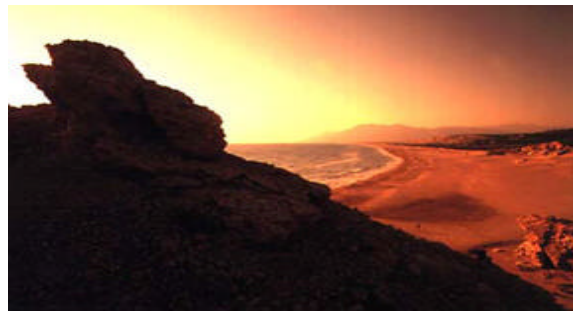




Preliminary Assessment of the Environmental & Social Effects of Liberalisation in Tourism Services

WWF International Discussion Paper
February 2001



This paper was researched by Natacha Juda and Sarah Richardson, under the supervision of Mireille Perrin. The authors would like to thank Elisabeth Tuerk, Dale Andrew, Silvia Zucchini, Dale Honeck, Angela Kalish, Beat Burgenmeir, Atila Uras and Ambassador Cuello for their comments.

The views in this paper are those of the author and do not necessarily reflect those of WWF.

For comments and/or queries on this paper please contact:

Mireille Perrin

Policy Adviser, Trade & Investment Unit

WWF International

Ave du Mont-Blanc

1196 Gland

Switzerland

Tel: +41 22 364 9026

Fax: +41 22 364 8219

E-mail: mperrin@wwfint.org

Website: www.panda.org

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Table of Contents

Acronyms	i
Executive Summary	1
PART I	5
Setting the Context: Liberalisation of Tourism Services and Sustainability Assessment	
1.1 Tourism Services	5
1.2 Trade in Services, Liberalisation and the WTO General Agreement on Trade in Services (GATS)	7
1.3 Sustainability Assessment of Liberalisation of Trade in Services: Key Issues	15
PART II	19
Assessment Framework: Environmental and Social Effects of Liberalisation of Trade in Tourism Services	
2.1 Purpose, Scope and Focus	19
2.2 Context	21
2.3 Linking Tourism Services to Liberalisation: GATS, Investment and other Liberalisation Efforts	30
2.4 Linking Liberalisation of Tourism Services to Sustainable Development	35
PART III	42
Preliminary Scoping Study on Turkey	
3.1 Introduction	42
3.2 Context of Turkey's Tourism Sector	44
3.3 Tourism Services and Trade and Investment Liberalisation Policies in Turkey	48
3.4 Potential Linkages between Liberalisation of Tourism Services and Environmental and Social Change in the Belek Region	51
PART IV	55
Conclusions and Recommendations	
4.1 The Liberalisation of Tourism Services and Sustainable Development	55
4.2 The Development and Implementation of Sustainability Assessments for Liberalisation of Tourism Services	57
Bibliography	60
Annexes	65

Acronyms

BETUYAB	Belek Tourism Investors Union
BMP	Belek Management Plan
CRS	Computer reservation systems
CSD	UN Commission on Sustainable Development
CTE	Committee on Trade and Environment (WTO)
EIA	Environmental impact assessment
EU	European Union
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GDS	Global distribution systems
GNP	Gross national product
ILO	International Labour Organisation
IMF	International Monetary Fund
IT	Information technology
MFN	Most favoured nation
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organisation
OECD	Organisation for Co-operation and Development
SA	Sustainability assessment
SAP	Structural Adjustment Programme
SEA	Strategic environmental assessment
SICTA	Standard International Classification of Tourism Activities
SME	Small and medium-sized enterprises
T & T	Travel and Tourism (WTTC)
TNC	Trans-national corporation
TRIMS	Trade-Related Investment Measures
TRIPS	Trade Related Intellectual Property Measures
TTRS	Tourism and travel related services (GATS)
TURSAB	Turkish Association of Travel Agencies
UN	United Nations
URA	Uruguay Round Agreements
WTO/OMT	World Tourism Organisation
WTTC	World Tourism and Trade Council
WTO	World Trade Organisation

Executive Summary

Background

In February 2000 member governments of the World Trade Organisation (WTO) entered into a new round of multilateral negotiations on services, mandated by the General Agreement on Trade in Services (GATS). Tourism is expected to be in the forefront of these negotiations. It is one of the world's largest industries and has acquired an important position in global trade. For developing countries in particular, tourism is considered a valuable export because of its contribution to foreign exchange, investment and employment opportunities.

Little is known about the environmental and social effects of liberalising services. Given the pace of globalisation and the growing importance of services trade, there is a clear case to be made for developing a better understanding of how further liberalisation of service-related activities could impact the environment and social well-being in countries engaged in that trade. Travel and tourism is a priority sector for assessment because of its broad economic, environmental and social implications throughout the world, and its place in current WTO negotiations.

Objective and Limitations of the Study

This study aims to identify and assess potential environmental and social effects of trade and trade liberalisation in the tourism sector. Specifically, it seeks to determine the role played by trade and trade liberalisation policies in supporting or constraining opportunities for sustainable development in the tourism sector.

The main objectives of the study are:

- ◆ To develop a preliminary framework for assessment of the potential environmental and social effects of services liberalisation, particularly in the tourism sector.
- ◆ To contribute to a better understanding of the linkages between trade liberalisation and sustainable development in the tourism sector, seeking to identify both positive and negative impacts of that trade on the environment and social well being.
- ◆ To provide a concrete illustration of how a sustainability assessment might be undertaken in practice as applied to a specific region (the case study selected is the Mediterranean coast of Turkey, which has witnessed rapid and large-scale tourism development over the last decades).
- ◆ To develop preliminary recommendations, based on the likely effects of trade-induced tourism on sustainable development, that suggest further areas of work that will contribute to an improved understanding of the linkages between trade in tourism services and sustainable development.

Given the innovative nature of this research, this study faced several challenges and thus is subject to limitations. The following three stand out.

1. Very little work exists on assessing the environmental or social effects of services liberalisation in general, and tourism in particular. This research is therefore both exploratory and preliminary. It suggests an outline for an assessment framework (as opposed to a full-fledged sustainability assessment) and provides only an indication of potential environmental and social effects.
2. This study was subject to severe time constraints, which limited possibilities for in-depth and detailed application of the framework to the case study; the latter is

therefore presented as a scoping exercise. It is intended to illustrate how the framework might be applied in a preliminary fashion and used to test, refine, and elaborate the hypotheses and analytical questions proposed. It also provides a rationale and some guidance to support a full-scale sustainability assessment in the region in the future.

3. Important data limitations were encountered in undertaking this study. There is a paucity of reliable and comprehensive data, and of uniform definitions for services and tourism. This makes it difficult to assess the degree of liberalisation achieved under GATS.

Despite these limitations, the findings and results of the study provide a sound basis for additional work on sustainability assessment in the context of trade in tourism services, and for the application of assessments to specific regions. There is also room to expand this sectoral research to include other services sectors such as transportation, thereby further enhancing a growing expertise on the assessment of the environmental and social effects of liberalising trade in services.

Assessment Framework: Key Linkages

This study identifies five ways through which changes in the services sector, brought about by liberalisation, can be linked to sustainable development.

1. *Supply and Structure*
This set of issues deals with how liberalisation policies affect the provision and structure of tourism trade. Liberalisation facilitates market access for foreign suppliers, foreign establishment (especially TNCs) and investment. The environment and society may be impacted by these structural changes in different ways. For example, access to technology and distribution systems can be facilitated and environmental standards and training of personnel increased. On the other hand, leakage and a loss in market share can diminish profits of local suppliers, and thus drain potential resources for environmental and social protection in tourism destinations.
2. *Development and Practice*
The links described in this category focus on the nature of tourism development resulting from liberalisation processes. Foreign investment and increased market access for foreign suppliers can result in a rapid expansion of tourism development, thus negatively impacting environmental and social pressure points. On the other hand, if tourism development is not dependent on one single source (such as a beach), revenues will be less seasonal and potentially more diversified.
3. *Physical infrastructure*
These issues address the infrastructure requirements needed to support the development of tourism services (such as roads, airports or waste treatment facilities). Environmental and social effects depend on whether existing infrastructure can accommodate the increase in scale following liberalisation, and if it benefits local populations. Technology transfer is an important issue to consider in this category as liberalisation processes can facilitate the development of, and access to, more environmentally friendly technologies.
4. *Organisations and institutions*
This set of issues determines to what extent local populations benefit or not from trade in tourism (through, for example, employment, training and education). It includes issues such as the impact of foreign personnel on the local workforce and whether local populations are involved in decision-making. Environmental and social protection measures might flow from a well-developed network of social

organisations. Conversely, stress can arise when a rapid inflow of migrant workers overwhelms the environmental and social structure of the area.

5. *Government and policy regulation*

The liberalisation of tourism services can have important regulatory effects through impacts on domestic regulatory regimes. International obligations may, for instance, undermine national environmental and social policy objectives. Important issues to consider include the existence of effective planning procedures, the nature of environmental, social and fiscal regulations, as well as the overall economic regulatory framework of the tourism destination country.

Conclusions and Preliminary Recommendations

The main conclusions and recommendations of the study are divided into two general categories. The first addresses the liberalisation of tourism services and its impacts on sustainable development. The second considers the development and implementation of sustainability assessment for trade in services and suggests areas for further work.

1. The liberalisation of tourism services and sustainable development

- ◆ ***The impacts on sustainable development of liberalisation of tourism services can be both positive and negative.*** Positive effects include economic benefits from increased foreign direct investment (FDI), increased revenues from spending of foreign tourists, and increased employment and business opportunities. The export of tourism services can provide governments with additional income and incentives to protect natural resources and develop appropriate social infrastructure and networks. However, leakage of profits can undermine local small-scale providers so that much of the economic benefit remains in, or flows back to, originating countries and companies, while the environmental and social impacts are felt principally in destination countries.
- ◆ ***Environmental and social effects in the tourism services sector are largely related to the liberalisation of foreign investment and foreign establishment.*** Next to Mode 2 (consumption abroad), Mode 3 (commercial presence) is the mode of supply of tourism services that may have the most important impacts. Mode 4 (movement of natural persons), which is currently the most restrictive mode in tourism services, may also have important social effects, particularly in developing countries.
- ◆ ***Linkages between liberalisation of tourism services and sustainable development are dependent on a number of factors.*** These can include infrastructure, regulations and institutions in place in destination countries. The degree of liberalisation and foreign investment incentives in place is likely to play an important role with respect to the type and significance of the effects observed. However, the economic impacts of liberalisation commitments in tourism services are difficult to assess due to data limitations at both national and international levels. Furthermore, countries can be more liberal in practice than is reflected in their schedules of commitments under GATS.
- ◆ ***The WTO's proposed Annex on tourism as an approach to liberalisation has advantages and disadvantages for sustainable development.*** The "cluster" approach put forward in the Annex incorporates a number of services including travel reservation systems, air and other transportation and travel related financial services into a "tourism cluster". This approach has the advantage of including the different components of the tourism sector and of elaborating a more accurate definition of the

sub-sectors and services activities. However, by linking different services sectors, WTO negotiations could be accelerated and higher levels of liberalisation might be achieved more rapidly than would otherwise be the case, and undermine countries' abilities to examine and assess the economic, social and environmental effects of new commitments.

- ◆ ***Liberalisation of tourism services is primarily an act of domestic liberalisation.*** Because a country does not have to rely on the interest of trading partners to open its market, tourism is a relatively easy sector to liberalise. Under GATS, it is the sector with the highest level of commitments. The direct impact of GATS on domestic regulations raises questions about the regulatory power of governments and the compatibility between obligations under GATS and domestic policy objectives. The role of domestic regulations and their interaction with trade policies are likely to be of particular significance.
- ◆ ***Trade in tourism services is characterised by important imbalances in the share of business and distribution channels between tourist sending and receiving countries.*** Much of the economic and political power in the tourism industry is held by developed countries. Anti-competitive practices, such as restrictions on the movement of persons, limit the potential benefits of liberalisation, particularly for developing countries.

2. The development and implementation of sustainability assessments: general lessons

- ◆ ***Developing definitions.*** The lack of consensus on the various sub-sectors that make up "tourism services" makes it difficult to define the scope of an assessment framework. It is also difficult to establish precisely those effects that stem from GATS and those which might be induced by other dynamics at the national and international level including, for example, other liberalisation processes, macro-economic policies, or domestic regulatory frameworks.
- ◆ ***Data requirements.*** There is an urgent need to develop better statistics on services trade. Existing data collected is insufficient to enable governments to assess the environmental and social effects of past market-access commitments or benefits from services exports.
- ◆ ***Increasing analytical capability, including cross-sectoral linkages.*** Despite the limited research and information available on the impact of liberalising trade in services, a better understanding of the interactions between services liberalisation and environmental and social change is needed. Tourism is not the only sector where further and more detailed work should be carried out. Other priority services sectors include, for example, transport and construction services.
- ◆ ***The role of competition policy.*** The relationship between competition policy and trade policy should be further addressed and potential impacts on sustainable development examined.
- ◆ ***The role of investment.*** The extent to which GATS works like an investment agreement is an important issue for further study. The rules in GATS have implications on investment, specifically through commercial presence commitments (Mode 3). Further work is needed to examine the sustainability implications of investment provisions in GATS in different sectors, including tourism.

PART I

Setting the Context: Liberalisation of Tourism Services and Sustainability Assessment

Part I presents the context of this study. Section 1.1 identifies key definitions of tourism and tourism services. Section 1.2 describes the role of services in the world economy, examines key provisions of the WTO General Agreement on Trade in Services (GATS), and outlines the process of services liberalisation. Section 1.3 indicates how sustainability assessments of trade policies have evolved over the past decade to emerge as an important analytical tool to assess the economic, environmental and social effects of trade liberalisation.

1.1. Tourism Services

Tourism is often referred to as the largest industry in the world. However, in the absence of consensus on the different components of the tourism industry, assessing the overall importance of tourism services is difficult. This section examines these definitions with a view to clarifying the role of tourism in international services trade.

The World Tourism Organisation (WTO/OMT) is the principal intergovernmental body that deals with tourism. WTO/OMT defines tourism as “activities of persons travelling to, and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes” (WTO/OMT 1997:5). Domestic tourism involves the activities of residents travelling as visitors within the country. International tourism occurs “when the traveller crosses a country’s border” (WTO/OMT 1997:7).

This study focuses on international tourism. This includes trade flows of foreign travellers for holidays, business or other purposes. Not every international traveller is a visitor. The trip has to take the said traveller out of his/her usual environment. For example, workers who cross borders for employment are not considered visitors for the purposes of tourism.

According to the Organisation for Economic Co-operation and Development (OECD), tourism is a complex and fragmented industry that is difficult to define and measure (www.oecd.org/dst/sti/transport/tourism). Similarly, the World Tourism and Trade Council (WTTC) acknowledges that “travel and tourism is a complex industry -an agglomeration of activities- providing products and services to respond to consumer, industry and government demand for travel” (WTTC, Travel & Tourism, Jobs for the Millennium:3). The tourism industry can therefore be seen as a mix of activities that fall within the tourism sector and that are referred to in this study as “tourism services”.

The World Trade Organisation (WTO) too acknowledges that tourism is composed of a number of distinct services sectors (WTO 1998). However, tourism as a services sector under GATS is very limited in scope. It is part of 'tourism and travel related services' - category 9 of the Services Sectoral classification List W/120 (GATT 1991) (Annex 1) - and is divided into the following four categories:

- ◆ hotels and restaurants (including catering);
- ◆ travel agencies and tour operators’ services;

- ◆ tourist guide services; and,
- ◆ other.

