale of charges. Instead of aiming at more efficient operation, some hotels ^{have} made the mistake of trying to reduce expenses by economizing on service, food and drinks, an obviously disastrous policy.

It should also be noted that everywhere in the Caribbean, where tourism has declined, there were other reasons than just the price of fuel, inflation, etc.

The facts are that, for example in Puerto Rico and the Virgin Islands, the American tourist is not warmly welcomed and the uncertain political situation in Grenada in the high tourist season has obviously had a disastrous effect on tourism not only in Grenada but also in the neighbouring islands. There was also the recent confusion concerning the inter-island air links "provided" by LIAT¹ and the impossibility of obtaining firm bookings for journeys between the international airports of Barbados and Antigua with the Windward or Leeward Islands.

It therefore seems possible to reckon on a favourable development of tourism to the Caribbean but concentrated on islands which have a reputation for giving a good welcome, which are stable socially and politically and are served by international airlines.

The Dutch group interested in setting up in Bonaire considers that it will be able to cope with the problem of increased operating costs by efficiency, which has perhaps so far been given little consideration in the Caribbean.

The architectural design of the planned hotels will permit excellent service with a staffing rate of only one service staff member per room (as against the 1.5 and even 2.0 considered necessary up until now). Additionally, instead of importing from the United States all the fruit and vegetables consumed in the hotels the group plans to cultivate all the produce it will need on the old Aruba-Ambwana plantation. It is even believed that this plantation may meet the needs of the whole island!

¹"Leeward Islands Air Transport"

2. Tourist potential of Bonaire

With an area of 288 km², Bonaire is the second largest of the islands of the Netherlands Antilles (Curaçao: 444 km²; Aruba 193 km²).

Poor and practically without any means of support, Bonaire's inhabitants used to go and work in Aruba and, more commonly, in Curaçao during the period when the refineries in these islands attracted manpower from all over the Caribbean area and from the north of the Latin American continent. Rationalization and mechanization in the refineries around 1960 produced a large number of dismissals and compelled many inhabitants of Bonaire to return to their native island, thus creating structural unemployment amounting - according to official figures - to 540 persons out of a total population of 8 213 (1 January 1974), but which in actual fact (if part-time workers are taken into account) must be appreciably higher.

in order
When, to combat unemployment, Curaçao and Aruba turned to tourism, Bonaire did not take part in this new enterprise. This was because Curaçao and Aruba had an experienced administration and private sector ready to act and also the basic infrastructure (port, airport, roads, water, electricity, etc.) vital to the development of tourism but lacking in Bonaire. Moreover, this infrastructure in Curaçao and Aruba has constantly been improved in step with the development of tourism. Thus when Curaçao and Aruba were already being served by Boeing 747's, Bonaire was not yet able to accept DC-9's.

However, Bonaire has a simple, restful beauty of its own. It has fine beaches and its inhabitants are friendly and hard-working.

It is because of this favourable situation that the lengthening of the runway to make it suitable for DC-9's has already been able to bring about a real change of fortune (see page 2 above). Seizing the opportunity offered, although aware of the inconvenience of having to change planes at Curaçao, the new owners of the Bonaire Hotel have aimed their advertising at young, sports-minded customers not too sensitive to the inconveniences. They have appealed to skin-diving enthusiasts, for whom Bonaire offers exceptional conditions.

Meanwhile, Dutch aid has not been limited to the initial extension of the runway. It has since approved a number of other investments thus providing virtually complete infrastructure.

Drinking water

The existing capacity of 500 m³ per day will be increased by three units each producing 500 m³ per day. Taking into account increased consumption by the inhabitants and industrial development, the capacity of the plant will therefore be sufficient to cover the consumption of at least 1 000 hotel rooms.

Electricity

The installed capacity of the power station is sufficient to meet the increased demand of the population, new industries and 1 000 hotel rooms.

Telephones

The telephone exchange has recently been modernized. It now has enough free lines to be able to meet the demand of new hotels. Direct connections between the hotel rooms and the United States are possible.

Roads

Bonaire has a good road network (normal roads and tourist roads).

Hospital

The existing hospital will be renovated and improved.

Marina

A marina is being built alongside the Bonaire hotel. It will shortly be completed, when it will be run on lease by the highest bidder.

3. Social aspects of the development of tourism in Bonaire

On the assumption that each hotel room represents 1.0 direct job and 1.2 indirect jobs (services, shops), the construction of 1 000 hotel rooms would represent 2 200 new jobs between now and 1980. This means that there would no longer be unemployment in Bonaire and that in fact Bonaire would offer more than 1 500 vacancies to the inhabitants of Curaçao and Aruba. As many natives of Bonaire still work in those islands, particularly in the hotel sector, it is hoped that many of them will seize the opportunity of returning to Bonaire and thus forming a nucleus of Bonaire professionals.

However, to ensure that the young and the out-of-work, firstly in Bonaire and then in Curaçao, are able to find employment in the budding hotel industry in Bonaire, the EDF has considered the possibility of providing Community aid for the training of the staff. This problem is still at the stage of examination.

Regarding the technical personnel required for operating the future Bonaire airport, the Antilles government is considering requesting the Commission to provide courses for the further training of such staff.

4. General aspects

The Government of the Netherlands Antilles has stated that it is prepared under the Agreement on International Civil Air Traffic (Chicago conventions) to open negotiations on air traffic with each of the Member States which so desires.

5. Conditions for guaranteeing success

It was the setting up of infrastructure (see page 11) and has produced the existing hotel projects. It should also be noted that all those responsible for these hotel projects are unanimous in stating that they have no requirements as regards infrastructure other than that concerning the runway. There are therefore grounds for believing that the extension and widening of the runway will finally trigger off the full tourist development of the island. However, to

remove any doubt of success it has been arranged that the Bonaire Palace Hotel Group will undertake to deposit a guarantee of US \$ 350 000 as soon as financing is provided for the work on the runway. The Government will receive this sum if - within six months of work commencing on extending the runway - the hotel works have not started.

There is also a Special Condition laid down in the Financing Agreement (see page 21 under IV) which makes execution of this project dependent upon the completion of at least one major hotel project. This condition does not affect the undertaking given by the Palace Hotel Group.

It should further be mentioned that the Antilles Government has stated that in the event of default by the investors, it has considered building the last-named hotel itself by calling for assistance, possibly from the European Investment Bank.

B. Financial and budgetary aspects

Bonaire airport is a department of the administration of the island; it does not therefore have the status of an autonomous body. It is however desirable that the financial situation of the airport should be transparent, clear and sound, if only to enable the airport to raise loans directly to meet the two-fold requirement for additional investments and reinvestments. It is therefore planned to set up an autonomous Bonaire airport authority by analogy with the policy followed at Curaçao and Aruba.

As regard the envisaged future operations of the airport, these cannot be based on the operating results obtained for the existing runway, which has been used only by aircraft coming from or leaving for Curaçao and Aruba. The only estimate it is possible to give is thus based purely on assumptions. It has thus been assumed for example that the island will have 570 rooms in 1977 and 1 000 in 1983. It has been assumed that in 1977 the island will be visited by 42 700 tourists and by 107 000 in 1983. It has also been assumed that the average length of stay will increase from 3.7 days in 1977 to 5.0 days in 1983.

by Dutch experts for the Curaçao airport has been adopted and adapted for the Bonaire airport. It has however been assumed that the airport tax, which already amounts to Ant. f. 6 (2.78 u.a.) for passengers leaving for a destination outside the Netherlands Antilles, will be fixed at Ant. f.8(3.71 u.a.) by 1980.

The forecast operating account for airport is therefore as follows:

	1977	1978	1979	1980	1981	1982	1983	1984
Operating income	443.8	925.3	1014.6	1216.1	1268.3	1341.3	1467.8	1502.7 ¹
Operating expenditure	729.4	806.4	894.0	980.7	1060.2	1155.2	1256.1	1363.2
Gross operating results	-285.6	118.9	120.6	235.4	208.1	186.1	211.7	139.5
Financial charges on loans:								
new investments	-	11.0	22.0	33.0	44.0	55.0	66.0	77.0
reinvestments	-	-	-	-	18.3	79.3	79.3	79.3
Cash flow	-285.6	107.9	98.6	202.4	145.8	51.8	66.4	16.8
Accumulated results	-285.6	-177.7	-79.1	123.3	269.1	320.9	387.3	370.5

The liquid assets available for annual operation would be insufficient for repayment of a loan, even on very advantageous terms².

¹The somewhat irregular movement of estimated operating income is caused by: the assumed increase in the airport tax in 1980, the construction at an irregular rate of new hotel rooms and a certain extension of the average length of stay. This last factor, although favourable from the point of view of hotel operation, will have an adverse effect on the operation of the airport.

²The funds available under the third EDF for the Dutch area in the form of loans on special terms, have been used up by financing the project AN/304/71 - Extension of the Curaçao airport.

There is no doubt that if in 1980 or 1984 there are respectively 855 or 1 000 hotel rooms at Bonaire, which seems a likely possibility, the airport's operating results will be improved. It would moreover be desirable for the autonomous airport which will be set up to be given a little more financial scope than that implied in the estimated operating account. This will be especially necessary since the precarious financial situation of the island's authorities will not enable them for some time to come to give assistance to the airport authority. Bonaire's operating budget is moreover subsidized by the Antilles Government, in other words by Aruba and Curaçao.

Contribution to Bonaire's budget from the national budget¹

	1970	1971	1972	1973	1974
Definitive amount	3 595 000				
Estimate (N.A. budget)		3 000 000	3 000 000	3 500 000	
Estimate (Bonaire budget)		3 221 026	3 378 047	3 436 029	5 153 703

¹Without taking account of a contribution of Ant. f. 55 000 for promoting tourism.

(c) Technical aspects

(a) Description of the project

The work provided for under this project represent a specific phase of an overall short and long-term plan for extending the tourist facilities of Bonaire.

This phase comprises enlargement of the existing runway in order to open the airport to DC-8 and Boeing 707 type aircraft.

The project comprises the following operations:

- i. enlargement and reinforcement of the existing runway including hard shoulders, overruns and the necessary drainage
- ii. lighting, signals and enclosures
- iii. extension of the parking area in front of the terminal.

The project also provides for the following:

- i. drawing up the project for carrying out the work and preparing the tender documents.
- ii. the cost of supervising the work .

1. Enlargement and reinforcement of the existing runway

The length of the existing runway will be increased from 1 750 to 2 560 m and its width, which is at present 30 m, will be increased to 45 m.

The existing runway, which has an area of 52 500 m², will be reinforced by laying an additional surface in order to give it the load-bearing capacity to accept DC-8 and Boeing 707 type aircraft.

The lengthening and widening will increase the area of the runway by approximately 62 700 m². The existing runway will be lengthened at its eastern end and widened by 7.50 m on either side.

Hard shoulders and overruns are planned with an area of approximately 42 000 m². The hard shoulders, which will be 7.50 m, wide will be laid on either side of the asphalted runway. Overruns 60-m long will also be built at each end of the enlarged runway.

Where the runway is to be enlarged the composition of the base layers and the surface will be determined by the quality of the ground which is mainly coralline.

The construction planned for the different parts of the runway should be as follows:

Enlargement of the runway

12 cm of bituminous concrete
5 cm of binding course
50 cm of base course

Reinforcement of the existing runway

3 cm of bituminous concrete

Hard shoulders and overruns

4 cm of bituminous concrete
3 cm of binding course
30 cm of base course

2. Drainage, lighting and signalling works

In so far as possible the existing facilities will be incorporated into the new project.

3. Extension of the parking area and the enclosure

These operations are still to be specified in the plan of execution.

(b) Technical specifications

The specifications, presented by the Government of the Netherlands Antilles, consists of a preliminary long-term overall plan for the extension of the airport drawn up by the firm NACO (Netherlands Airport Consultants), taking into account the extension

of the other tourist facilities of Benaire. These specifications were financed from the Antilles budget in 1968 and finalized in 1974 by the Antilles Administration.

(c) Cost of the project

The total sum estimated for the works provided for under this project, including the costs of the detailed execution study and of repairing the works, price variations and technical contingencies, amounts to Ant. f. 7 320 000 (approximately 3 390 000 u.a.).

This sum is broken down as follows:

1. Construction

Installation of contractor's plant and equipment, removal of the latter, insurance, etc.

Ant. f. 230 000

Removal of undergrowth, earthworks, etc.

" 1 450 000

Foundations

" 660 000

Surfacing

" 2 860 000

Drainage, etc.

" 120 000

Lighting, signalling, etc.

" 350 000

Enclosure

" 110 000

Extension to the car park

" 20 000

Ant. f. 5 800 000

Technical contingencies and price changes, approximately 20%

" 1 200 000

Ant. f. 7 000 000

approximately 3 242 000 u.a.