Tourism services are products or other outputs resulting from activities of economic entities, which are destined for final consumers (visitors) and suppliers to visitors. The term encompasses an assortment of diverse services consumed by visitors (WTO/OMT, GATT, UNCTAD 1994). There is also a relationship between tourism services and goods that are supplied in conjunction with those services. While this relationship merits further attention, the linkages between trade in tourism and trade in goods will not be covered in this study.

The relatively narrow WTO classification of tourism as a service sector under GATS implies that other services activities such as transport, business, distribution and recreational services, which are directly or indirectly linked to tourism, are not considered to be tourism services for the purposes of international trade. The different categories of services sectors listed in the GATS Classification List are enumerated in Box 1.1 (see also GATS Sectoral Classification List in Annex 1).

Box 1.1: Services sectors under GATS

Business and professional services
 Communication services, including telecommunications and audio-visual
 Construction and related engineering services
 Distribution
 Education
 Environmental service
 Financial services, including insurance and banking
 Health related and social services
 Tourism and travel related services
 Recreational, cultural and sporting services
 Transport services

Source : GATS classification List W/120 (GATT 1991)

The Standard International Classification of Tourism Activities (SICTA) is a classification of industry sectors comprising categories, which are important to tourism or which are highly dependent on tourism demand. SICTA classifies tourism activities that give rise to trade in tourism services according to whether such activities are entirely or partly related to tourism. Some 140 designated activities have been identified. The list includes, for example, business services (e.g., rental of automobile, bicycles and ski equipment), construction services (e.g., construction of recreational facilities and commercial facilities like hotels) and educational services such as those in hotels and tourism schools. This classification reflects the fact that tourism encompasses more than is reflected, for example, in the WTO definition.

Other international organisations have developed this approach further. The World Tourism Organisation (WTO/OMT) suggests that applying the SICTA activities to the WTO classification list (Annex 2) would broaden the scope of the WTO's definition of tourism services. At present, the WTO/OMT considers the GATS definition of "Tourism

and Travel related services” to be overly narrow, not taking into account important related services such as transport of passengers and computerised reservation systems (CRS) that, among others, are components of tourism. The WTO Secretariat has identified as a question for further discussion the need “to expand the current GATS definition of tourism services, as reflected in W/120, to ensure that other tourism-related activities are included when Members make commitments in tourism” (WTO 1998:3).

In co-operation with the WTO/OMT, the Dominican Republic, El Salvador and Honduras have developed a proposal for an Annex to GATS on tourism-related services (WTO_a 1999). This Annex proposes a “cluster” approach to further negotiations by adding the relevant tourism related categories from the main body of the UN Provisional Central Product Classification (CPC) on which W/120 is based (WTO 1998). This proposal views tourism as a development issue and aims to introduce the concept of sustainability into the tourism trade. Sustainable development of tourism is defined by the WTO to encourage the reinvestment of tourism revenues in tourism destinations in order to: (a) meet the need for additional capacity to supply tourism services in the future; (b) implement and enforce internationally agreed quality and environmental standards; and (c) integrate local communities in the conception, management and upgrading of all activities in tourism trade. The proposal also seeks to begin a dialogue on instruments to avoid anti-competitive behaviour in the tourism sector (WTO_a 1999).

There is virtually no single services area that is not either directly or indirectly linked to trade in tourism services (Annex 3). The effect of GATS liberalisation in this area is thus likely to be broader than if one was only considering the expansion of current commitments in “tourism and travel related services”. Part II (section 2.1) illustrates the important cross-sectoral linkages that need to be taken into account. For example, “a key area of interdependence of tourism related sectors is the close connection between transport services and tourism” (TourismWatch/Equations 1999). Other important cross-sectoral links include the relationship between tourism and a wide range of business activities (such as credit card suppliers, information technology for air bookings and planning of tourism projects by consulting firms), as well as sporting and recreational services.

1.2. Trade in Services, Liberalisation and the WTO General Agreement on Trade in Services (GATS)

This section provides a general overview of international trade in services, the General Agreement on Trade in Services (GATS) and further liberalisation in the services sector. The objectives are: (1) to identify the main issues related to liberalising services in a sustainability context; and (2) to highlight the need for an assessment of the environmental and social effects of trade and further liberalisation in this sector.

1.2.1. The Role of Services in International Trade

As opposed to trade in goods, the role and importance of international trade in services have traditionally been underestimated or ignored in international trade negotiations (WTO 1999). The perception that services are non-tradable existed for at least two reasons:

1. *Legal and institutional.* Because of the existence of public monopolies in sectors such as telecommunications and transport.

2. *Economic and technical.* Because of such constraints as the need for simultaneous presence of producers and users or lack of transmission technologies (WTO, 1999).

In addition, the importance of trade in services may be underestimated because of lack of data and/or because many aspects of services trade do not appear in national statistics. A significant part of services trade is either hidden or not accounted for, and thus remains 'invisible'. Examples include services such as design or technical expertise that are incorporated into goods. Neither does data on cross-border flows capture production and sales through foreign affiliates (commercial presence) which is an important mode of services trade (WTO 1997). Services provided by international fast food, hotel chains or tour-operators, which have established a commercial presence abroad, are not taken into account in national statistics. It is estimated that trade in services through commercial presence could be at least as significant as cross-border trade in services (see section 1.2.2). Thus, trade in services might be much more important than illustrated in current balance of payment statistics (<http://gats-info.eu.int>).

With the advances of computer technologies and telecommunications, the perception that services are not tradable has changed, and trade in services is now often cited as the engine of economic growth in the 21st century (CUTS 1997). The increasing importance of services trade applies to both developed and developing countries. The average annual growth rate of trade in services over the last decade was 9.5 per cent, compared to 7.1 per cent for merchandise trade (Sauvé).

At present, world trade in commercial services (measured on a balance of payments basis) accounts for around one-fifth of world exports of goods and services. In 1999, leading exporters in commercial services were the United States (also the main importer), followed by the United Kingdom (UK), France and Germany (WTO Focus 2000). The economic importance of services trade manifests itself in terms of gross domestic product (GDP), employment and/or investment. The services sector accounts for 52 per cent of GDP in the European Union (EU) and 46 per cent of its workforce (excluding government). Close to 60 per cent of total flows of FDI into the EU are directed towards services activities (<http://gats-info.eu.int>).

Trade in services covers international transactions involving such diverse activities as distribution, telecommunications, transport, tourism, banking, construction or consulting. Trade in services frequently implies trade in goods where, for example, it is necessary to import equipment in order to provide a specific service. In addition, services trade includes international movement of capital (particularly investment flows) and labour.

1.2.2. The WTO General Agreement on Trade in Services (GATS)

Services were added to the multilateral trade agenda at the end of the Uruguay Round in 1994. The WTO General Agreement of Trade in Services (GATS) "establishes a multilateral framework of rules and principles for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalisation, and as a means of promoting economic growth of all trading partners and the development of developing countries" (Mashayekhi 1998:4).

GATS is an integral part of the Uruguay Round Agreements (URA) and is the first multilaterally enforceable agreement to cover trade and investment in services. Its main objectives can be summarised as follows:

- ◆ expansion of services trade;

- ◆ progressive liberalisation through successive rounds of negotiations;
- ◆ transparency of rules and regulations;
- ◆ increasing participation of developing countries.

Box 1.2: Characteristics of the services sector

- ◆ *General Characteristics are changing.* The characteristics of services have, in the past, been identified as not transportable, not storable and requiring direct contact between provider and consumer of the service. However, this description is no longer applicable due to communication and technological advances. For example, where a necessarily in direct contact with the consumer.
- ◆ *Difficult to establish a clear classification of services.* It is difficult to identify the scope of services activities. There are linkages both forward and backward into other economic sectors. Services sectors are strongly linked with each other (e.g., telecommunications and business services) and to certain goods.
- ◆ *Non-economic objectives in the provision of services are important.* The services sector is often characterised by strong government involvement, which plays an important role in ownership and regulation of services provision. This is mainly because service sectors, such as health or education, have important repercussions in areas of social and environmental policy. Increase trade in services is thus likely to have several important environmental and social effects.
- ◆ *Domestic regulation.* The regulation of the provision of services, and also of trade in services, does not take place at the border but internally through domestic regulations (see sections 1.2,3).

Source WTO/OMT 1995, CUTS 1997

The general principles and provisions of GATS are similar to the principles for trade liberalisation with respect to goods in the General Agreement on Tariffs and Trade (GATT). They include the most favoured nation (MFN) treatment, market access, national treatment and transparency. These principles are summarised in Box 1.3.

The GATS is composed of three pillars:

1. Framework. A framework agreement of 29 articles containing general obligations accepted by members such as typical GATT provisions such as MFN.
2. Annexes. Eight annexes, which address horizontal and sector specific matters (e.g., financial services and telecommunications).
3. Schedules. Schedules of specific commitments on market access and national treatment.¹

The degree of liberalisation under GATS is reflected in several ways. First, in the number of sub-sectors where Members have made commitments; second, in the number and nature of restrictions that members have adopted regarding their commitments (for

¹ Schedules are lists where members inscribe the degree of liberalisation in a specific sub-sector (e.g., tourism and travel-related services or business services).

Box 1.3. Main provisions of GATS

Most Favoured-Nation Treatment (Article II.1)

For over forty years, this key principle of trade liberalisation enshrined in the GATT has provided the basis for worldwide liberalisation of trade in goods. It obliges member countries to give the most favourable treatment accorded to any of their trading partners to all WTO members immediately and unconditionally. Under GATS, if a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. This principle applies even if the country has made no specific commitment to provide foreign companies access to its markets under the WTO. Under GATS the MFN clause applies to all services, although some temporary exemptions are allowed.

Market access (Article XVI.1)

The market access provision provides that a member shall accord services and services suppliers of any other member treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its schedule. This provision covers the four modes of supply of services (see Box 2.3). For goods, tariffs are the main instrument of protection, whereas services sectors are often governed by complex regulatory regimes. Unlike for products under GATT, there exists no general obligation in GATS to grant entry into the market. Access of any sort to the market depends on the specific commitments made by a country and inscribed into the market access column of its schedule. The market access provision contains an exhaustive list of limitations. These can be quantitative or legal in nature and include limitations such as the number of services operations, the value of service transactions or assets, participation of foreign capital, number of persons supplying a service, number of operations, or quantity of output.

National Treatment (Article XVII.1):

National treatment means that equal treatment is given to foreigners and to a country's own nationals (non-discrimination). This principle applies differently between GATS and GATT. For goods (GATT) and intellectual property (under TRIPS) it is a general principle. In GATS it only applies where a country has made specific commitments and exceptions are allowed. This principle plays a more important role for services than for goods. Trade in goods tends to be restricted at the border, whereas services are subject to greater internal domestic regulation affecting supply within the market. National treatment under GATS applies to both the imported services and to the services suppliers in the market.

Transparency

Transparency is another key principle to achieve multilateral trade liberalisation. The main obligations under this principle are prompt publication, notification, the maintenance of enquiry point and fair judicial review. Members have an obligation to inform the Council for Trade in Services on the introduction of any new laws, regulations or administrative guidelines (or changes to them) in sectors or sub-sectors where specific commitments have been made. The transparency principle helps members and businesses identify restrictions and protectionist measures.

Source: adapted from www.wto.org and gats-info@u-u.int

example, restrictions on market access and national treatment), and third, in the number of MFN exemptions a country has requested.²

In this respect, it is important to emphasise the difference between exemptions to the MFN principle, which is a general obligation under GATS, and restrictions to national treatment or market access that are listed in the schedules of commitments.

MFN exemptions are temporary in nature. Article II of GATS allows Members to measures inconsistent with MFN treatment in four areas under certain conditions (Equations, Tourism Watch 1999):

- ◆ when establishing economic integration (Article V);
- ◆ when the state purchases services for its own use - government procurement (Article XIII);
- ◆ under Article VII bilateral recognition of foreign training courses, professional experience and admission regulations that do not need to be extended to other parties;
- ◆ under Articles XIV (general exception) and XIV *bis* (security exception) respectively, being non-discriminatory and non-arbitrary measures to protect public morals or to maintain public order in case of serious threat to a fundamental interest of society; to protect human, animal or plant life or health; and to secure the prevention of deceptive and fraudulent practices or of safety and other security exceptions. These exceptions are similar to ones in GATT, but the environmental exception is more limited (see section 1.2.3).

In principle, GATS applies to all services except those supplied in the exercise of governmental authority (Article I.3.) and air transport. The Annex on Air Transport Services exempts from coverage measures affecting air traffic rights or services directly related to air traffic (Annex 4). This specificity is important for the purpose of this study as tourism and air transport are closely linked. Furthermore, air transport is on the agenda of the next services meetings for further liberalisation (section 2.3).

Article I of GATS ("scope and definitions") defines "trade in service" but not "services". The GATS definition of trade in services includes trade in services and investment through commercial presence, movement of natural persons to supply services and movement of consumers. Apart from the traditional concept of cross-border trade, three additional concepts were introduced by GATS to define trade in services. Together these are referred to as the 'four modes of supply' (Article I). The modes of supply are defined on the basis of the origin of the service supplier and consumer, and the degree and type of territorial presence that they have at the time that the service is delivered (Box 1.4).

The four modes of supply play an important role with respect to market access and national treatment commitments. Each WTO member chooses whether to open its market by committing itself to comply with national treatment or market access obligations in a specific sub-sector and for a specific mode of supply. These commitments are inscribed in a country's specific schedule.

The modes of supply vary in importance depending on the services sector considered. Some services can be supplied in several of the four modes, while others by their nature cannot. For example, the service of a consultant can be supplied by e-mail, phone, personal visit to the client in the foreign country or through an office maintained in a

² For example, Turkey extends full national treatment for investment to nationals or companies from a range of countries and this MFN exemption applies to all sectors covered by GATS.

Box 1.4: The four modes of supply under GATS

Mode 1 - *cross-border supply of services*

This category corresponds to the normal form of trade in goods. With this mode of supply, only the service itself crosses national borders (for example, consulting services or international telephone calls). Mode 1 provides a possibility for non-resident service suppliers to supply cross-border services into another member's territory.

Mode 2 - *consumption abroad*

This category implies the supply of a service in the territory of one member to the service consumer of another member. Typically, this involves the consumer travelling to the supplying country. Examples include tourism, educational establishments or the repair of a ship or aircraft.

Mode 3 - *commercial presence*

This category covers the supply of a service through the commercial presence of the foreign supplier in the territory of another country. This might include, for example, the establishment of branch offices or agencies in the field of banking, legal advice, or communication.

Mode 4 - *presence of natural persons*

This category covers the admission of foreign nationals to a country to provide services, such as hotel managers, doctors, or other independent individuals. Mode 4 can exist with Mode 3 where, for instance, a US hotel chain has a branch in France and employs US personnel in France.

Source: <http://www.wto.org>

foreign country. On the other hand, haircuts or cleaning services cannot be supplied over the Internet or by telephone. Consequently, the four modes of supply differ with respect to their economic importance. According to the WTO, commercial presence (Mode 3) "is probably the most important mode of supply of services, at least in terms of future developments" (WTO_d 1999:3). This can be explained by the growing importance of foreign direct investment in services trade. Mode 3 also raises difficult issues for host governments as it deals with domestic policy issues such as rights of establishment that are inherent in the commercial presence of foreign interests.