2. Cost of the study

Ant. f. 170 000

approximately 79 000 u.a.

3. Supervision

Ant. f. 130 000

Technical contingencies and price changes, approximately 15%

" 20 000

Ant. f. 150 000

approximately 69 000 u.a.

Total sum :

Ant. f. 7 320 000

approximately 3 390 000 u.a.

=====

(d) Execution of the project

The works will be carried out by the contractor in a single lot after an open international invitation to tender.

(e) Time schedule

The timetable for carrying out the project, each period to be counted from the signing of the Financing Agreement, is as follows:

Study and preparation of invitation to tender:	6 months
Issue of invitation to tender and notification:	6 months
Duration of works:	18 months.

This financing decision will be referred back to the EDF Committee for re-examination if the time being taken to carry out the project proves likely - given the stated time schedule and expenditure - to jeopardize the successful completion of the project or to involve considerable excess expenditure.

IV. SPECIAL CONDITIONS

The following special conditions will be included in the Financing Agreement:

the Government of the Netherlands Antilles and the Bonaire Administration shall undertake to set up an autonomous airport in Bonaire before completion of the works provided for by the project;

- after publication of the calls for tender, deliberation cannot take place until it is adequately proven to the satisfaction of the Commission that the construction of at least 400 hotel rooms is assured, or that in any case - within a reasonable period of time in relation to the building of the runway - the island will have available a total of about 600 hotel rooms in all.

V. CONCLUSION AND PROPOSAL FOR A DECISION

Lengthening and widening the Bonaire runway in order to make it suitable for DC-8 and Boeing 707 type aircraft will complete the infrastructure vital for a realistic development of tourism on the island.

Having regard to the favourable Opinion delivered by the European Development Fund Committee at its meeting of ... and having regard to the supporting arguments set out above, it is proposed that the Commission take the following decision:

Financing decision

The Commission has decided:

to approve under the conditions laid down in the proposal before it, the project described hereunder:

Registration No	Title of the project	Commitment proposed as a grant
AN/309/74	Improvements to the Bonaire runway	Local currency Equivalent in u.a. Ant. f. 7 320 000 3 390 000 (round total)

to grant commitment authorizations for a total sum of Ant. f. 7 320 000, equivalent to approximately 3 390 000 u.a. (rounded off).

to instruct the Chief Authorizing Officer of the European Development Fund to arrange for any modifications that prove necessary to ensure the smooth execution of the project under the best economic and technical conditions.

Annex I

VIII/1.400/74-E

	<u>World tourist arrivals</u>				(millions)		
	1965	1966	1967	1968	1969	1970	1971
Total	115.5	130.8	139.5	139.7	154.1	169.0	181.0
of which:							
- inter-regional	unknown		21.0	unknown	26.5	unknown	unknown
- regional	unknown		118.5	unknown	127.6	unknown	unknown
of which:							
- in Europe	87.6	98.8	103.6	105.4	115.1	126.2	136.3
- in Latin America/ Caribbean	2.7	3.1	3.5	4.1	4.8	5.1	unknown

Country	Population in millions	Number of inter-regional tourists from each country per 1000 inhabitants	Number of inter-regional tourists (in thousands)	
Canada	20.8	73.1	1 518.3	
USA	201.2	70.7	14 213.0	15 731.3
Switzerland	6.1	22.6	138.8	
Great Britain	55.3	21.3	1 177.7	
Sweden	7.9	16.3	132.8	
France	49.9	12.8	636.8	
Netherlands	12.7	12.7	162.1	
Germany	60.2	9.2	551.9	
Belgium/Luxembourg	10.0	8.9	88.3	
Italy	52.8	4.7	250.5	
Austria	7.4	3.2	23.0	3 161.9
				18 893.2

Tourism to the Caribbean region¹ (in thousands)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Caribbean:	1 650.0	1 960.0	2 210.0	2 675.0	3 332.0	3 297.0	3 403.0	3 856.0	
of which:									
- Puerto Rico			912.0		1 068.0	1 088.0	1 095.0	1 173.0	
- US . Virgin Islands			756.8		1 066.0	818.0	729.0	851.0	
- Netherlands Antillés	33.3	103.6	113.6	179.6	177.0	217.0	244.0	203.0	
(in % of the Caribbean)	5.0	5.3	5.4	6.7	5.3	6.6	8.3	7.3	
of which:									
Curacao	44.5	55.8	63.2	101.5	90.8	101.6	108.4	108.2	122.2
Aruba	25.5	26.4	31.9	52.0	59.0	75.0	85.8	88.6	95.2
Donaire	5.9	6.4	7.5	8.6	6.5	7.4	5.6	8.1	10.9
St Martin	7.4	15.0	16.0	17.4	20.3	33.5	44.3	77.9	52.4

¹ Annual Reports of the Caribbean Travel Association, etc.

Average amount of money spent by each tourist (excluding transport costs) in US \$ at current prices

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Europe	81.5	81.3	80.0	81.8	80.8	85.6	
United States	106.7	106.8	110.4	117.5	121.5	123.2	
Caribbean/Latin America	322.2	316.1	317.1	302.4	312.5	333.3	
Africa	200.0	207.7	200.0	170.6	180.0	178.3	
Asia/Australia	228.6	232.0	241.4	223.5	211.6	226.4	
Near East	96.2	93.1	86.4	100.0	100.0	100.0	
Throughout the world	95.5	95.6	96.2	98.9	99.9	105.9	110.0

COMMISSION
OF THE
EUROPEAN COMMUNITIES

FINANCING PROPOSAL¹

Third EDF

TITLE OF PROJECT	Development of the Bonaire runway	
TYPE OF PROJECT	Economic infrastructure investment (Article 19(1) of the second Yaoundé Convention).	
RECIPIENT STATE	Netherlands Antilles	
AUTHORITY SUBMITTING THE PROJECT	The Netherlands Government by letter No 2815 of 21 May 1973 from the Netherlands Permanent Representation	
REGISTRATION NUMBER OF THE PROJECT	AN/309/74	
COMMITMENT PROPOSED AS A GRANT	<u>In local currency</u> Ant. f. 7 320 000	<u>Equivalent in u.d.</u> 3 390 000 (round total)

Reference documents:

- VIII/137(71)-F Memo on measures proposed by the Community in the Netherlands Antilles
- VIII/328(71)-F Memo on the economic development of the Netherlands Antilles

¹ This proposal replaces that examined by the EDF Committee at its 97th meeting on 25 February 1975 (Doc. VIII/1400/74).

I. THE PROJECT

The purpose of this project is to widen and extend the runway on Bonaire to make it suitable for DC-8 and Boeing 707 type aircraft.

II. BACKGROUND OF THE PROJECT

Bonaire airport has already been the subject of a Community scheme financed from the third EDF by which the Commission approved (financing proposal for project AN/300/70 - Document VIII/145(71)-F) the financing of the construction of a new air terminal with a control tower and a parking apron, a project which is currently being carried out.

As explained in the abovementioned document the dry climate and the fact that there is usually no layer of fertile soil have caused the island to concentrate on fishing, attracting industries and, most important of all, tourism.

Thus the decision to finance the new air terminal was aimed at promoting the island's tourist industry. This new air terminal, which was planned to replace a small building with an area of 60 m², was moreover complementary to a scheme financed by Dutch aid for lengthening the existing runway to 1 750 metres to make it suitable for DC-9 type aircraft, a facility which it was considered would give the initial impetus to developing tourism.

Although the Netherlands Antilles Government had wanted a runway of approximately 2 600 m to be constructed, suitable for DC-8 and Boeing 707 type aircraft, the authorities responsible for Dutch aid to the Antilles considered the lengthening of the runway to 1 750 m as a provisional measure, to be followed by a larger scheme if the development of tourism produced encouraging results. The lengthening of the runway to 1 750 metres made it possible for aerial links to be established, including route flights to New York (with two refuelling stops), which would be able to bring in a sizeable number of tourists.

Now since the runway has been lengthened Bonaire has seen an encouraging growth of tourism. Because the island was now served by DC-9 type aircraft belonging to the national airline the Bonaire Hotel, with 74 rooms the island's largest hotel, was taken over by new owners who by means of cleverly directed publicity have managed to obtain more than satisfactory bookings. However, no DC-9 aircraft other than those of the national airline which provide the link between Curaçao, Aruba and Bonaire have landed at the airfield since the runway was lengthened, which means that the anticipated direct international links have not materialized. There are various reasons for the expectations not being met.

To begin with, the airlines which carry passengers between North America, Central America and Latin America no longer use DC-9 type aircraft on those routes. Consequently, the possibility is automatically excluded of their making stops in Bonaire and there remains only the possibility, which moreover is more realistic, of DC-9 charter aircraft.

Now aviation has developed in such a way that DC-9 aircraft are virtually no longer used for intercontinental flights. Because of this in the United States - the prime market for tourism to the Caribbean - the DC-9 is now mentally associated with the inter-city aircraft providing transport between the main American towns. Consequently this type of aircraft is not much favoured for holiday flights, particularly over the sea¹. The route flight between New York and Bonaire would moreover include one and probably two refuelling stops while in recent years people have become increasingly accustomed to long-distance flights without stops.

¹ At present flights over the sea lasting more than five hours by aircraft with only two engines are no longer accepted.

Finally, the increased price of fuel has intensified the characteristic differences between the various types of aircraft. Thus, although as early as 1970 it was distinctly cheaper to run a DC-8 rather than a DC-9 for the New York-Bonaire flight, the break-even point today for the New York-Bonaire flight at the same fare would be reached if 115% of the seating capacity were filled in the case of a DC-9 and 69% in the case of a DC-8!

It follows that the price of a charter seat in a DC-9 has to be very much higher than that of a charter seat in a DC-8. However, it is obvious that travel agencies will refuse to offer a trip which is considered less comfortable at a higher price than that of identical trips offered by other agencies.

Because they are conscious of this aspect all investors interested in the construction of hotels on Bonaire are making the execution of their projects dependent on the possibility of direct flights by DC-8 or Boeing 707 between New York and Bonaire, which they consider as vital.

In recent years, given that they had the DC-9 runway, the Bonaire authorities have approached a number of international tourist organizations asking them to show an interest in Bonaire. Without exception the reply they received was that Bonaire was undoubtedly an attractive tourist centre and that they would be delighted to organize tours to Bonaire once the island's runway could accept DC-8 and Boeing 707 aircraft.

When the Bonaire authorities approached investors in hotels and hotel operators they usually received the same reply. Nevertheless, there are currently a number of serious and realistic hotel projects being carried out.

The main project involves the Bonaire Hotel, whose owners (a group of private individuals) have already started building a 78-room extension, bringing the capacity of the hotel to 150 rooms, and an initial group of 40 condominiums, each able to accommodate six persons. In two years the

owners hope to start building a second group of 40 condominiums and at the same time the central facilities for a new 200-room hotel, followed by the final phase consisting of the completion of the hotel and a third group of condominiums. The hotel owners have, however, stated that they cannot carry out the second phase of their extension projects or increase the capacity of the hotel beyond 150 rooms and 40 condominiums unless the customers no longer have to make their journey via Curaçao, in other words unless they can fly directly to Bonaire by DC-8 or Boeing 707.

The same attitude was met with at the Palace Hotel Bonaire, owned by a group of three Venezuelan businessmen which has acquired a long building lease for the site of the Sorobon Hotel project and is considering building a 250-room hotel on it. The members of this group, who intend to have their hotel run by a well-known hotel chain, have also stated that their project will be realized only if the Bonaire airfield is made suitable for DC-8 or Boeing 707 aircraft.

A third project, by far the largest of the remaining ones, is that of a group of Dutch firms¹. The group has acquired the long building lease for the coastal strip at Lac with a view to building four 200-room hotels. The group also hopes to be able to take over the lease for the Sorobon project and thus be able to build a fifth 200-room hotel.

The programme, which will cost a total of Fl. 100 million (29.8 million u.a.) and which is a full-scale project to be completed before 1980, comprises the construction of:

- (i) a low-rise hotel made up of a central building and detached buildings providing 200 rooms to be completed at the same time as the runway extension is completed;

¹ Turnover of the largest firm: Fl. 700 million (approximately 208 million u.a.); orders in hand: more than Fl. 1 000 million (approximately 298 million u.a.).

- (ii) a 200-room prestige hotel to be completed four to six months after the low-rise hotel;
- (iii) possibly a second 200-room hotel (Sorobon project);
- (iv) a condominium complex with 200 apartments;
- (v) a hotel with a country club atmosphere, also of 200 rooms.