Mode 4 (movement of natural persons) presents related challenges. GATS' Annex on Natural Persons specifies that members who undertake commitments under Mode 4 may still regulate the entry and stay of persons (by requiring visas for instance) as long as this does not prevent them from fulfilling their commitments. Issues related to labour markets and immigration are sensitive for national governments and the movement of natural persons is of particular importance for developing countries.

GATS mandates further negotiations aimed at the progressive elimination of barriers to trade in services that were not fully addressed in the Uruguay Round (Article XIX). Negotiations have been concluded on basic telecommunications (1997), movement of natural persons supplying services under GATS (1995) and financial services. In addition, various GATS articles provide for issue-specific negotiations intended to define rules and disciplines for domestic regulation (Article VI), emergency safeguards (Article X),

government procurement (Article XIII) and subsidies (Article XV). These negotiations are currently underway as part of the Uruguay Round's "built-in agenda".

1.2.3. Initial Remarks on Services Liberalisation in the Context of Sustainable Development

Liberalisation in the services sector is not yet well understood. GATS is a complex agreement and remains relatively unexplored compared to GATT (Hoekman and Messerlin 1999). However, the liberalisation of trade in services is likely to have important environmental and social effects, particularly in sectors such as transport, energy and tourism. There is a need therefore to improve understanding of the linkages between services liberalisation and sustainable development.

Environmental concerns are not explicitly addressed in GATS, although two developments have occurred that are relevant. First, although no significant discussions have taken place in the WTO Committee on Trade and Environment (CTE) to introduce environmental and social mechanisms into GATS, the current proposal to adopt a tourism annex (WTO_a 1999) includes provisions to ensure that liberalisation of the tourism sector supports the objectives of sustainable development (ICTSD 2000). Second, in a decision on Trade in Services and the Environment (Ministerial Decision on Trade in Services and the Environment, Annex 5), ministers asked the CTE to "examine and report on the relationship between services trade and the environment, including the issue of sustainable development" (WTO 1995:1). The CTE is also mandated to determine if any changes need to be introduced to Article XIV (see below). However, the work of the CTE has focused on the potential benefits of trade in environmental services and little progress has been achieved (ICTSD 2000).

Article XIV of GATS outlines general exceptions to the agreement in a similar fashion to Article XX of GATT. It is preceded by a chapeau, which specifies the right of a member to adopt or enforce measures for the purposes listed, subject to the condition that they are not applied as a means of "arbitrary or unjustifiable discrimination between countries where like conditions prevail or as disguised restrictions on trade in services" (Article XIV, GATS). The environment is not explicitly cited as a general exception in Article XIV (b), which refers to the need to "protect human, animal or health". This is a narrower exception that exists in GATT's Article XX that includes "exhaustible natural resources."

The relationship between trade in services and the environment was examined by the WTO secretariat, which found that services trade could have both positive and negative effects (WTO 1995). Pollution caused by transport and tourism activities is cited as an example of a likely negative effect of trade in services. Facilitating access to environmental services is cited as a possible positive effect on the environment. In addition, the WTO states that "trade could be increased, for example, by granting larger market access to external suppliers of services or by providing incentives (for instance through subsidies) to use services, which have positive effects on the environment" (WTO 1995:4). A recent environmental review of the upcoming WTO New Round undertaken by the Canadian Government also identifies possible positive environmental effects of service trade including environmental services as a potential area supporting sustainable development and environmental protection. According to another author, liberalisation of services trade can also help governments strengthen environmental standards by promoting increased competition (Andrew 1999).

With respect to measures to avoid or limit negative effects of trade in services on the environment, the WTO report states that control on trade or production "could take the

form of defining certain standards for the service concerned or limiting the effect of the service activity.” These national regulatory activities might raise a series of questions for member governments. For example it is not clear which of these measures would be considered in compliance with WTO Members’ obligations under GATS. In case of a potential inconsistency, the respective WTO Member might need to justify its regulatory activity as falling within one of the GATS general exemptions in a formal WTO dispute settlement process. However, the WTO document stresses that “...the fact that certain restrictions might be necessary in these circumstances does not imply that article XIV would be the provision needed to justify the imposition of those restrictions (...) an alternative available to members would be to request renegotiations of their commitments. If a measure is inconsistent with other provisions of the GATS, there is no need to rely on article XIV to justify that measure” (WTO 1995:4).

This is problematic given the fact that members of the WTO can renegotiate commitments only in areas where the GATS provides for the possibility to enter into commitments, such as market access and national treatment obligations. General GATS obligations, such as MFN, transparency requirements or (future) disciplines on domestic regulation under Article VI, are not open to renegotiations. This is important because it is these latter obligations that are most likely to constrain regulatory behaviour aimed at environmental protection.

Moreover, in those areas that are open for renegotiations, the extent to which these renegotiations are likely to provide a 'way out' is questionable. During negotiating periods, WTO Members might be reluctant to draw back commitments as it could weaken their negotiating position. Some WTO Members have suggested a standstill clause for the time during the negotiations.

Finally, Article XXI of GATS allows WTO Members to modify or withdraw a commitment only after three years from its entry into force. This condition and a series of detailed procedures to be followed in such cases render this option burdensome.

These considerations illustrate the potential for GATS to have direct impacts on domestic regulatory regimes (ICTSD 2000).

First, GATS measures do not only apply to the “product” as in GATT, but to services, the providers of services, and the way in which the service is provided. Regulating trade in services does not take the form of border measures such as tariffs in the case of goods. Rather, regulating trade in services takes the form of domestic regulatory initiatives, with several implications for the environment and society.

Second, these domestic regulatory activities have to comply with the rules set out at the international level under GATS. Modification of domestic regulations in order to make them compatible with the GATS often requires considerable economic, environmental and social change. This raises questions about the regulating power of governments and the compatibility between obligations under GATS and domestic policy objectives (CIEL 2000).

In general, the linkages between services liberalisation and sustainable development can be summarised as follows (ICTSD 2000):

1. Potential advantages of services trade liberalisation

- ◆ growth in vital sectors for national development and for insertion into the global economy (i.e., telecommunications);
- ◆ substitution of domestic monopolies with competitive domestic and foreign firms;
- ◆ encouraging environmental improvement;
- ◆ broad distributive benefits in areas that are undercapitalised and underdeveloped.

2. Potential disadvantages of liberalisation of services trade

- ◆ the possibility of undermining public services. The provision of public services (such as education) are essential in order to guarantee a certain quality of services at an affordable price;
- ◆ acceleration of environmental degradation. Some services sectors such as transport and construction can increase environmental pressure points (Andrew 1999);
- ◆ adverse social impacts on consumers, workers and local populations. Increased competition from foreign services suppliers can increase pressures on the labour market and thus contribute to pressure on wages and difficult labour conditions;
- ◆ the growing importance of foreign services suppliers can undermine national interests and sovereignty (for example, by leaving important infrastructure services under foreign control);
- ◆ due to increased competition resulting from liberalisation, anti-competitive practices can increase in services trade. For example, the supply of tourism services in several developing countries is dominated by large foreign-based tour-operators and airlines, which can have serious implications for local market conditions (see Part II).

The diversity of potential impacts indicates that the linkages between GATS liberalisation and sustainable development are complex and will affect the development of a preliminary assessment framework. In particular, the understanding of the economic, social and environmental impacts of services trade liberalisation is limited and research in this field is only beginning (Andrew 1999). There is some confusion over breadth and scope of GATS. While governmental services fall outside the scope of GATS, a general trend towards increased privatisation progressively broadens its reach. Also, paucity of data and the absence of uniform definitions of services sectors make it difficult to assess the degree of liberalisation achieved under GATS and the full implications of such liberalisation.

This study will therefore present a framework that can be applied in a qualitative manner. A quantitative assessment of the impacts of services liberalisation is not feasible because of insufficient and inconsistent data (data at the sectoral level is disaggregated and does not reflect GATS definition) and because the nature of GATS liberalisation consists of binding commitments by mode of supply with respect to regulatory practices, which do not lend themselves to quantitative analysis (Sauvé).

1.3. Sustainability Assessment of Liberalisation of Trade in Services:

Key Issues

The objective of this section is to examine the rationale and need for conducting an assessment of the environmental and social effects of the liberalisation in services trade. It also aims to provide a preliminary basis to support the development of an assessment framework to identify the effects on sustainable development of trade in tourism services.

1.3.1. Assessment Processes in the Context of Trade Policy-Making

Environmental impact assessments (EIA) have been standard practice in the development of specific projects (e.g., dams and harbours) for a number of years. The rationale is to identify and mitigate potential negative impacts on the physical environment, choose the best option for development and learn from past mistakes. More recently, the practice of EIAs has evolved to include assessment of major government policies, plans and programmes. These are sometimes called strategic environmental assessments (SEAs).

SEAs are described broadly as “environmental assessment in strategic planning and policy making” (Ortolano and Sheperd 1995) or “the formalised, systematic and comprehensive process of evaluating the environmental impacts of a policy, plan or program and its alternatives, the preparation of a written report on the findings, and the use of the findings in publicly accountable decision-making” (Therivel et al 1992). The types of policies that may be subject to SEA include, *inter alia*, international trade, finance and economic agreements, international military and defence agreements, bilateral and multilateral development assistance programs.

Like EIAs, SEAs aim to assist decision-makers in weighing the benefits and costs of implementing a particular policy and identifying options to ensure that governments can and do adopt policies that promote environmental protection. The purpose of a SEA is therefore to consider alternatives, propose mitigation measures and give environmental considerations appropriate weighting preferably through a publicly accountable process (Therivel 2000). Problems associated with SEA are of a technical and procedural nature. First, the SEA process is fraught with complexity and uncertainty, mainly because of lack of environmental information and little practical experience in the field. Second, an effective SEA requires appropriate co-ordination with a large number of interacting agencies involved in decision-making.

Sustainability assessment (SA) in the field of trade policy follows the same logic, extending the analysis to social well being to cover the third pillar of sustainable development. The importance of measuring and evaluating the non-trade impacts of trade policy, as well as its economic impacts, has been increasingly emphasised over the past decade and it is now widely recognised that trade rules and policies and their effects go beyond what has traditionally been conceived as the trade arena. Trade liberalisation does contribute, either directly or indirectly, to a range of environmental and social effects, both positive and negative. SAs were developed to reflect the need and objective of assessing economic, social and environmental effects of trade agreements in an integrated manner. By informing policy-makers about the potential economic, social and environmental effects of trade agreements an assessment can help negotiators identify how different negotiating outcomes will affect their domestic economies, environments and development priorities. As a result, SA processes can contribute to coherent policy responses that integrate these different sets of objectives and promote sustainable development.

1.3.2. Sustainability Assessment of Trade: Overview of Main Issues

While the techniques for, and practice of, sustainability assessment of trade agreements are still at an early stage, several approaches have been developed. Some have been applied while others are still emerging. It is therefore still impossible to speak of one, mature 'best practice' for SA. However, recent publications and conference proceedings have highlighted a number of important points related to the conduct of assessment processes in the field of trade policy (OECD 1999; WWF/FFLA 2000).

First, general purposes for undertaking a SA include:

- ◆ to identify, and where possible quantify, the range of economic and other factors that affect the issue/sector under consideration from a sustainable development perspective;
- ◆ to inform decision-makers about the gains and losses associated with trade, and thus contribute to the development of integrated negotiating positions;
- ◆ to develop domestic policy recommendations that promote sustainable development.

Second, beyond these generic objectives the purpose of each SA should be specified by the country, organisation or individual conducting the assessment. The purpose of a SA will therefore vary depending on the circumstances of each country, and individual countries are responsible for defining and interpreting SA based on their own priorities (WWF/FFLA 2000:4).

Third, sustainability assessment is both an analytical and prescriptive tool. SA aims to “model the dynamic process through which trade liberalisation affects the environment and society by outlining economic, socio-political and environmental changes” (WWF 1998). The ultimate value of a SA as a tool depends largely on the extent to which any findings are used in practice by policy-makers. This applies to both *ex-ante* and *ex-post* assessments. If undertaken *ex-post*, after a trade agreement has been implemented, a SA should identify relevant policy measures to mitigate negative impacts or reinforce positive ones. An *ex-ante* SA, undertaken prior to the negotiation of a liberalisation agreement, should contribute to the development of policy packages that seek to avoid negative impacts altogether.

While it would be incorrect to suggest that the potential utility and relevance of SA in addressing trade-environment-development linkages have been widely recognised and accepted by the international community as a whole (government or non-governmental organisations), the following advances attest to their growing importance and the need for their further development:

- ◆ The methodology and practice of environmental/sustainability assessments of trade are increasingly being discussed in national, regional and international fora.³
- ◆ Several governments have committed to undertake or are already undertaking assessments of past and future trade liberalisation agreements.⁴
- ◆ A body of work is developing for assessing the environmental and, in some cases, social impacts of trade liberalisation although most of this work is based on trade in goods.⁵ Assessment work in the field of trade in services is almost *terra incognita* although some limited research has been initiated (CIEL 2000; Andrew 1999).

³ Several organisations have recently organised international workshops on assessments (OECD 1999; WWF/FFLA 2000) and they have been the subject of extensive deliberations in such bodies as the UN Commission for Sustainable Development (CSD).

⁴ For example, the governments of both the US and Canada undertook environmental assessments in 1992 and 1994 of the North American Free Trade Agreement (NAFTA) and the URA, respectively. A study on the potential sustainability effects of a new round of WTO negotiations was commissioned by the European Commission in 1999; in December 2000 the US developed guidelines under an Executive Order, which commits the US Trade Representative to a policy of “assessment and consideration of the environmental impacts of trade agreements” (USTR and CEQ 2000).

⁵ For example, in 1999 the United Nations Environment Programme (UNEP) undertook studies to examine the environmental effects of trade liberalisation in a number of sectors including

Given the growing importance of services trade to the global economy (see section 1.2) there is a clear case to be made for studying and addressing the complex links between sustainability and services trade liberalisation. Some of the biggest obstacles to further liberalisation were left untouched following the Uruguay Round and since then, the tourism industry has been working alongside international organisations and governments to promote a new initiative for liberalisation (World Trade Agenda 2000). The stakes are simply too high to move ahead with liberalisation without taking full account of the environmental and social impacts on the ground.

Bangladesh's shrimp farming industry, Chile's mining sector, India's automobile sector and Uganda's fisheries sector. Additional studies were commissioned by UNEP in 2000 and it is finalising a Reference Manual for the Integrated Assessment of Trade Related Policies for release in 2001. In addition, Oxfam-UK and the World Wide Fund for Nature (WWF-International) recently released a study on the corn sector in Mexico (Nadal 2000).

PART II

Assessment Framework: Environmental and Social Effects of Liberalisation of Trade in Tourism Services

Part II presents a preliminary assessment framework to review the potential environmental and social effects of liberalisation of trade in tourism services. The framework is divided into four parts:

1. *Purpose, scope and focus.* This section addresses the importance of clarifying from the outset the purpose of the assessment, as it will in turn influence the definition, scope and focus of the assessment process.
2. *Context.* This section defines the economic, social, environmental and policy components of tourism services.
3. *Linking tourism services to liberalisation: GATS, investment and other liberalisation efforts.* This section examines the links between international trade/investment liberalisation and tourism services, distinguishing between GATS liberalisation provisions, investment liberalisation and other liberalisation measures.
4. *Linking liberalisation of tourism services and sustainable development.* This section contains a preliminary analytical assessment of the linkages between international trade in tourism services and potential environmental and social effects. Five key issues are identified through which trade and investment liberalisation policies can be linked to sustainability: (i) supply and structure; (ii) development and practice; (iii) physical infrastructure; (iv) organisations and institutions; (v) government and policy regulation.

2.1. Purpose, Scope and Focus

A SA of liberalisation of tourism services can be undertaken for a number of reasons, but three key purposes are outlined below.

- ◆ *To examine and clarify the linkages between trade, environment and development in the tourism sector.* The objective is to contribute to a better understanding of the environmental and social effects of trade in tourism services, both positive and negative, and if possible, to expand that understanding of the broader relationship between liberalising trade in services and sustainable development.
- ◆ *To inform key actors in the context of ongoing negotiations in the WTO.* In the context of ongoing WTO services negotiations a SA can inform various actors (e.g., policy-makers, negotiators, civil society groups and industry) about the potential environmental and social implications of liberalisation of tourism services. Preliminary findings of the SA can help shape the negotiating agenda of WTO Members so that further liberalisation of tourism services supports broad sustainable development objectives.

- ◆ *To identify trade and non-trade related policies that can be implemented to mitigate or avoid negative effects on sustainable development, and encourage positive ones.* The findings of an initial review can be used to develop policy recommendations directed towards sectors associated with tourism services that can be further tested and refined in co-operation with a broad range of stakeholders at the national and international levels.

This assessment framework focuses on trade in services and liberalisation measures as defined in GATS (e.g., market access and national treatment provisions). These measures can lead to increased competition between local and foreign suppliers of tourism services, increased flows of FDI in tourism development, as well as increased concentration and foreign domination in the industry.

Investment flows are important because GATS is in many respects both a multilateral investment agreement and an agreement to liberalise services. GATS deals directly with investment through Mode 3 -commercial presence. While the scope of the assessment is based mainly on GATS-led liberalisation, the effects of other trade liberalisation agreements and more general economic policies accompanying them will be considered where relevant (WWF/FFLA 2000). Three categories of policies or measures are considered in this framework: (1) GATS liberalisation provisions; (2) investment liberalisation policies; and (3) other liberalisation measures.

This framework is tailored to apply specifically to tourism services—those services provided by certain “core” tourism providers. This includes the supply of services by hotels and restaurants (including tourism resorts development and related infrastructure such as golf courses or waste treatment facilities), activities of travel agencies and tour operators and the transport of international travellers (including related infrastructure issues such as roads and airports). Important linkages with other services sectors (e.g., financial services, construction, health and beauty, entertainment, insurance) and other sectors of the economy are recognised herein but are not taken fully into consideration (section 1.1). When applying this framework, consideration is given to the various forms of trade in tourism services, including international tourism and the provision of services by tourism-related companies (see Box 2.3, Modes of supply).

This assessment framework reviews environmental and social effects of trade in tourism services and is therefore broader in scope than an environmental review. As impacts are particularly felt in destination countries, they are the focus of this framework. Specific attention will be paid to the inclusion of social and developmental issues, which are of particular significance in the tourism sector (labour intensive sector, low paid workers, women and children employment, effects of foreign personnel on domestic employment).

This assessment framework is qualitative in nature. No quantitative models or techniques will be used for the evaluation of potential impacts. As a result, the assessment framework will provide preliminary indications and broad directions rather than deliver quantitative results of trade-related impacts.

This framework is designed to be applied principally in an *ex-post* fashion—reviewing the effects of existing GATS liberalisation measures negotiated during the URA. However, the assessment will also identify likely effects of future liberalisation in light of the fact that a number of the commitments made under the URA were to be implemented over five years and so their full effect has not yet been felt, and that tourism services are slated for further liberalisation at the WTO.

In this study, the assessment framework has been applied to a particular country and a specific region (Part III). The following criteria were used to choose the country and location under review, and thus to determine the geographical focus of the assessment.

- ◆ The country is located in the Mediterranean region (for reasons of capacity and presence in the field);
- ◆ The country is a WTO member or a member of another important regional trade agreement;
- ◆ Tourism is a relevant sector in terms of its contribution to, and potential impact on, the overall economic activity of the country;
- ◆ Trade in tourism is important in terms of both volume and value and is likely to increase as a result of liberalisation;
- ◆ The country has important ecosystems (forests, freshwater or marine), natural resources, local communities and areas that have been or may be affected by international tourism and its development;
- ◆ Relevant environmental/social/tourism and trade-related data are available and reasonably easily accessible given time constraints of the study;
- ◆ There is potential support and interest from a local organisation (e.g., think tanks, research institutes or non-governmental organisations (NGO)) to act as local contact and assist in data collection and analysis.

2.2. Context

By setting out the context in which the tourism sector exists, one can more easily assess key environmental and social values associated with tourism services that might be impacted by liberalisation. The economic, environmental, social and political issues that characterise the sector will suggest possible avenues for analysis to identify both positive and negative impacts, and assist a user to weigh the varying importance of intervening liberalisation efforts.

2.2.1. Economic Context

The Tourism Economic Report published by the WTO/OMT states that, “the principal objective of any country pursuing a planned approach to the development of its tourism sector is economic, e.g., earning foreign exchange, generating government revenues, creating employment, providing investment and business opportunities” (WTO/OMT 1998). In general, domestic tourism is of a considerably greater scale and generates more employment, investment and business opportunities than international tourism (WTO 1998).

According to estimates from the WTTC (WTTC 1999), Travel and Tourism (T&T) was responsible for the following economic activity world-wide in 1999:

- ◆ US\$ 3.5 trillion of GDP (11.7 per cent of the total economy);⁶
- ◆ US\$ 2.1 trillion of consumer spending (11 per cent of all private consumption);
- ◆ US\$ 733 billion of capital investment (11.3 per cent of total investment);
- ◆ US\$ 598 billion of spending by international leisure travellers in foreign countries.

⁶ In many traditional estimates, tourism GDP impact is closer to 5 per cent. This is largely because of definitional differences, counting only a portion of consumer expenditure, excluding categories such as transport, ignoring government spending and foreign trade or not reflecting capital investment.

The economic impacts of tourism are scattered across national accounts and its impact cuts across traditional industrial boundaries. It is composed of different products and services and the purchase occurs at different times and locations. For example, a consumer generally decides on a trip for business or leisure, targeting a destination rather than a product. There is no single transaction, but a wide range of purchases of services and goods, for *inter alia*, transport, accommodation, food and beverages, gifts and souvenirs. There are also indirect suppliers of goods and services in T&T that are spread across the economy. These include telecommunication infrastructure, construction of roads and airports, and agriculture for food supply. The WTTC notes that determining the economic impacts of tourism "...is not simply a question of adding up the economic contribution of producers like other industries; it is necessary to trace the activities of the traveller to find the goods and services used. This means distinguishing travel expenditure and related investment from other consumer, business and government activity. In technical terms, it means demand side economic analysis rather than the traditional supply side" (WTTC_a).

Tourism Satellite Accounts

In the past years, WTO/OMT, OECD, WTTC and a number of governments have sought to define a system of Satellite Accounting to measure T&T in a manner consistent with generally accepted National Accounting Systems.⁷ The goal is to routinely extract information from National Accounts Tables to reflect changing economic realities without corrupting the traditional structures. In March 2000 a common conceptual framework for a Tourism Satellite Account developed by the United Nations (UN), WTO/OMT, OECD and Eurostat was approved by the UN Statistical Commission.

Trade

The value of international tourism receipts is among the most valuable of merchandise export categories and the most rapidly growing export in the services sector. International tourism exceeds international trade in essentials such as food, fuels, textiles and various types of raw materials. The only trade categories exceeding the receipts from international tourism are office and telecom equipment and other machinery and transport equipment (WTO/OMT 1998). According to the WTO/OMT and the International Monetary Fund (IMF) international tourism receipts accounted for more than 30 per cent of global services exports in 1995.

Globally, tourism receipts have grown faster than tourism arrivals in all regions of the world. Nevertheless, a recent study identified a trend that suggests that for some countries international tourism receipts have grown at a slower rate than tourist arrivals. This means that benefits to these countries are ambiguous because they need to receive increasing number of tourists to achieve the same or reduced economic benefits (Vellas 1999). The study further notes a trend of insufficient tourism receipts in several countries with extensive tourism development (including Kenya, Tunisia, Thailand, Hong Kong, China and Indonesia) calling into question the economic benefits of tourism development in general.

The economic benefits of tourism should be assessed with caution (UN 1999). First, there are considerable variations of the economic importance of tourism at the national level and even greater variation at the regional level. For example, in Africa only a few

⁷ Satellite accounting is not unique to T&T and is being explored for other services such as environmental services or healthcare.

countries, such as Kenya, count tourism as the largest export earner. Tourism activity in most countries is concentrated in certain areas typically in large cities and coastal areas.⁸

Second, the CSD has noted that “the broad measures of economic importance of tourism do not, in themselves, provide an appropriate measure of tourism’s economic impact as they measure the gross impact of tourism, while it is usually the incremental impact of tourism that is important, that is to say, the capacity for additional tourism activity to generate additional income, employment and other economic benefits in the destination economy” (UN 1999). Tourism multipliers attempt to summarise these incremental impacts in the form of a coefficient, the most common forms being the “tourism income multiplier” and “tourism employment multiplier”.

Third, national tourism statistics are subject to a number of measurement defects, which can limit their value in making international comparisons of the economic value of tourism. For this reason, it is considered preferable to supplement broad measures of the economic importance of tourism with various multipliers (UN 1999).

Competition

Trade in tourism services is affected by increasing competition and anti-competitive behaviour. A report on Recent Developments in Trade and Competition Issues in Travel and Tourism suggests that “the provision of services involves a direct and close relationship between buyer and seller, and the nature of their relationship cannot always be rationalised in a standard market model” (UNCTAD 1999).

The following are broad issues related to trade in tourism services and competition:

- ◆ The choice of tourism destination is generally not a rational one made by the consumer, but rather one subject to market powers generated by tour operators. Such market power is enhanced by increased mergers among tourism suppliers in the North, and by the technology of distribution that allows for directional selling—that is, encouraging consumers to make a particular choice without their knowledge of the commercial links involved.
- ◆ The economic and political power of the tourism market is held by developed countries, which own major distribution channels (WTO 2000). Anti-competitive practices appear to have a major impact on trade in tourism services, particularly for developing countries. Such practices exist in the operation of public services as well as in the private economy.⁹
- ◆ Developing countries are adversely affected by the structure of the tourism industry and by anti-competitive behaviour in developed countries. The bodies capable of regulating these practices are located in the North and are not always able or willing to resolve negative consequences felt in the South.
- ◆ Distribution channels for trade in tourism services face important competition problems that vary between regions. In Europe, key competition problems arise from the power of travel agents and tour operators and the lack of transparency for the consumer. Enormous market power is placed in the hands of agents and tour

⁸ In Spain, for example, tourism activity is concentrated on the islands, in southern coastal regions and in Madrid.

⁹ Some examples of private anti-competitive practices include: exclusive dealing clauses incorporated in contracts between tour operators and hotels; clauses on import and supply requirements in franchising contracts; and, abuse of dominance resulting in significant entry barriers such as airport slots in air transport.

operators, which can be used to unfairly bid down the margins of suppliers in destination countries.¹⁰

Employment

Tourism is also an important economic issue in terms of employment. T&T is not only the world's largest industry but also the largest creator of jobs. Research suggests that the tourism sector accounts for 10 per cent of total world-wide employment, directly and indirectly (WTTC_a). In many tourism intensive economies such as islands in the Caribbean the contribution of tourism to the local economy and employment is substantially higher (25 per cent). In OECD countries the average was 11.3 per cent in 1997, with Spain and Belgium having the highest contribution at 17 per cent, and Japan the lowest at 9 per cent (WTTC_a). The tourism industry is very labour intensive and developing countries appear to have strong potential comparative advantages due to cheap labour.

Direct employment is provided by travel and tourism companies including hotels, restaurants, travel agencies, airlines, and cruise liners. Indirect employment occurs in companies such as restaurant suppliers, or construction firms that build hotels. The WTTC notes that in 1997 T&T generated 262 million jobs directly and indirectly. This figure is forecast to rise to 383 million jobs in 2007. In addition, the international tourism industry has more multiplier and positive spill over effects than most other economic sectors. According to estimates by the WTO and WTTC, one job created in the tourism industry will generate five to nine jobs in other areas.

The impact on employment from tourism is difficult to measure. One approach is to look at the tourism satellite accounts, which derive employment levels through input-output analysis of the major industrial sectors based on travel and tourism demand. Unlike traditional measures of travel and tourism employment, satellite accounts capture employment beyond that generated by travel service companies. In some industrial sectors including transportation, manufacturing and agriculture, jobs resulting from tourism are less obvious than those in travel agencies or hotels. In OECD countries, some 22 per cent of T&T related employment occurs in the form of governmental jobs. This reflects the important public sector involvement in the development and operation of infrastructure and services in tourism (WTTC_a).

Different views exist on the value of jobs in the tourism industry. In general, these jobs require little skill and offer low wages. Employment in the tourism sector is linked to numerous social concerns (see section 2.2.2).

2.2.2. Social Context

The social dimension of tourism differs between countries and depends on a number of factors. Effects of tourism, both positive and negative, are related to factors including employment, migration, health and culture. The “social carrying capacity” of host communities has to be taken into account if tourism is to contribute to sustainable development. Perceived negative social impacts require a management strategy that includes participation of local communities to contain and mitigate them. Without active community involvement in tourism development a sense of exploitation can exacerbate social tensions, particularly when development occurs rapidly and is on a large scale.

¹⁰ For example, in the Dominican Republic tour operators buy large number of hotel rooms at a very low price thereby limiting the profits of local tourism suppliers.

Box 2.1. Main Characteristics of Trade in Tourism Services

- ◆ Trade in tourism services is distinguished from trade in goods and a number of other services by its human element—it is a people to people service (Tourism Concern 1996). Commodities involved in tourism are a country's natural and physical resources, such as scenery and pristine environment, beaches, mountains, along with communities, traditions, and cultural heritage.
- ◆ Like other services sectors, tourism overlaps with many sectors. For example, a close connection exists between transport services and tourism. In order to identify all tourism services, it is necessary to go beyond the GATS classification list of services.
- ◆ Trade in tourism services occurs primarily within GATS Mode 2 (consumption abroad) when tourists cross borders to reach their destination (WTO 1997). International tourism is an export, but unlike other export commodities, it is consumed in the tourism destination. Thus, trade in tourism services can have important and disproportional environmental and social effects in tourism destinations compared with the countries of origin.
- ◆ Liberalisation of tourism services is primarily an act of domestic liberalisation. Because a country does not have to rely on the interest of trading partners to open its market, tourism is a relatively easy sector to liberalise. It is the sector with the highest number of commitments under GATS.
- ◆ The economic and political power in the tourism market lies in developed countries, which own major distribution channels (WTO/OMT 2000). Trade in tourism services is characterised by important imbalances in the share of business between tourist sending and receiving countries in the distribution channel. Anti-competitive practices, restrictions on the movement of persons, or formal restrictions such as those on advertising, limit the extent of liberalisation and its potential economic benefits, particularly in developing countries.

Employment

Positive social impacts from tourism occur mainly through its contribution to employment, worker training and the development of small and medium enterprises (SMEs). Nevertheless, employment figures do not reflect the type of work and the conditions in the workplace. Several NGOs and studies from the International Labour Organisation (ILO) claim that the tourism sector generates a number of jobs with poor working conditions including long working hours, instability of employment, low wages, and little training. In addition, the tourism sector tends to employ otherwise disadvantaged groups including women, children, and immigrant workers (UN 1999).