A provisional contract has been signed between the authorities and the limited company that is being set up. In this agreement the Dutch group has made the execution of its projects subject to the conclusion of management contracts with hotel-operating companies of high reputation and has made it an essential condition that the Bonaire runway be extended to accept DC-8 and Boeing 707 aircraft. The group, which is not asking for any government aid or guarantee, has, however, requested that the Bonaire authorities, with the tourist potential of the island in mind, should agree to draw up a development plan for the island which will enable the natural sites and beauty of the island to be protected from the consequences of any uncontrolled tourist development but which will still permit orderly development. The group is happy with the infrastructure which will shortly be provided (except as regards the airport) but has asked that the public authorities constantly adapt this infrastructure to the possible needs of an expanding tourist industry.

Although this has not been included in the provisional contract, the group has also applied for a long-term lease on the old Aruba-Ambwana plantation, where it intends to grow the vegetables for the hotel restaurants, using, after purification, the hotels' waste water (from kitchen and showers). Even if the water is 100% safe, it is customary not to use the purified water in the weeks leading up to the harvest.

The Antilles authorities realized that very rapid development of tourism would give rise to labour problems which can only be solved by staggering requirements over a period of time, and accordingly they have chosen voluntarily to limit the rate at which the projects are carried out and even the size of the investment schemes.

This is why it has been stipulated that:

- (i) building permits will not be granted for the limited company's third, fourth and fifth hotel projects until it is sure that at least 50% of the management staff, 70% of the bar, restaurant and kitchen staff and 90% of the domestic staff will be available on the spot to operate the hotels of the project in question;
- (ii) percentages will normally also apply with regard to the operation of the limited company's first two projects;
- (iii) moreover, and therefore in addition to the percentages mentioned, it will be possible to take on foreign staff only if Antilles staff are not available;
- (iv) the limited company will be required to present a qualitative and quantitative breakdown of the staff required for operating each individual project, to inform the authorities of the planned training methods and to cooperate actively in training staff of all categories.

At the same time the Bonaire authorities will undertake to contribute themselves to training the future staff.

III. ASSESSMENT OF THE PROJECT

A. Social and economic aspects

Introduction

It would be desirable, as explained in Memo No VIII/328(71)-F on the economic development of the Netherlands Antilles, for the efforts to develop the Antilles economy to be directed firstly to the development of the primary and secondary sectors.

The dry climate and the fact that there are no natural resources have, however, so far prevented successive governments from effectively developing the primary sector. Nevertheless, the construction of a plant for purifying waste water, financed by bilateral Dutch aid, will shortly provide Curaçao with irrigation for the cultivation of crops for local consumption. Moreover a project to develop the irrigation infrastructure of an old plantation on Curaçao is currently being examined by the Commission. The final study on financing the project from the funds of a possible fourth EDF will shortly be launched. If the project is carried out, it would be possible to cultivate relatively large quantities of market gardening crops.

As regards development of the secondary sector, the fact that there are no raw materials and small or even non-existent local and regional markets are limiting factors. Added to this, any hope of being able to attract industries exporting to Europe within the framework of the Association was destroyed because of the stipulations as regards the definition of the origin of products.

This does not mean that the Antilles authorities would out of disillusionment cease their efforts to attract industries. Thus for example, after many setbacks a project for building a ship repair yard at Curaçao now holds out brighter prospects.

Moreover, it may now be hoped that, thanks to the fact that under the Lomé Convention the requirements with regard to the definition of origin will be reduced, it will finally be possible to attract export industries.

Meanwhile the Netherlands Antilles Government is faced with an extremely worrying economic situation. The increase in the cost of living index, due to imported inflation, amounted to 21% for 1974; this percentage even exceeded 35% in the foodstuffs sector. The balance of payments has considerably deteriorated and a disastrous deficit is expected for 1975. Furthermore, some industrial firms (Texas Instruments, Rockwell) have been obliged to lay off a large number of staff; on the other hand, activity in the building sector has decreased considerably. To prevent the collapse of an already vulnerable economy and to avoid the social consequences which would inevitably result, it is vital that special measures are taken.

A number of demonstrations have taken place in Curaçao in the past few months; the social situation is tense and both the authorities and the population at large are in a state of alert.

In this context it seems to go without saying that the Netherlands Antilles Government does not want to wait passively for the possible completion of projects involving the primary and secondary sectors and which are in some cases still entirely hypothetical; on the contrary, the Government considers it essential to seize with open arms any real investment opportunity, even if this involves the tertiary sector and tourism in particular. Quite rightly it considers that, in view of this, the promotion of projects involving the productive sectors is not compromised in any way. The maintenance of social stability, which is really threatened, by creating new jobs as soon as possible is a prerequisite for attracting industrial investments.

1. Bonaire's tourist potential

With an area of 288 km², Bonaire is the second largest of the islands of the Netherlands Antilles (Curaçao: 444 km²; Aruba 193 km²).

Poor and practically without any means of support, Bonaire's inhabitants used to go and work in Aruba and, more commonly, in Curaçao during the period when the refineries in these islands attracted manpower from all over the Caribbean area and from the north of the Latin American continent. Rationalization and mechanization in the refineries around 1960 produced a large number of dismissals and compelled many inhabitants of Bonaire to return to their native island, thus creating structural unemployment amounting, according to official figures, to 540 persons out of a total population of 8 213 (1 January 1974), but which in actual fact (if part-time workers are taken into account) must be appreciably higher.

When, to combat unemployment, Curaçao and Aruba turned to tourism, Bonaire did not take part in this new enterprise. This was because Curaçao and Aruba had an experienced administration and private sector which were ready to act and also the basic infrastructure (port, airport, roads, water, electricity, etc.) vital to the development of tourism but lacking in Bonaire. Moreover, this infrastructure in Curaçao and Aruba has constantly been improved in step with the development of tourism. Thus when Curaçao and Aruba were already being served by Boeing 747s, Bonaire was not yet able to accept DC-9s.

And yet Bonaire has a simple, restful beauty of its own. It has fine beaches and its inhabitants are friendly and hard-working.

It is because of this favourable situation that the lengthening of the runway to make it suitable for DC-9s has already been able to bring about a real change of fortune (see page 2). Seizing the opportunity offered, although aware of the inconvenience of having to change planes at Curaçao, the new owners of the Bonaire Hotel have aimed their advertising at young, sports-minded customers not too sensitive to the inconveniences.

They have appealed to skin-diving enthusiasts, for whom Bonaire offers exceptional conditions.