There is a growing concern about the use of child labour in the sector as children working in tourism represent a substantial proportion of worldwide child labour. It is a global phenomenon affecting a large number of countries in Africa, Asia, Latin America, and Europe. It is difficult to obtain accurate data on child labour because young workers are often employed illegally and work in the informal sector that is not covered by statistics. It is also hard to obtain data because of difficulties distinguishing between formal and informal activities in the tourism industry (UN 1999). However, some estimates suggest that between 13 and 19 million children under the age of 18 are working in the tourism industry worldwide (Black 1995 quoted in Pluess 1997).¹¹

¹¹ The link between tourism and the sexual exploitation of children led to the 1997 Manila Declaration on the Social Impacts of Tourism in an attempt to eradicate sex tourism.

Tourism also provides numerous jobs for women thereby contributing to additional revenue for families. In many countries, women have been active as entrepreneurs and have created for themselves new economic and social opportunities (UN 1999). There are few studies on the role of women in the tourism workforce, but one study suggests that women take jobs at lower levels with less pay and less opportunities for advancement than men (NGO Steering Committee Tourism Caucasus 1999). Women are also affected by sex tourism.

Nevertheless, some positive patterns in employment in tourism can be identified in both developing and developed countries (WTO/WTTC/UN):

- ◆ Jobs created in travel and tourism employ a large proportion of women, minorities and young people.
- ◆ Jobs are created across the employment spectrum (highly- and low-skilled). In industrialised countries, unemployment levels are especially high for unskilled labour. Additional demand for low-skilled labour is of high economic and social value and thus tourism related jobs are valuable (WTTC).
- ◆ Entry level or part-time jobs requiring limited skills can be particularly valuable where structural employment shifts occur or long-term unemployment exists. These jobs can be important retraining grounds for young unemployed people.
- ◆ Many tourism-related jobs are technical or managerial requiring relatively high levels of education and training. In some of these cases salaries are on a par with high-technology industries (WTO 1997).
- ◆ Jobs are predominantly provided in SMEs.
- ◆ Career potential and training exist at most levels creating jobs that are easily transferable among a wide range of services.

Migration

Tourism is also linked to migration, which can contribute to urbanisation in tourist development areas resulting in the abandonment of remote agricultural areas. In particular, two types of migration have been identified: labour migration and consumption-led migration (Williams and Hall 1998).

Labour migration occurs to provide services demanded by tourists. This phenomenon is particularly important in areas of mass tourism where rapid and substantial growth in tourist numbers have outstripped the capacities of local labour markets. Three forms of labour migration can be distinguished: (1) unskilled labour to provide essential low cost labour in a highly competitive cost-led tourism market; (2) skilled managerial workers and specialists that are not always available in the local labour market (intra-company labour transfers are important in this category); and (3) migration to establish small businesses (Williams and Hall 1998).

Consumption-led migration can be linked to the changing consumption patterns from tourism. Such changes could include investment in second homes in tourist areas, seasonal migration, or permanent migration, which typically occurs upon retirement.

Health

As international tourism increases, there are rising concerns about the transmission of diseases and the availability of appropriate levels of health care (UN 1999). This problem is particularly acute in countries where sex tourism and sexually transmitted diseases,

such as HIV, are a growing concern. The apparent affluence of tourists can also attract undesirable goods and services, such as drugs or prostitution.

Tourism development can occur at the expense of local populations, compromising their access to basic services including clean water. The CSD notes that, “tourism can introduce resource use conflicts, such as competition between tourism and local populations for the use of limited resources of water, sanitation and energy; there can also be competition with traditional land use, especially in heavily used areas, such as coastal zones” (UN 1999). In some instances (for example in Kenya and recently in Burma) forced displacement of local populations has occurred in order to develop tourism establishments.

Culture

Tourism promotes cross-cultural contacts. Positive effects can occur from increasing participation of local communities in tourism development and from cultural exchange, which can contribute to a better understanding of, and increased interest in, the preservation of cultural heritage and the revival of traditional crafts and ceremonies. Traditional handicrafts contribute value to communities and provide employment opportunities, particularly for women.

Tourism may, however, lead to a deterioration of cultural assets. Cultural change can occur due to a “demonstration effect”, which means that patterns of consumption of foreign tourists are imitated. It may also be linked to economic factors, such as in encouraging employment of women, which undermines traditional family structure and values. The most serious form of cultural deterioration exists where historic buildings and the traditional environment has virtually disappeared or been replaced (UN 1999). Cross-cultural contacts can also cause social discontent, especially when host communities are faced with large numbers of visitors and the local culture is fragile.

2.2.3. Environmental Context

The relationship between tourism and the environment is complex and varies according to a number of factors including the amount and seasonal variation of tourists, their concentration, the recreational activities they pursue, the type of environment being impacted (carrying capacity) and the infrastructure and management in place (Annex 6).

The environment is one of the basic resources of the tourism industry. Most forms of tourism are based on natural assets including beaches, sea, mountains, forests, rivers or wildlife. Thus, environmental degradation can threaten the viability of the industry. The CSD reports that “tourism can significantly contribute to environmental protection, conservation of biological diversity and the sustainable use of natural resources” (UN 1999). Tourism can also raise awareness of the value for environmental assets and contribute to the creation and conservation of natural parks and protected areas through financial contribution.¹²

Tourism development can contribute to environmental infrastructure, such as water supply or waste treatment, and to improved environmental management by using environmentally sound technologies. On the other hand, tourism is also linked to increasing pressure on natural resources, wildlife and habitats (with associated loss of

¹² For example, in the Seychelles, the government introduced a \$90 tax on travellers entering the country, which is used to preserve the environment and improve tourism facilities. Likewise, the Bonaire Marine Park in the Antilles, which is a protected marine area, is self-financed through an admission fee charged to scuba divers.

biodiversity) and the generation of pollution and wastes (UN 1999). The main adverse environmental impacts can be summarised as follows: aesthetic and visual impacts; intensive urbanisation; modification of coastal ecosystems; deforestation; erosion; reduction of biodiversity and species loss; over consumption of resources; overcrowding and noise pollution; air pollution and traffic congestion; and, soil and water pollution (WWF_c 1999).

Natural Resources

Tourism can also have important impacts on natural resources. Freshwater resources are overused by the tourism industry for hotels, swimming pools and golf courses. This is particularly a problem in the Mediterranean region where water is scarce and one estimate suggests that tourists use over 200 litres per day (UN 1999). By 2025 half of the Mediterranean countries will be using freshwater resource in excess of their regeneration rates (WWF_b 2000).

Infrastructure developments can lead to land degradation, loss of wildlife habitats and deterioration of scenery. Marine resources are also impacted by tourism and recreational activities such as snorkelling, diving, sport fishing. Tourism facilities are characterised by a high level of energy use and tourism related transportation leads to important air pollution. Tourism contributes to global warming due to the increased volume and mileage in global air travel and low air travel prices that do not internalise environmental costs. In destinations where local resources are in short supply the tourism industry can compete with local populations for resources including raw materials, food, electricity or water.

Wildlife and Habitats

Tourism can have major impacts on habitats and biodiversity. This was recognised by the UN Convention on Biological Diversity (CBD) at its 4th and 5th Conference of the Parties (COP). The negative impact on wildlife and habitats occurs when tourism activities disrupt biological resources or operate in ecologically fragile areas (UN 1999). For example, tourism can lead to increased pressure on endangered species due to trade and hunting, increased demand for fuel wood, and clearance of vegetation. If tourism is not properly planned it can affect ecologically fragile areas, such as wetlands, rain forests or coral reefs.

Pollution and waste production

Pollution and the production of waste as a result of tourism development can also affect the environment. Land can be contaminated from solid wastes and litter. One tourist contributes an average of around one kilogram of waste per day (UN 1999). Numerous tourism developments in developing countries do not have adequate waste management facilities, or have insufficient capacity. Sewage from tourism development is a similar problem that can affect freshwater sources if not properly treated in wastewater facilities. Marine waters and coasts are also vulnerable to waste and wastewater from hotels, marinas and cruise ships. Local and global air pollution (particularly from CO₂ emissions of tourism related transport), as well as noise pollution from aircraft and motorboats, are also common.

2.2.4. Government and Policy Context

International tourism, which involves the movement of people across national borders, depends heavily on governmental policies and regulations. And because tourism has impacts on many segments of society it is subject to government involvement across a wide range of activities. The entry of a foreign tourist is regulated by visa or other

immigration and custom related agreements. Likewise, a host country for international tourism needs to conclude agreements that will enable developers, airlines and banks to provide the services necessary to support international tourism. In general, regulations that affect tourism tend to be by-products of economic, political and social concerns, such as equity limitations of FDI, immigration controls and restrictions on foreign currency movements.

Government involvement affects tourism industries in four key ways (WTO/OMT 1997):

1. *Tourism Policy.* Tourism policy is part of the general overall economic policy of a country. Policy makers have to consider all the possible impacts and relationships that tourism will have on other areas of the economy, such as employment, investment and trade, as well as on the society, its culture and environment. Questions to be addressed include: does the tourism country favour mass tourism or nature tourism? Is tourism a main development strategy for the country? What is a country's dependence on international tourism?
2. *Tourism Planning.* Tourism planning is particularly important because tourism is a complex cross-sectoral activity. At the same time is it also very site-specific. The main activities of tourism planning include marketing analysis and strategy, physical infrastructure, human resources, economic, socio-cultural and environmental impacts. Because tourism development often requires major infrastructure projects such as visitor accommodation, recreational amenities, commercial activities, comprehensive tourism planning is necessary to limit haphazard development.
3. *Tourism Development.* Governments can play an important role in tourism development, along with the private sector. Certain important projects (in size and capital investment) such as airports, major land transportation and water related projects, often require the government to play a leading role.
4. *Consumer Protection.* Government regulations are important for consumer (tourist) protection. This can include consumer protection laws and health and food safety regulations. Regulatory actions often arise from environmental and cultural concerns in certain destinations. For example, in protected areas such as the Galapagos Islands, tourism flows are limited to a maximum number of visitors per day.

Another important issue is the importance of multi-stakeholder involvement and local participation in decision-making. Agenda 21 recognises the vital role that all stakeholders have in bringing about sustainable development. However, meaningful local involvement may be difficult to achieve in practice.

There is also a potential role for voluntary codes in promoting sustainable tourism. Voluntary schemes are an important step towards more responsible tourism industry practices but owing to their proliferation, their benefits and effectiveness are not clear, particularly to consumers. In addition, even if voluntary measures gain acceptance, they will not necessarily be sufficient to prevent negative impacts from tourism. Often, a site-specific tourism policy is essential to respond to the particular economic, socio-cultural and ecological characteristics of each tourism destination (WTO/OMT 1997).

International Regulations

There are also a number of international regimes that apply to tourism-related issues. For example, the ILO has adopted a number of international conventions to protect workers

rights.¹³ Core ILO conventions concerning minimum labour standards have been adopted by most member countries of the WTO (Box 2.2).

Box 2.2: Key ILO Conventions

No 29 and 105: *Convention Concerning Forced Labour (1930) and Abolition Of Forced Labour (1957)*

No 138: *Convention Concerning Minimum Age (1973)*

Aims at the abolition of child labour

No 111: *Convention Concerning Discrimination (1951)*

Calls for a national policy to eliminate discrimination in access to employment, training and working conditions, on grounds of race, colour, sex, religion, political opinion, national extraction or social origin, and to promote equality of opportunity and treatment

No 98: *Convention Concerning the Application of the Principles of the Right to Organize and To Bargain Collectively (1949)*

No 87: *Convention Concerning Freedom Of Association And Protection Of The Right To Organize (1948)*

No 100: *Convention Concerning Equal Remuneration (1951)*. Calls for equal pay and benefits for men and women for work of equal value

Source: adapted from www.ilo.org

2.3. Linking Tourism Services to Liberalisation: GATS, Investment and other Liberalisation Efforts

This section outlines three forms of liberalisation that can impact tourism services. They are: (1) GATS provisions on trade in services, (2) investment measures; and (3) other liberalisation processes. This section should allow a user to distinguish between issues that are impacted directly or indirectly by forces of liberalisation and those that might exist autonomously and are unrelated to liberalisation.

2.3.1. Provisions of the General Agreement on Trade in Services (GATS)

Despite the fact that commitments made by WTO Members under GATS often simply confirmed a state of liberalisation that existed before those commitments were made, it is important to consider the provisions of GATS and commitments under them in an assessment of liberalisation. First, by confirming the status quo, countries subject themselves to the range of procedures set up under the WTO for renegotiations or dispute settlement, making it more difficult for them to go back to a situation that is less

¹³ In 1998 the International Labour Conference of the ILO adopted the Declaration on Fundamental Principles and Rights at Work. This declaration takes up fundamental rights that are the subject of ILO conventions, namely freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. The ILO Convention concerning the hospitality sector (Convention 172 concerning Working Conditions in Hotels, Restaurants, and Similar Establishments, 1991) calls for policies to improve working conditions in core tourism establishments.

liberalised. Second, the regime for services set out in the GATS will govern future liberalisation in the services sector.

By definition, “supply of a service” includes the production, distribution, marketing, sale and delivery of a service (GATS Article XXVIII). These modes of supply also apply to trade in tourism (see Box 2.3). GATS affects tourism services as its liberalisation objectives apply to regulatory measures in member countries that restrict the ability of foreign suppliers to gain access and operate without discrimination in a market.

Provisions applying to GATS’ four modes of supply in the tourism sector have been identified as follows:

1. **Cross-border trade.** Specific provisions in GATS can facilitate the transborder flow of information by guaranteeing fair and non-discriminatory access and use of telecommunications networks to foreign suppliers of tourism services. Telecommunication networks are essential for suppliers of tourism services, such as tour operators and travel agents for bookings and travel advice.
2. **Consumption abroad.** GATS is likely to have only an indirect effect on restrictions to the movement of the consumer. Main restrictions are regulations applied to tourists when visiting a foreign destination and providing for the means of payment for tourism services purchased abroad. Restrictions relating to visa and customs requirement fall outside the scope of the agreement. Furthermore, GATS’ foreign exchange restrictions are not negotiable as trade barriers but are subject to the general disciplines of GATS Article XII (restrictions to Safeguard Balance of Payments), which provides for separate procedures to govern such measures.
3. **Commercial presence.** GATS aims to progressively eliminate obstacles to the establishment of commercial presence of tourism suppliers in a foreign country. Thus, it attempts to reduce or eliminate restrictions such as limitations on foreign investment/equity participation, restrictions on the establishment of foreign-owned entities, in obtaining licenses to operate, or discriminatory restrictions on access to reservation systems. Moreover, GATS affects government restrictions on the international transfer of funds.
4. **Presence of natural persons.** GATS provides a framework for negotiating the temporary entry and stay of services personnel into another member country. GATS does not restrict immigration laws and does not prevent authorities from applying limitations on the free movement of labour across borders (WTO/OMT 1994).

In order to comply with GATS, Member states are required to limit measures of a financial, administrative, or fiscal nature that constitute obstacles to trade in tourism. The degree of liberalisation under GATS is reflected in several ways (see section 1.2.2). The commitments are legally binding and occur at four levels:

1. **No restriction.** For example foreign tour operators are allowed into domestic markets without discrimination.
2. **Restriction.** A restrictive measure applies such as foreign ownership restrictions on investors.
3. **Unbound.** No commitment to any liberalisation prevails in the sector.¹⁴

¹⁴ This does not necessarily mean that foreign suppliers are not allowed in, but that the country does not want to guarantee that the situation will last. For example, if a country allows foreign travel agencies to open a branch in its domestic market with an unbound commitment it may legally cancel that commitment at any time.

4. *Unbound because not technically feasible.* No commitment is possible because of the nature of the service being provided.¹⁵

Box 2.3: GATS modes of supply applied to the tourism sector

Mode 1. Crossborder. This includes services that are provided from abroad into the territory of another member country usually through telecom services. Examples are travel arrangements and bookings or travel advice provided by travel agencies or tour operators from country A to country B.

Mode 2. Consumption abroad. This includes services consumed by nationals of one country travelling to another country. Trade in tourism services takes place when consumers move abroad to purchase services. This is the case in international tourism, where foreign consumers move to the tourism destination to consume the services.

Mode 3. Market Presence. This includes opportunities for foreign tourism businesses to establish a presence in another country, such as a branch, agency, subsidiary or joint venture arrangement. Examples include hotels, restaurants, travel agencies, and tour operators.

Mode 4. Movement of Natural Persons. This includes opportunities to move key personnel, such as managers, restaurant chefs, or tourist guides into foreign markets in order to provide a service. Mode 4 is an essential part of business strategy in the tourism industry.

Source: adapted from WTO/OMT, 1994

In order to analyse the level of liberalisation reflected in the commitments one has to decide which sub-sectors to include in the analysis. This decision is arbitrary as nearly all sub-sectors of services relate tourism (see Annex 3). The following paragraphs limit the analysis to the “core tourism services” as classified in sector 9 of the GATS Sectoral Classification list (see section 1.1).

Under GATS “Tourism and travel related services” (TTRS) is the sector with the highest number of commitments of all services sectors (WTO 1998).¹⁶ The commercial and concessional values of the commitments remain to be determined, although the high number of commitments suggests that the sector is largely liberalised. Nevertheless, important barriers to tourism trade, such as restrictions on the movement of consumers (Annex 7), lie outside the scope of GATS.

The number of commitments in TTRS varies largely according to sub-sectors (WTO 1998):

- ◆ In 1998, 112 commitments exist for *hotels and restaurants*.¹⁷
- ◆ The sub-sector '*travel agencies and tour operators*' includes 89 commitments.¹⁸

¹⁵ For example, a commitment on crossborder supply is considered impossible for hotels since accommodation for tourists is provided in the country of destination.

¹⁶ The high number of commitments is an indication of the potential role of tourism in enhancing trade liberalisation and also as a political indicator of the importance of tourism to GATS (WTO/OMT 1994). According to a recent study, commitments in the tourism sector “have been used as a ticket to enter the World Trade Organisation” (EPD 1999:40).

¹⁷ Only eight signatories of GATS did not make commitments in this sub-sector.

- ◆ 54 commitments have been made for *tourist guides*.¹⁹
- ◆ Under the category “other”, a number of countries have given no indication of what is included, although a few have listed specific activities including, in one case, transport-related activities (WTO 1998).

Commitments by modes of supply also vary widely between member countries (WTO 1998).²⁰ In general, “consumption abroad” is the most liberal mode of supply and “presence of natural persons” the most restrictive, both for market access and national treatment (OECD 2000).

Future liberalisation negotiations for tourism services will attempt to broaden commitments and remove existing restrictions. With regard to the above, the following observations can be made (Tourism Watch/Equations 1999):

- ◆ Commercial presence in hotels and restaurants probably offers the greatest potential for further far reaching liberalisation;
- ◆ Presence of natural persons (the most restrictive mode of supply) is a key area for liberalisation, both in hotels and restaurants and travel agencies and tour operators.

In addition, other sectors that are linked to tourism will also be further liberalised. For example, air transport services is a key sector for further liberalisation. Commitments in some related services categories such as sporting and other recreational activities often benefit from limited liberalisation (Tourism Watch/ Equations 1999).

2.3.2. Investment Liberalisation

International tourism is an activity whose growing trade is linked closely to international investment. In tourism, FDI plays a particularly important role in the supply of tourism services. In particular, the degree of control and openness that a host country might adopt in relation to FDI is central.

FDI has grown four times faster than trade during the last decade and multinational enterprises are now responsible for one third of world trade. Tourism has been both an active player and a major beneficiary of this trend (Houde in WTO/OMT 1994). TNCs such as Touristik Union International, Holiday Inn and Club Med are crucial for the provision of tourism services and for tourism related FDI. In most countries regulation on the entry of TNCs takes the form of controls or restrictions on the admission and establishment of foreign investors in the investment policies of the country.

Trade related investment measures (TRIMS) were included in the Uruguay Round negotiations and foreign investment is increasingly being deregulated by the WTO. The TRIMS Agreement extends the protections of GATT Articles III (national treatment) and

¹⁸ Those countries where tourism generates a major part of GDP tend to limit market access to foreign travel agencies and tour operators. Commercial presence and presence of natural persons are the most decisive modes of supply for this category. In general, all high-income countries regulate the presence of natural persons, resulting in a high level of protection against the free movement of labour (Tourism Watch /Equations 1999).

¹⁹ This is the most protected sub-sector of TTRS.

²⁰ Commitments with no restriction on market access (full market access) are highest for consumption abroad (Mode 2). Full market access is only scheduled in 1 per cent of commitments in Mode 4. In Mode 3, partial market access accounts for 77 per cent for commercial presence but only 22 per cent of commitments grant full market access.

XI (quantitative restrictions) to trade related investment measures (IISD, no date). The TRIMS agreement is limited in scope as it applies only to investment measures related to trade in goods. Nevertheless, the agreement also affects trade in tourism services, as TRIMS has removed the requirement for foreign companies to use local input (Pleumarom in TNW 1999).

GATS addresses investment through Mode 3 (commercial presence). The high level of commitments under Mode 3 (see section 2.3.1) reflects the fact that commercial presence is the preferred mode of trade for many tourism service suppliers. According to the International Investment and Services Division of the OECD, both developed and developing countries began to accept FDI as they realised that they could exercise a greater degree of control over established or incorporated firms than those operating across the border. Nevertheless, the OECD notes that according to countries' schedules, commercial presence is affected by important restrictive measures. For example, in some OECD countries commercial presence can be subject to equity limitations ranging between 40 and 100 per cent (OECD, 2000).

2.3.3. Other Trade and Liberalisation Policies affecting Tourism Services

There are a number of other macroeconomic and microeconomic policies and conditions that will affect trade and FDI in tourism services. Some of these exist in countries' domestic economies. Others include international fluctuations of exchange rates; balance of payments or large-scale policy packages such as Structural Adjustment Programmes (SAP), designed to promote such trade related policies in receiving countries as privatisation, deregulation and investment. These and other policies will alter the climate for trade in tourism services and should be considered in an assessment.

Tourism as an export and development strategy is promoted by multilateral financial institutions and included in SAPs (Tourism Concern; TWN). For some countries, SAPs are preconditions for the approval of financial assistance and require a number of economic decisions to be made (e.g., deregulation, shift from agriculture to a manufacturing and service-based economy, liberalisation of the financial sector) (Gonsalves, cited in TWN 1999). According to one author, "SAP opens up the local economy to foreign investments and multilateral corporations, while eliminating subsidies to local industries" (TWN 1999:8). Because tourism is promoted as an export strategy by the IMF and the World Bank, some countries have made large-scale investments in tourism related infrastructure (such as roads, airports and resorts) in order to fulfil SAP commitments.

With respect to development through trade in tourism services, the risk of tourism as "commodity dependent" or becoming an "export mono-crop" has been identified (Tourism Concern 1996:19; Tourism Watch/Equations 1999). In some economies, particularly small islands in the Caribbean, international tourism receipts generate up to 80 per cent of GDP. Some developing countries attempt to substitute tourism trade for their traditional trade in bananas or coffee. In these cases, tourism essentially becomes an "export mono-crop".

There are risks associated with countries becoming overly dependent on tourism trade. For example, competition between destinations is fierce, particularly between countries with similar climatic conditions and natural resources. Tourism destinations can be affected by a rapid change in consumer tastes. In addition, a decline in international tourism flows to particular destinations can occur as a result of internal political tensions or financial instability in the destination country. Most tourism generating countries, such

as the United States and Europe, are in the North and destination countries tend to be in the South. Southern countries are therefore dependent on the economic conditions in, and tastes of generating countries. This means that countries that adopt tourism as a development strategy can become vulnerable to such intangible influences as consumer taste (Tourism Concern).

Tourism as a development strategy is also challenged in terms of its real value-added given the existence of 'leakage', whereby tourism receipts can either be retained by tourism generating countries or remitted back to them. The following factors have been identified as the main reasons for leakage in the tourism sector:

- ◆ import of materials and equipment for construction and consumables, such as food and drinks;
- ◆ repatriation of income and profits earned by foreigners and foreign businesses;
- ◆ interest payable on foreign loans;
- ◆ overseas promotional expenditure;
- ◆ limited capacity of tourism services suppliers from developing countries to negotiate profitable prices for their services (UNCTAD 1998).

One commentator suggests that as much as two thirds of the revenue from foreign tourism never reaches the local economy because of high foreign exchange "leakage" (South North Development Monitor 2000). Trade and investment liberalisation policies can aggravate this as profits and income repatriated by foreign companies are likely to be greater than the inflow of capital (Pleumarom in TNW 1999). Thus, one group suggests that, "the claims that globalisation and liberalisation of tourism will bring wealth, progress and social achievements and improved environmental standards to developing countries need to be seriously questioned" (TNW 1999).

Another critique of tourism as a development strategy suggests that international economic relations have structurally favoured countries of the North and unequal trading relationships, dependence on foreign interests and the division of labour have relegated disadvantaged countries of the South as tourism recipients and affluent countries in the North as generators. Meanwhile, the adverse impacts of tourism are felt mainly in destination countries (TWN 1999).

2.4. Linking Liberalisation of Tourism Services to Sustainable Development

Trade in tourism includes a number of interlinked elements making generalisation difficult. Every tourism destination and originating country has specific characteristics regarding political, economic, social, cultural or environmental aspects that will affect, and be affected by, trade in tourism services. Moreover, some characteristics of trade in tourism services apply more specifically to developing countries, while others apply equally to the North and the South.

There are a number of ways that liberalisation of tourism services and related issues of investment and competition can translate into environmental and social impacts thereby supporting or impeding sustainable development. This framework identifies five main avenues through which such impacts might be felt: (1) supply and structure; (2) development and practice; (3) physical infrastructure; (4) organisations and institutions; and (5) government policy and regulation.

2.4.1. Issues of Supply and Structure

This category of issues deals with how trade and trade liberalisation policies affect the provision and structure of tourism services. Liberalisation facilitates market access to foreign suppliers, foreign establishment and foreign investment. Thus, the structure of the tourism industry in the destination country will be affected as will the way the service is provided (e.g., changes in ownership, increased competition or market dominance of TNCs). The environment and society will be impacted by these structural changes in different ways. For example, technology transfer through foreign suppliers can lead to rising environmental standards and increased training opportunities. On the other hand, foreign suppliers and investors might be more interested in high rates of return than in environmental protection or labour standards.

As GATS aims to abolish restrictions on foreign ownership, the operation of TNCs could be favoured by liberalisation. The most lucrative components of tourism trade in developing countries (such as transportation, food and lodging) are normally handled by vertically integrated global networks with airlines and other TNCs occupying dominant positions (Erisman, cited in Brohman 1996). Increased foreign investment due to liberalisation often benefits foreign owned TNCs such as large international hotel chains. This trend can adversely affect local entrepreneurs and exacerbate the problem of “leakage” whereby foreign exchange earnings are repatriated leaving even fewer local resources for environmental protection and social standards. One analyst suggests that globalisation has left the independence of thousands of SMEs at risk in Asia, as most local enterprises are unable to compete with foreign companies (Muqbil cited in TWN 1999). Small providers and independent hotels and travel agents could be forced to close, which would have important social effects on the local workforce.

The dominance of foreign TNCs in the tourism industry in many developing countries has serious impacts on the control of local resources. This can adversely affect the social, economic and ecological well-being of local communities as in a globally integrated system, local communities may lose control over their resources, which become targets of foreign top-down decision making (Brohman, 1996). One commentator has suggested that TNCs have, sometimes even with the complicity of governments, negatively impacted the lives and lifestyle of indigenous people and accelerated the exploitation of their natural resources and culture (de Chavez in TWN 1999).

A second important issue related to liberalisation of the supply of tourism services concerns technology. Technological advances affecting the tourism sector are reflected in the growing importance of computer reservation systems (CRS), global distribution systems (GDS) and, through the rapid expansion of the Internet, the provision of tourism services. CRS are used to check flight availability, make reservations and issue tickets. They can also be used for car rentals and hotel reservations. GDS display information from a range of CRS systems. The most important GDS are *Amadeus*, *Worldspan*, *Sabre*, *Galileo* and *System One* (WTO 1998). GDS and CRS supply tourism services on a cross-border basis. Unlike most other tourism activities that requires the physical presence of the consumer, CRS and GDS supply tourism services through Mode 1 from the country of departure to the destination country.

CRS and GDS play critical roles in the sales, marketing and distribution of tourism services. This is the area where the disadvantages of developing countries are greatest. Development costs of the systems are very high and using them requires a reliable technological infrastructure and high-level training. In addition, these systems are owned

by major international airlines and anti-competitive practices, such as a bias in display in favour of an airline, occur frequently (UNCTAD 1999).

Information technology (IT) is used at all levels of the tourism chain, such as production, management, distribution, sales and delivery. For example, IT is necessary for the booking and handling of air tickets and excursions, and for payment of tourism services. New technologies are costly and require training and small suppliers of tourism services already face the danger of increased competition and diminishing profit margins (Pluess, in SSR Travel 1999). In addition, an important share of technology transfer occurs at the intra-firm level. TNCs play an important role as they could serve as a bridgehead in forming the necessary human capital. They could also use their infrastructure (e.g., branches, co-operation agreements and joint ventures) to encourage technology transfer (Tourism Watch/Equations 1999).

A related issue is the increasing role of the Internet in tourism trade. The consumer can now book flight tickets and hotels directly on the Internet without using travel agencies. These advances reduce the need for travel intermediaries making travel products more accessible and lowering costs. Marketing conditions are also changing. Hotel owners, especially in developing countries, do not have the means to invest in international marketing campaigns and depend on tour operators and travel agencies to sell rooms in international markets. The Internet can thus make tourism suppliers less dependant on tour operators and increase their power in the market.

Technological advances are also essential in transportation. For example, more energy efficient cars, buses and aircraft significantly reduce pollution impacts resulting from tourism-induced transport.

Liberalisation of tourism services might intensify the transfer of technology and know-how between countries because tourism is closely linked to other sectors in the economy, and because tourism is an information intensive field. However, a study on challenges faced by developing countries suggests that, "there is hardly any evidence of the extent to which tourism has so far actually contributed to this kind of transfer between industrialised and developing countries" (Tourism Watch/Equations 1999:16).²¹

Some questions for consideration:

- ◆ Has concentration and vertical integration of tourism providers taken place since the implementation of liberalisation policies? What about increase in market share of foreign suppliers (e.g., hotels, airlines, and tour operators) and the dominant market position of foreign tour operators? What are the implications for local suppliers and populations, and their physical environment?
- ◆ What are the impacts of increased competition on local small-scale hotels and travel agents?
- ◆ What is the role of TNCs in the supply of tourism services? Is leakage of benefits important? What are the implications for local populations?
- ◆ Does liberalisation of trade in tourism encourage the transfer of technology? Is the development and access to technologies facilitated? What are the consequences on environmental standards and certification practices? Do codes of practice exist in the industry to promote environmental and social protection?