Meanwhile, Dutch aid has not been limited to the initial extension of the runway. It has since approved a number of other investments thus providing a virtually complete infrastructure.

Drinking water

The existing capacity of 500 m³ per day will be increased by three units each producing 500 m³ per day. Taking into account increased consumption by the inhabitants and industrial development, the capacity of the plant will therefore be sufficient to cover the consumption of at least 1 000 hotel rooms.

Electricity

The installed capacity of the power station is sufficient to meet the increased demand of the population, new industries and 1 000 hotel rooms.

Telephones

The telephone exchange has recently been modernized. It now has enough free lines to be able to meet the demand of new hotels. Direct connections between the hotel rooms and the United States are possible.

Roads

Bonaire has a good road network (normal roads and tourist roads).

Hospital

The existing hospital will be renovated and improved.

Marina

A marina is being built alongside the Bonaire Hotel. It will shortly be completed, when it will be run on lease by the highest bidder.

2. Proposed guidelines

Bonaire is unlike any of the other islands which constitute the Netherlands Antilles, but its vast expanses of water, arid soil, rare trees bent by the wind, solitude and changing light offer the tourist a complete change of scenery.

Both the island authorities and the hotel promoters and operators, realizing that Bonaire's tourist attractions lie in its calm and rural beauty and in the very simplicity of its daily life, are particularly concerned with safeguarding these qualities.

Thus the hotel promoters, planning to set up lake-side establishments, have had to realize that motor boats will be prohibited there and that there will therefore not be any water skiing on the doorstep.

On the other hand ornithologists throughout the world have been harassing the island authorities to protect the colonies of pink flamingos, whose existence will be threatened by any disturbance. The authorities are, moreover, perfectly aware that the pink flamingos are one of the island's special attractions.

All these factors will of course determine the character of tourism in Bonaire, which is at present already mainly sports-orientated. The present Bonaire Hotel clearly intends to promote comfortable but relatively cheap accommodation by building, for example, 120 condominiums, each capable of taking six persons (basic services).

Although the group of Dutch promoters considers that a prestige hotel must be included in its large-scale programme (800 to 1 000 rooms), it is clear that its project, which includes a block of flats (which implies minimum service) and a sports hotel, is aimed at a tourist who is very different from the luxury-class casino-type tourist. The group decided this even

though it is aware that in this part of the world, where most tourists in the years to come will still be mainly from the United States, it would be inconceivable for there to be no casino. It should not be forgotten that the spectacular side of the casino, its glamorous luxury, holds a definite attraction for the masses.

Given that the distances involved are much shorter, tourist publicity should be concentrated on the United States, Canada and Venezuela. Nevertheless, the Dutch group hopes that it will also be able to attract holiday-makers from the countries of the European Community with all-inclusive charter flights. Owing to the atmosphere created by sports-orientated holidays, in a peaceful and simple setting (which it intends to preserve), Bonaire could be more successful in this field than any other island in the Caribbean.

The idea of growing on the spot the fruit and vegetables required by the hotels, unlike what has happened in most of the other Caribbean islands where these products are imported from the United States, should prove equally successful. The Aruba Ambwana plantation could easily supply the necessary fruit and vegetables for all the hotels and all the island's inhabitants. The importance of this activity in the primary sector, which, given the required size of the outlet, cannot start until the tertiary sector has been developed, is not so much due to the fact that it will create jobs. What is particularly important is the foreign currency savings which will result and the resulting reduction of the hotels' running costs; a favourable effect on the level of prices for hotel rooms may therefore be expected.

Finally, it should be added that the Dutch group plans to set up in other fields activities which come under the tourist industry. Thus the possibility of building sailing boats and other pleasure boats with hulls made from synthetic materials in Bonaire itself has also been studied. The undertaking in question could, if production is reduced, carry out maintenance and repairs or perhaps become a water sports centre.

The possibility has also been considered of setting up local craft industries, based on the production of souvenirs, etc. In the same connection mention should be made of the possibility of setting up maintenance services - either independent or linked to the hotels - such as workshops for carpenters, plumbers, rugmakers etc.

3. Social aspects of the development of tourism in Bonaire

On the assumption that each hotel room represents 1.0 direct job and 1.2 indirect jobs (services, shops), the construction of 1 000 hotel rooms would represent 2 200 new jobs between now and 1980. This means that there would no longer be unemployment in Bonaire and that in fact Bonaire would offer more than 1 500 vacancies to the inhabitants of Curaçao and Aruba. As many natives of Bonaire still work in those islands, particularly in the hotel sector, it is hoped that many of them will seize the opportunity of returning to Bonaire, thus forming a nucleus of Bonaire professionals.

However, to ensure that the young and the out-of-work, firstly in Bonaire and then in Curaçao, are able to find employment in the budding hotel industry in Bonaire, the EDF has considered the possibility of providing Community aid for training the staff. This problem is still at the examination stage.

Regarding the technical personnel required for operating the future Bonaire airport, the Antilles government is considering requesting the Commission to provide courses for the further training of such staff.

4. General aspects

The Government of the Netherlands Antilles has stated that it is prepared under the Agreement on International Civil Air Traffic (Chicago conventions) to open negotiations on air traffic with each of the Member States which so desires, without discriminating between them.

5. Conditions for guaranteeing the success of the operation

(a) Probable development of tourism in the Caribbean.

Although in some Caribbean islands the hotel sector is going through a difficult period, this situation does not seem to be due solely to the increase in prices and to fluctuations in the United States' economy. Political tension (Grenada), an unfriendly welcome for American tourists in particular (Black power; Porto Rico, Virgin Islands), confusion and ineffectual reservations to or from international airports in the Caribbean are just as important in explaining the difficulties faced by hotel operators.

In a country where political stability prevails, where there is a warm welcome, where there are direct air links and where moderation prevails over luxury, it seems that there are still real opportunities for prosperous hotel industries. The architectural design of the hotels planned by the Dutch group will, for example, permit greater efficiency and therefore economies of staff. Thus for the prestige hotel it is planned to provide one member of staff for each room, whereas it was commonly admitted before that 1.5 and even 2 persons would be needed per room.

Leaving aside this empirical approach involving more or less short-term forecasts, one, or very likely two market analyses will be undertaken by experts in the hotel industry.

Both the Palace Group and the Dutch promoters intend to entrust hotel chains with running the planned hotels. The Dutch group has even, according to the terms of the agreement concluded with the Antilles Government, made the implementation of its projects conditional upon its hotels in Bonaire being run by a hotel chain of high standing.