²¹ The Third World Network claims that the promised technology transfer to the South has not taken place as new obstacles such as enhanced intellectual property protection have emerged (TWN website).

2.4.2. Issues of Development and Practice

This category of issues deals with the nature of tourism development resulting from trade and liberalisation policies in tourism services. Liberalisation can lead to an increase in foreign direct investment in tourism development of destination countries, such as for the construction of resorts, golf courses or airports. Related social and environmental impacts vary depending on where this foreign capital is directed and according to several factors such as the scale of development (rapid or slow, controlled or unchecked), the location (whether it is occurring in location/site that is able to absorb it), spatial characteristics (whether it is concentrated or spread out) and the environmental and social practices that might exist in managing the development.

Environmental and social impacts vary depending on the level of diversification in the industry. For example, if investment and development is concentrated in a limited geographic area and dependent upon a single source such as a beach, potential environmental and social pressure points can be exacerbated. On the other hand, if development is based on a variety of resources (e.g., mountains, forests, beaches) the nature of international tourism and its impacts will be more diversified.

Some questions for consideration:

- ◆ What kind of tourism development is favoured by investment and trade liberalisation policies? Where is FDI directed? What are the general environmental and social implications of different kinds of tourism development (e.g., increased pollution from tourism related transportation, local employment opportunities generated)?
- ◆ What is the scale of development (e.g., size, and rate)? Has the scale of tourism development increased rapidly since liberalisation (possibly leading to the disruption of the environmental or social carrying capacity of the host country)?
- ◆ What is the spatial distribution of tourism development? Does liberalisation lead to geographic concentration? Is the development occurring in ecologically or socially fragile areas?

2.4.3. Physical Infrastructure

This category of issues addresses existing and future infrastructure requirements to support the development of tourism services, and its potential environmental and social implications. Physical and service infrastructure includes facilities such as roads, water, wastewater treatment, energy, communication networks, railways, ports, and airports. The issue of technology transfer is important here as trade and liberalisation processes can facilitate the development of, and access to, more environmentally friendly technologies. It is also important to consider the characteristics of the infrastructure development and whether the development occurs in locations where existing infrastructure can absorb new demands. Increased transportation needs could involve clearing of land, possibly damming, and result in increased fuel consumption and emissions and possibly accidents. If resources are scarce, local populations may compete with international tourists for resources such as land or water. Domestic and foreign investment may be necessary to sustain infrastructure needs and could compete with areas where investment would benefit local populations more directly, such as education or healthcare.

One key element of physical infrastructure is the air transport required to move tourists to and from their destinations. Air transport has witnessed gradual liberalisation since 1978 and has resulted in important regulatory changes. Despite the fact that the GATS

classification list separates tourism from transport and reservation systems, they are closely related. Air transport services are essential to tourism as most international tourists arrive by plane. Around 60 per cent of air passengers and 70 per cent of kilometres travelled by airlines can be attributed to tourism (Pluess in SSR 1999). Air transport has hardly been affected by GATS.²² Traffic rights, an essential part of air transport, is not covered by GATS but are subject to bilateral and multilateral agreements, such as the “open sky policy”. According to the WTTC, protectionist aviation policies severely constrain the development of tourism and a recent WTTC report strongly promotes aviation liberalisation (WTO 1998).

An important concern with respect to air transport liberalisation and tourism services is the fact that low prices do not take into account environmental costs, such as air and noise pollution, and the extensive use of non-renewable resources. Several studies have revealed that air transport is an important contributor to global warming and climate change (IPCC 1999).

Some questions for consideration:

- ◆ Does trade in tourism induced development lead to higher consumption of resources (e.g., water or energy) and if so, how are growing needs being met? What are the environmental and social implications?
- ◆ What are the impacts of tourism liberalisation on resource consumption and transportation needs?
- ◆ Does tourism development imply further investment in infrastructure such as transportation, communications, water supply or waste management? What does this imply for local populations?
- ◆ Does technology transfer take place in environmental services and if so, does it lead to better environmental standards and practices? Are environmental practices sufficient to deal with the increase in scale of activity? Are effective recycling techniques in place?
- ◆ Do local populations benefit from new infrastructure or do they have to compete for access to resources?

2.4.4. Organisational and Institutional Issues

This category of issue deals with the organisational and institutional issues associated with trade-induced tourism development. The impacts of such development will vary depending on the way in which stakeholders operate individually or collectively in networks, and whether institutions exist to facilitate their operations. Environmental and social protection measures might flow from a well-developed network of social organisations that can add to economic benefits important environmental, cultural and public values. Conversely, stress can arise when a rapid inflow of migrants taking advantage of employment opportunities overwhelms the environmental and social infrastructure, or when local populations feel that their culture, values and quality of life are affected by development from which they receive no apparent, or an insignificant, benefit. Social structures of relevance include business, labour, community, consumer, and environmental groups, as well as other co-operatives and aboriginal communities.

Through commitments in Mode 4, GATS liberalisation facilitates and promotes the movement and temporary presence of foreign personnel in tourism services. An industry

²² Air services are covered in an annex on air transport, which effectively excludes most of the sector from coverage.

report states the following benefits flow from GATS liberalisation (Travel and Tourism Analyst 2000):

- ◆ The free movement of workers is facilitated;
- ◆ Wages of developing countries will catch up with developed countries;
- ◆ Increased recognition of qualifications across borders.

Tourism is very labour intensive and trade in tourism services can create employment in the destination country. On the other hand, the movement of skilled foreign labour can be a threat to destination countries and to developing countries in particular. For example, managers from developed countries may be employed in place of local personnel. It has also been noted that globalisation and liberalisation exacerbate poor labour conditions in the tourism sector. In general, international tourism development benefits from low wages in developing countries. Where child-labour exists, it is badly remunerated. And women, representing an important share of tourism labour, in general receive wages up to 30 per cent lower than men (Pluess 1998). Competition following liberalisation increases the pressure for profit margins and through its effect on wages can exacerbate further the problem of child labour, long working hours and poor labour standards in the tourism industry (Pluess website).

Some questions for consideration:

- ◆ What are the impacts on employment and working conditions of tourism liberalisation? What kind of employment is created and what are the working conditions (high-skilled, low-skilled, low wages, child labour, women?) What are the social implications?
- ◆ What are the effects of increased movement of foreign personnel? Is there sufficient training for the local workforce to benefit from high-skilled workplaces and training? Are high-skilled and better-paid jobs (e.g., managers and technicians) occupied by foreign personnel? Is there transmission of know-how and training benefiting to local workforce?
- ◆ Do institutional avenues exist to allow the community to participate in trade-induced tourism development? Are local workers properly trained to enter the tourism industry? Does the local population have the financial capacity to take part in newly generated tourism activities? Is the local community engaged in planning and land use decisions?
- ◆ Does the institutional capacity exist to promote environmental and socially responsible tourism?

2.4.5. Government Policy and Regulation

This last set of issues relates to the potential regulatory effects of tourism services liberalisation. GATS has direct impacts on domestic regulations, including environmental and social policies. Liberalisation may lead to changes in national regulations applying to the provision of tourism services, such as foreign exchange regulations and tourism investment incentives to attract foreign investment. International obligations can undermine domestic social or environmental policy objectives.

Potential social and environmental impacts of tourism depend on policy and regulation issues in place. Government policies can reinforce or offset the potential impacts of trade in tourism. For example, international tourism development can be favoured over other economic sectors that would benefit more local populations. On the other hand, adequate

government regulations and policies can increase the participation of local populations and thus increase the benefits and value-added of receipts from international tourism. Related issues include the existence of effective planning and permits, the nature of environmental, social, and fiscal regulations, as well as the overall economic regulatory framework of the tourism destination country.

Some questions for consideration:

- ◆ Does liberalisation of tourism services undermine the ability of governments to implement effective environmental and social policies?
- ◆ Are national and international regulations adapted to increased trade in tourism? Does liberalisation contribute to stricter environmental and social regulations, or not?
- ◆ What are the tourism investment incentives in place (e.g., financial, fiscal and other) regarding national and foreign investment? Do they facilitate leakage of profits?
- ◆ To what extent is international tourism development promoted over other economic sectors? What are the implications on the domestic budget and on other sectors, such as education and healthcare? What are the social implications for local populations?
- ◆ Is an effective tourism development strategy or policy in place in order to increase the positive effects of trade in tourism (such as increased employment, technology transfer and foreign exchange) and minimise or avoid potential negative effects?
- ◆ Are environmental impact assessment procedures in place and are they implemented effectively? Is there a system in place to protect cultural heritage and indigenous populations? Are there adequate laws to protect the resources and the populations? Are they effectively enforced? Do planning, zoning and permitting requirements exist for this sector and are they adequate (i.e., administrative procedures)? Is the local population involved in the administrative process for development at the local level?

PART III

Preliminary Scoping Study on Turkey

3.1. Introduction

This section illustrates in a preliminary fashion how the assessment framework outlined in Part II might be applied to a specific site. The site chosen is the Belek area on the Mediterranean Coast in Turkey. Belek is a 16 km-long beach situated east of Antalya and is the main area for tourism investment on the Southern coast of Turkey. The region has witnessed rapid tourism development in the 1990s (Map of Turkey, Annex 8). By focusing on a specific location, an attempt is made to demonstrate the relevance and utility of conducting a sustainability assessment of trade in tourism services to identify linkages between the liberalisation of international trade and investment and environmental and social change at the local level.

Over the past decades Turkey has moved from a policy of pursuing industrialisation based on import substitution to one of economic stabilisation, allowing international trade a larger role in addressing economic imbalances. Tourism has been affected by liberalisation efforts since the mid-1980s when a series of economic and regulatory reforms were put in place and import substitution and protectionist trade policies were abolished (TÜRSAB 1999). The 1990s witnessed rapid liberalisation in Turkey, privatisation of state enterprises, and integration into European markets and the global economy (WTO, 1999).

The choice of Turkey, and the Belek area more specifically, as a subject for this preliminary assessment was guided by criteria presented in section 2.1.2. These are presented below as they apply to Turkey:

1. Turkey's Mediterranean coast has witnessed rapid and large-scale tourism development and is threatened by future tourism development (WWF, 1999).
2. Turkey is a member of the WTO and has made important commitments under GATS in the travel and tourism sector.
3. Trade in tourism in Turkey is important in terms of both volume and value, and is likely to increase in the future.
4. Turkey has a large number of ecosystems potentially affected by tourism development, important natural and historical sites and wildlife that need to be preserved. Tourism infrastructure and rapid development especially threaten the coastline of Turkey.

3.1.1. Objective, Scope and Limitation of the Scoping Study

The objective of this preliminary scoping study is to provide an indication of how liberalisation policies implemented by Turkey could affect the development of tourism services and to illustrate the potential environmental and social impacts of that development.

Analysis in this Part is based on site-specific information drawn from the Belek Management Plan (BMP) developed in 1996 (DHKD-WWF 1996). The BMP examines the environmental context of tourism development in Belek and proposes guidelines to

address existing problems and anticipate those that might arise in the future. It is a medium- to long-term action plan to promote economic and social objectives and to preserve and develop the natural and cultural environment. Potential linkages with trade liberalisation were not examined in the BMP. However, this scoping study attempts to use the framework developed in Part II to draw some linkages based on information in that report.

GATS-induced liberalisation is the main focus of the assessment framework (section 2.1). As a result, GATS commitments made by Turkey in travel and tourism services are given priority treatment in this section. Nevertheless, other liberalisation processes also have the potential to affect trade in tourism services in Turkey. These processes include the customs union with the EU, SAPs, and various regional trade agreements.

This study suffers from important data limitations. In addition to difficulties generally applicable to services data, data collection proved to be difficult in the absence of field study and interviews conducted in the country and region under review. Moreover, statistics tend to vary among sources.

A detailed case study to further develop and apply the sustainability assessment framework will require interviews with relevant stakeholders and in-depth field analysis. Therefore one of the main objectives of this exercise is to set the basis for further work on the impacts of international trade policies and services negotiations on tourism services in Turkey, and the environmental and social effects of those changes on a specific tourist area such as Belek.

3.1.2. General Trends and Characteristics of Tourism in Turkey

Turkey is the 19th most visited country in the world and ranks 18th in tourism receipts. The OMT/WTO forecasts that in the year 2005, over 20 million international tourists will visit Turkey. The Turkish Ministry of Tourism expects the country to be the 11th most popular tourism destination worldwide in 2005 (UNEP/MSCD/Blue Plan 1999).

The tourism sector is often referred to as being a new sector in Turkey. International tourism experienced two 'growth phases' (TÜRSAB 1999). The period from 1960 to 1997 can be characterised as 'investment-led growth' when the country enjoyed high growth rates in terms of tourist arrivals and tourism receipts. Emphasis was put on the creation of supply (such as accommodation and infrastructure) rather than on the promotion or marketing of products. An important increase in tourist demand, stability in growth and continued increase in market share further characterises the 1990s.

In 1998, the country witnessed a drop in tourist arrivals aggravated in 1999 by the severe earthquake and the Kosovo crisis (Travel and Tourism Intelligence 2000). The period from 1998 onwards is marked by important changes in the tourism market, and is referred to as 'policy-led growth', as new strategies are developed to ensure continued benefit from and sustainable growth in tourism (TÜRSAB 1999). Competition with other Mediterranean countries is increasing. The devaluation of the Greek Drachma and a reduction in value-added tax (VAT) and airport taxes in Spain are examples of diminishing travel costs to competing destinations.

According to the Turkish Tourist Board, domestic tourism is growing. Overnight stays of domestic tourists have doubled since 1991 (OECD_b 1999). This is mainly due to growth in wealth of high-income groups, changing consumption patterns and an increase in the

disposable income of the middle-class. Business travel abroad is also rising sharply because of liberalisation policies.

Nevertheless, the most important aspect of tourism in Turkey is international. International tourism accounted for 71 per cent of total overnight stays in tourism accommodation (OECD, 1999). Most foreign tourists (64 per cent) come from European countries (Brognia 1998). Major originating markets are Germany (24 per cent), followed by CIS (16 per cent) and the UK (9 per cent).

Foreign tourism is concentrated on the Mediterranean coast in the region of Antalya (29.9 per cent) and in Istanbul (25.8 per cent) (OECD, 1999). The purpose of foreign visits is broken down as follows: holidays (56 per cent) culture (11 per cent) and business (5.5 per cent). Seaside summer holidays constitute half of tourism's share in incoming tourism. This means that much of Turkey's tourism is seasonal. Indeed the OECD indicates that 62 per cent of arrivals are between May and September. In 1997, 58 per cent of foreign tourists travelled on package tours and 73 per cent arrived by air. Other means of transportation to Turkey include land (15 per cent), sea (11 per cent) and rail (1 per cent) (TÜRSAB 1999).

3.2. Context of Turkey's Tourism Sector

This section introduces the economic, social, environmental and regulatory context of international tourism in Turkey, and in particular in the Mediterranean region around Belek.