The agreement signed with the Palace Group also includes the condition that a reputable hotel chain must be found to run the hotel; if this condition is not met, the hotel will not be built. Obviously the above-mentioned operating company will in both cases undertake an in-depth study of the current market and its likely developments before taking a decision.

(b) Execution of the project

It is the setting up of infrastructure (see page 10) that has produced the currently existing hotel projects. It should also be noted that all those responsible for these hotel projects are unanimous in stating that they have no requirements as regards infrastructure other than that concerning the runway. There are therefore grounds for believing that the extension and widening of the runway will finally trigger off the full tourist development of the island.

But to remove any doubt of success, it has been arranged that the Bonaire Palace Hotel Group will undertake to deposit a guarantee of US \$350 000 as soon as financing is provided for the work on the runway. The Government will receive this sum if, within six months of work commencing on extending the runway, the hotel works have not started.

There is also a Special Condition laid down in the Financing Agreement (see page 23 under IV) which makes execution of this project dependent upon the completion of at least one major hotel project. This condition does not affect the undertaking given by the Palace Hotel Group.

It should further be mentioned that the Antilles Government has stated that in the event of default by the investors, it was considering building the last-named hotel itself by calling for assistance, possibly from the European Investment Bank.

(c) To conclude:

the Antilles authorities have received assurances from the private sector that it will be prepared to undertake work in Bonaire provided that the runway is developed. Highly advanced and serious projects already exist. Those who might put up the funds are, however, reticent because they want to be virtually 100% sure that the hotels are actually going to be built;

the commitment entered into by the Commission to earmark the funds required for developing the runway should at last enable the authorities to escape from this vicious circle. Actual disbursement of the funds will however depend on a special condition requiring a guarantee from the private sector before the schemes are financed and actual expenditure is committed.

B. Financial and budgetary aspects

Bonaire airport is a department of the island's administration; it does not therefore have the status of an autonomous body. It is however desirable that the airport's financial situation should be transparent, clear and sound, if only to enable the airport to raise loans directly to meet the two-fold requirement of additional investments and reinvestments. It is therefore planned to set up an autonomous Bonaire airport authority by analogy with the policy followed at Curaçao and Aruba.

As regards the future airport's estimated working account, this cannot be based on the operating results obtained for the existing runway, which has been used only by aircraft coming from or leaving for Curaçao and Aruba. The only estimate it is possible to give is thus based purely on assumptions. It has thus been assumed for example that the island will have 570 rooms in 1977 and 1 000 in 1983. It has been assumed that in 1977 the island will be visited by 42 700 tourists and by 107 000 in 1983. It has also been assumed that the average length of stay will increase from 3.7 days in 1977 to 5.0 days in 1983.

In establishing on the basis of these factors the airport's estimated working account, the scale of charges and taxes recently recommended by Dutch experts for the Curaçao airport have been adopted and adapted for the Bonaire airport. It has however been assumed that the airport tax, which already amounts to Ant. f. 6 (2.78 u.a.) for passengers leaving for a destination outside the Netherlands Antilles, will be fixed at Ant. f. 8 (3.71 u.a.) by 1980.

The airport's estimated working account is therefore as follows:

	1977	1978	1979	1980	1981	1982	1983	1984
Operating income	443.8	925.3	1014.6	1216.1	1268.3	1341.3	1467.8	1502.7 ¹
Operating expenditure	729.4	806.4	894.0	980.7	1060.2	1155.2	1256.1	1363.2
Gross operating results	-285.6	118.9	120.6	235.4	208.1	186.1	211.7	139.5
Financial charges on loans:								
new investments	-	11.0	22.0	33.0	44.0	55.0	66.0	77.0
reinvestments	-	-	-	-	18.3	79.3	79.3	79.3
Cash flow	-285.6	107.9	98.6	202.4	145.8	51.8	66.4	-16.8
Accumulated results	-285.6	-177.7	-79.1	123.3	269.1	320.9	387.3	370.5

The liquid assets available for annual operation would be insufficient for repayment of a loan, even on very advantageous terms².

¹The somewhat irregular movement of estimated operating income is caused by: the assumed increase in the airport tax in 1980, the construction at an irregular rate of new hotel rooms and a certain extension of the average length of stay. This last factor, although favourable from the point of view of hotel operation, will have an adverse effect on the operation of the airport.

²The funds available under the third EDF for the Dutch area in the form of loans on special terms, have been used up by financing the project AN/304/71 - Extension of the Curaçao airport.

There is no doubt that if in 1980 or 1984 there are respectively 855 or 1 000 hotel rooms at Bonaire, which seems a likely possibility, the airport's operating results will be improved. It would moreover be desirable for the autonomous airport which will be set up to be given a little more financial scope than that implied in the estimated operating account. This will be especially necessary since the precarious financial situation of the island's authorities will not enable them for some time to come to give assistance to the airport authority. Bonaire's operating budget is moreover subsidized by the Antilles Government, in other words by Aruba and Curaçao.

Contribution to Bonaire's budget from the national budget¹

	1970	1971	1972	1973	1974
Definitive amount	3 595 000				
Estimate (N.A. budget)		3 000 000	3 000 000	3 500 000	
Estimate (Bonaire budget)		3 221 026	3 378 047	3 436 029	5 153 703

Referring to what has been stated above (pages 7 and 8), attention must be drawn to the financial situation of the Netherland Antilles, whose development has not been at all encouraging and which is at present extremely precarious. Given that inflation increased from 13% in 1973 to 25% in 1974, a figure of 37.5% must be expected for 1975; the Central Bank of the Netherlands Antilles forecasts that the balance of payments, which was still more or less in equilibrium in 1974, will show a deficit of approximately Ant. f. 225 million (+ 104 million u.a.) in 1975.

¹Without taking account of a contribution of Ant. f. 55 000 for promoting tourism.

A deficit of this order means that the gold and foreign currency reserves will be practically exhausted within a year.

This is basically due to the fact that the Antilles economy has no primary sector and that the secondary sector is negligible. The Antilles are therefore obliged to import goods, and hence inflation. Expected trade balance deficit for 1975: Ant. f. 770 million (+ 357 million u.a.); in 1974 this figure rose to Ant. f. 570 million (+ 264 million u.a.).

A very common measure in such circumstances, i.e., devaluation of the Antilles currency, cannot provide a solution. The fact that the price of imported goods would increase would hardly lead to a fall in demand, partly because a quantitative increase of the goods produced on the spot cannot be anticipated, and partly because the increase in the prices of imported goods would involve a reduction in purchasing power, which would immediately be opposed by the militant trade unions. The final result would be an increase in wages and an increase in the price of services which are sold mainly to foreigners (i.e., the activities of the tertiary sector, such as dry storage, refineries, insurance, tourism).

In the short term it is obvious that it will not be possible to find a wonder cure. Only measures to alleviate the crisis situation can be taken. Such measures could include the launching of public works programmes, the encouragement of building in the private sector and the short-term creation of stable jobs.

In the present circumstances it does not seem advisable to increase the cost of the public debt, which is already considerable.

C. Technical aspects

(a) Description of the project

The works provided for under this project represent a specific phase of an overall short and long-term plan for extending Bonaire's tourist facilities.

This phase comprises enlargement of the existing runway in order to open the airport to DC-8 and Boeing 707 type aircraft.

The project comprises the following works:

- (i) enlargement and reinforcement of the existing runway including hard shoulders, overruns and the necessary drainage;
- (ii) lighting, signals and enclosures;
- (iii) extension of the parking area in front of the terminal.

The project also provides for the following:

- (i) drawing up the project for executing the works and the invitation to tender dossiers;
- (ii) the cost of supervising the works.

1. Enlargement and reinforcement of the existing runway

The length of the existing runway will be increased from 1 750 to 2 560 m and its width, which is at present 30 m, will be increased to 45 m.

The existing runway, which has an area of 52 500 m², will be reinforced by laying an additional surface in order to give it the loadbearing capacity to accept DC-8 and Boeing 707 type aircraft.

The lengthening and widening will increase the area of the runway by approximately 62 700 m². The existing runway will be lengthened at its eastern end and widened by 7.50 m on either side.

Hard shoulders and overruns are planned with an area of approximately 42 000 m². The hard shoulders, which will be 7.50 m wide will be laid on either side of the asphalted runway. Overruns 60 m long will also be built at each end of the enlarged runway.

Where the runway is to be enlarged the composition of the base layers and the surface will be determined by the quality of the ground, which is mainly coralline.

The construction planned for the different parts of the runway should be as follows:

Enlargement of the runway

12 cm of bituminous concrete
5 cm of binding course
50 cm of base course

Reinforcement of the existing runway

3 cm of bituminous concrete

Hard shoulders and overruns

4 cm of bituminous concrete
3 cm of binding course
30 cm of base course

2. Drainage, lighting and signalling works

In so far as possible the existing facilities will be incorporated into the new project.

3. Extension of the parking area and the enclosure

These works are still to be specified in the execution plan.

(b) Technical dossier

The dossier, presented by the Government of the Netherlands Antilles, consists of a preliminary overall long-term plan for the extension of the airport, drawn up by the firm NACO (Netherlands Airport Consultants), taking into account the extension of Bonaire's other tourist facilities. This dossier was financed from the Antilles budget in 1968 and finalized in 1974 by the Antilles Administration.

(c) Cost of the project

The total sum estimated for the works provided for under this project, including the costs of the detailed execution study and of repairing the works, price variations and technical contingencies, amounts to Ant. f. 7 320 000 (approximately 3 390 000 u.a.).

This sum is broken down as follows:

1. Construction

Installation of contractor's plant and equipment, removal of the latter, insurance, etc.	Ant. f.	230 000	
Removal of undergrowth, earthworks, etc.	"	1 450 000	
Foundations	"	660 000	
Surfacing	"	2 860 000	
Drainage, etc.	"	120 000	
Lighting, signalling, etc.	"	350 000	
Enclosure	"	110 000	
Extension to the car park	"	20 000	
		<hr/>	
	Ant. f.	5 800 000	
Technical contingencies and price changes, approximately 20%	"	1 200 000	
		<hr/>	
	Ant. f.	7 000 000	approximately 3 242 000 u.a.

2. Cost of the study

Ant. f. 170 000 approximately 79 000 u.a.

3. Supervision

Ant. f. 130 000

Technical contingencies and price changes, approximately 15%

" 20 000

Ant. f. 150 000 approximately 69 000 u.a.

Total sum:

Ant. f. 7 320 000 approximately 3 390 000 u.a.

(d) Execution of the project

The works will be carried out by the contractor in a single lot after an open international invitation to tender.

(e) Time schedule

The timetable for carrying out the project, each period to be counted from the signing of the Financing Agreement, is as follows:

Study and preparation of invitation to tender:	6 months
Issue of invitation to tender and notification:	6 months
Duration of works:	18 months.

This financing decision will be referred back to the EDF Committee for re-examination if the time being taken to carry out the project proves likely - given the stated time schedule and expenditure - to jeopardize the successful completion of the project or to involve considerable excess expenditure.

IV. SPECIAL CONDITIONS

The following special conditions will be included in the Financing Agreement:

- (i) the Government of the Netherlands Antilles and the Bonaire Administration shall undertake to set up an autonomous airport authority in Bonaire before completion of the works provided for by the project;
- (ii) the Government of the Netherlands Antilles shall declare its willingness to open negotiations on air traffic based on the Agreement on International Civil Air Traffic (Chicago conventions) with each of the Member States which so desires;
- (iii) after issue and publication of the invitation to tender no contract shall be awarded until the Commission is satisfied that there is sufficient evidence to prove that at least one 200-room hotel will be built.

V. CONCLUSION AND PROPOSAL FOR FINANCING

Lengthening and widening the Bonaire runway in order to make it suitable for DC-8 and Boeing 707 type aircraft will complete the infrastructure vital for real development of tourism on the island.

Having regard to the favourable Opinion delivered by the European Development Fund Committee at its meeting of _____ and having regard to the supporting arguments set out above, it is proposed that the Commission take the following decision:

Financing decision

The Commission has decided:

to approve under the conditions laid down in the proposal before it, the project described hereunder:

Registration No	Title of the project	Commitment proposed as a grant	
		Local currency	Equivalent in u.a.
AN/309/74	Improvements to the Bonaire runway	Ant. f. 7 320 000	3 390 000 (round total)

to grant commitment authorizations for a total sum of Ant. f. 7 320 000, equivalent to approximately 3 390 000 u.a. (round total);

to instruct the Chief Authorizing Officer of the European Development Fund to make any adaptation arrangements that prove necessary to ensure the smooth execution of the project under the best economic and technical conditions.