3.2.1. Economic Context

The international tourism industry developed late in Turkey but expanded at a very fast rate. Tourist arrivals increased from 4.1 million (tourists) in 1988 to 9.7 million in 1997, while receipts increased from US\$ 1.5 billion to US\$ 7.0 billion during the same period (State Planning Organisation). Foreign capital invested in the tourism sector in 1997 was US\$ 0.2 billion, which represented 14 per cent of total foreign capital invested in the country. International tourism, foreign suppliers of tourism services (e.g., hotel chains, foreign tour operators), and foreign investment play an important role in the Turkish tourism industry.

Chronic inflation and a financial crisis in 1994 led to a three-year stabilisation and reform programme launched at the end of 1997. The implementation of the stabilisation and adjustment programme led to an economic recovery, with annual growth of 4 per cent to 5 per cent of gross national product (GNP) in the following years. Despite this recovery the overall economic situation in Turkey remains fragile, particularly because of inflation. Macroeconomic imbalances and slow progress in the implementation of key structural reforms, including the social security system, the privatisation programme, and banking may threaten the sustainability of Turkey's strong growth performance (WTO, 1999).

The service sector has been a dynamic and growing part of the Turkish economy, and tourism services have emerged as an important sub-sector significantly contributing to foreign exchange reserves and GDP (Travel and Tourism Intelligence 2000). According to the Ministry of Tourism, tourism is the country's second largest industry (UNEP/MSCD/Blue Plan, 1999) (see Table 3.1). Shares of tourism receipts in GNP increased steadily and reached 4.5 per cent in 1997. In 1999, capital investment in the travel and tourism industry amounted to US\$10.4 billion, or 18.2 per cent of total capital

investment. Estimated annual growth in the tourism sector is forecast at 5.3 per cent over the next decade, 2.3 per cent above the global average of 3 per cent. (WTTC 1999).

Direct and indirect employment from tourism is around 3.5 million in Turkey, according to estimates from WTTC tourism satellite accounts.²³

Tourism is an important export commodity in Turkey. Total receipts from international tourism have increased steadily over the years and amounted to 28.3 per cent of total exports in 1997. Turkey's trade deficit is partly covered by receipts from international tourism, although this share varies from year to year. The ratio of foreign tourism receipts to foreign trade deficit reached a peak of 83.6 per cent in 1994. Although it dropped off in 1995, it has been increasing again steadily since then.

Table 3.1: Evolution of the Economic Importance of Tourism in Turkey

Year	1983	1994	1997
Tourism numbers in million	1.6	6.7	9.7
Tourism receipts as % of GNP	0.8	3.3	4.5
Employment in tourism as % of total working population	-	11	13
Tourism receipts as share of total exports receipts (%)	7.2	23.9	28.3
Tourism receipt as share of trade deficit (%)	11	83.6	39

Source: TÜRSAB 1999.

3.2.2. Social Context

According to statistics and development indicators from the World Development Report, living standards have improved in Turkey since the 1980s. However, inflationary pressures aggravate disparities in wealth and income. Turkey ranks second among OECD countries in terms of unequal income distribution. According to national data, in 1994 the richest 20 per cent of the population received 50 per cent of the income, while the poorest 20 per cent received only 5 per cent (Statistical Yearbook of Turkey 1996 quoted in WTO_b 1999). Poverty affects rural populations employed in agriculture and, according to the OECD, welfare disparities between rural and urban areas are growing (OECD_b 1999).

Tourism and Employment

Tourism has an important impact on employment, particularly in the hotel and catering industry. For this reason, the development potential of tourism makes it a strategic industry (OECD_b1999). According to 1999 WTTC estimates, 3.5 million people, or 16 per cent of the working population, are employed in the T&T sector (statistics from TÜRSAB are lower). Working conditions in the industry tend to be poor and wages low. (SDC 1999; Tourism Concern 1996). Some studies indicate that in rural areas women do not benefit from tourism related employment opportunities (DHKD-WWF 1996). However, since these studies were completed, the situation has begun to change as more women are seeking higher education and taking on work outside the home.

Child labour is a concern in Turkey. It is concentrated in the rural and informal sectors and in some export sectors (ICFTU 1998); however, precise statistics on child labour in

²³ TÜRSAB estimates are at 2.5 million.

the tourism sector are not available (SDC 1999). Although Turkey has ratified or is in the process of ratifying all seven of the ILO's core labour standards, its record of implementation is poor (ICFTU 1998).

Migration

Migration has been important in the past and is continuing at a rapid pace, from rural to urbanised or industrialised areas and to regions with important tourism development. In Turkey, tourism is responsible for large-scale migration to the Mediterranean and Aegean coasts. This can lead to rapid and often unregulated urbanisation thus adversely affecting the cultural and natural heritage of rural areas specifically (OECD, 1999).

Culture

Development of tourism in Turkey is based on its rich natural and cultural heritage. This includes an important architectural, historical and social heritage. Tourism policy takes into account the importance of the preservation and improvement of the country's cultural assets. The BMP notes, however, that the cultural character of the Belek area has been disregarded and remains largely absent from policies implemented (DHKD-WWF 1996). This is in spite of the fact that some degree of consultation with the locals in Belek exists in the planning stages of development.

Prices and social change

Tourism often leads to rise in land prices and property speculation. This can affect local populations who attempt to take advantage of rising prices by selling off their land in parcels to generate income, rather than generating permanent wealth. Food prices and rents are much higher in major tourism areas than elsewhere in Turkey (Tourism Concern 1996). These effects are often at the expense of the poorer parts of the population and can lead to major changes in social structures (OECD, 1999).

Local communities

According to the OECD, tourism has contributed to the opening and modernisation of Turkey, and provided major socio-economic benefits to local populations (OECD, 1999). Tourism development has stimulated labour-based production such as food and handicrafts. Yet, the BMP notes that local labour force and local producers of food or handicrafts do not benefit from these opportunities, since most products are brought in from Antalya, Istanbul or Ankara.

It has been observed that in certain tourism areas, social unrest is prevalent as local communities have not been meaningfully consulted (if at all) or included in tourism development and associated commercial opportunities. In the case of Belek, "(1) little development has taken place outside the narrow belt of beach hotels: there is no public transportation, insufficient health services, no fire prevention or emergency services, an absence of organised solid waste disposal, and no sewage systems for the urban areas" (DHKD-WWF 1999 Summary:1). In some instances development has spread beyond the coastline to include water treatment and waste facilities (including sewage). However, even with this additional infrastructure to service hotels, the additional discharge from the settlements in the villages inland from Belek is beyond the working capacity of the treatment system.

Tourism investment is often given priority over investment in homes and transport (Tourism Concern 1996). According to WTTC, government expenditures in T&T in Turkey account for US\$1.2 billion in 1999 (7.5 per cent of total government expenditure) (WTTC 1999).

3.2.3. Environmental Context

A recent OECD environmental performance review (1999) noted that Turkey has made significant progress in the supply of drinking water and wastewater treatment services in tourist areas. Improvement has also been made in bathing water quality, development of regional action plans, environmental impact studies for tourism projects, and diversification of tourism products. The same study indicates that sanitary infrastructure is lagging behind and that greater effort should be made to assist SMEs in the tourism industry to develop sustainably. Economic incentives and instruments to protect the environment should also be developed and implemented (OECD 1999).

In Turkey tourism is heavily concentrated along the Aegean and Mediterranean coasts and generates strong environmental pressures in these regions (PNUE/CMDD/Plan Bleu 1999). The region around Antalya seems to be particularly affected. In 1992, 46 per cent of the Aegean and Mediterranean coastlines on average was used directly or indirectly for tourism (buildings and facilities generating income from tourism or holiday homes) (OECD 1999_b). In 1997, 30 per cent of foreign tourists to Turkey visited the Mediterranean coast and stayed in the area around Antalya. The seasonal and geographic concentration in tourism has resulted in some areas in over-pumping of groundwater. In general, adequate drinking water is lacking in Turkey's tourist areas. According to the OECD, 60 per cent of tourist accommodation did not have good quality drinking water in 1998 (OECD_b 1999).

Pollution and waste

Air and noise pollution from increased traffic on land, air and sea is significant in Turkey (PNUE/CMDD/Plan Bleu 1999). Seventy three per cent of foreign tourists arrive by air (TURSAB 1999; OECD_b 1999). Trade in tourism services implies pollution from aircraft and thus contributes to global warming. In many tourist and nearby residential areas wastewater treatment is insufficient or non-existent. According to the OECD 76 per cent of tourism developments had no mains sewage in 1998. (OECD_b 1999) This implies that large untreated volumes of wastewater run off into coastal waters, rivers and lakes, potentially putting fragile freshwater and marine ecosystems at risk.

In addition, insufficient wastewater treatment also raises important health concerns. Infrastructure for tourism-related solid waste seems to be inadequate and recycling rates relatively low. According to the Turkish *National Environmental Action Plan*, 18 per cent of restaurant waste and 25 per cent of hotel waste is recycled (OECD_b 1999).

Ecosystems and wildlife

The Mediterranean coast in general, and the area of Belek in particular, enjoys a high diversity of natural habitats. The most important, from a conservation point of view, are sand-spits, the native maquis and the sand-dune forests. Sand-spits are created by a particular beach dynamic that is the favoured nesting grounds for sea turtles. Indeed, the area is an important breeding ground for marine turtles. The globally threatened *Caretta caretta* can at present only breed on a limited number of beaches in the Mediterranean, on Greek Islands, in Cyprus, Egypt and in southern Turkey.

The BMP notes that marine turtles are threatened by tourism development in the region because tourism infrastructure is concentrated on the beachfront. Nesting occurs during the main tourist season, between mid-May to September. According to one study a majority of adult females will avoid beach areas with artificial lighting, but a few will nest in spite of the lights (Whitmore 1995 cited in DHKD-WWF 1996). In 1995, 30 nests were counted along the beachfront of hotels.

3.2.4. Policy and Regulatory Context

Since the 1960s Turkey has made efforts to attract foreign tourism. The country adopted legislation to encourage foreign investment, and created the Ministry of Tourism and TÜRSAB (Association of Travel Agencies) to promote tourism in Turkey both domestically and internationally. Despite these early policy efforts, international tourism as a development strategy only took off in the 1970s when Turkey adopted the 'development of mass tourism' as a policy principle in its Five Year Development Plan in order to take advantage of increasing demands for mass tourism (TÜRSAB 1999). This led to government-initiated resort development and investment in infrastructure that relied to a great extent on the construction of large hotels (OECD_b 1999).

The rapid development of the tourism sector in Turkey is due largely to the *Tourism Incentive Law* of 1982²⁴, which includes measures to develop and regulate tourism development. Despite the fact that international tourism has up to now largely been planned without regard to potential environmental and social changes (DHKD-WWF 1996), tourism policy in Turkey is currently based on the following three objectives:

- ◆ development of an *efficient and competitive structure* in the tourism sector;
- ◆ provision of the best possible *social environment* for foreign tourists and for the local population, in accordance with universally accepted standards;
- ◆ preservation and improvement of the country's *natural resources and cultural heritage*. Since tourism is based on the country's natural beauty and its historical and cultural heritage, Turkey will continue to implement projects to preserve the environment and its cultural identity.

Turkey is currently officially promoting sustainable tourism (PNUE/CMDD/Plan Bleu 1999). A policy to diversify its tourism products has been introduced so as to reduce pressure on coastal environment and redistribute socio-economic benefits from tourism development to less developed regions. Local communities are becoming increasingly involved in the development of tourism projects (OECD_b 1999). Activities to promote the conservation of nature in the coastal areas of the Mediterranean have been undertaken despite pressure from rapid industrialisation and tourism development. Also EIAs have been compulsory in Turkey since 1993 for certain tourism investment projects.

Turkey is a party to the Convention Related to the Protection of the Mediterranean Sea. It endorsed the creation of the Mediterranean Committee on Sustainable Development and supports the Mediterranean Action Plan (OECD_b 1999). In particular, Turkey has committed itself to the protection of sea turtles and monk seals. Breeding habitats of sea turtles are protected in several international areas and sand-spits on the Mediterranean coast in Belek are also officially protected (DHKD-WWF 1996). However, enforcement is lacking and in Belek, for example, sand mining occurred during the construction of beachfront hotels and one hotel used the sand-spits without applying protective measures (DHKD-WWF 1996).

3.3. Tourism Services and Trade and Investment Liberalisation Policies in Turkey

This section examines how trade and liberalisation policies affect tourism services in Turkey. Section 3.3.1 focuses on the potential liberalisation impacts of GATS. The role of

²⁴ Law No 2634.

investment liberalisation, which is part of a broader package of investment policies, will be examined in section 3.3.2. Turkey has also been subject to SAPs with associated impacts on trade in tourism services.

3.3.1. GATS-led Liberalisation

Turkey is a founding member of the WTO and signed GATS in March 1995.²⁵ Under GATS, Turkey's schedule of commitments is similar in its level of liberalisation to most developed countries. It provides for specific commitments in 72 activities out of a total of 161 overall services activities (the average schedule of developing countries has 23 commitments). In general, the level of liberalisation of Turkey's commitments is the same as that in its domestic policy framework.²⁶ However, in the area of FDI, the government has undertaken greater liberalisation than is reflected in its schedules (WTO, 1999).

In order to identify potential liberalisation effects of GATS, it is necessary to examine the scope of the country's schedule of market opening commitments (WTO/OMT 1994). Two sub-sectors commitments are of particular relevance:

1. *Hotels and restaurants.* Turkey did not include major restrictions except for the presence of natural persons (market access). Foreign personnel in hotels and restaurants may not exceed 10 per cent of local workforce.²⁷
2. *Travel agencies and tour operators.* A few restrictions exist in this sub-sector. For example, foreign tour operators cannot organise tours abroad, they are only allowed to bring tourists to the country.

In general, "core tourism services" in Turkey are already liberalised to a significant extent. No major restrictions to market access of foreign suppliers of tourism services (such as tour operators and hotel chains) exist. According to the Ministry of Tourism, the commitments in other tourism-related services do not contain restrictions to market access and national treatment that would hinder trade in tourism services (WTO/OMT 1994). In addition, Turkey has included no restrictions in its schedule of commitments for CRS, meaning that this sub-sector is completely liberalised. For selling and marketing, Turkey has also liberalised its market, the only restriction applies to market access for crossborder trade of selling and marketing so that foreign providers have to be established in Turkey.

GATS commitments largely reflect the objectives of Turkey's tourism policy and particularly the *Tourism Incentive Law* (see section 3.3.2). GATS commitments encourage foreign investment in the tourism industry. Competition from foreign suppliers of tourism services and foreign workers is facilitated (with the exception of tourist guides where no commitments are made). It is likely therefore that GATS would have numerous implications on tourism development in the country (Travel and Tourism Intelligence 2000).

²⁵ Turkey is also a party to the Agreement on Telecommunication Services, the Information Technology Agreement, and the Agreement on Financial Services.

²⁶ GATS schedules of commitments set the minimum level of liberalisation the country has committed itself to; thus the country still has the right to be more liberal than in its schedules.

²⁷ This can be increased to 20 per cent by decision of the Ministry of Tourism.

3.3.2. Investment Liberalisation

Turkey has pursued liberal policies towards foreign investment since the 1980s, when the *Law Concerning the Encouragement of Foreign Capital* was adopted. This law guarantees the same rights and obligations to foreign capital as to domestic capital and guarantees the transfer of profits, fees and royalties and the repatriation of capital in the event of liquidation or sale. Turkey has also recently harmonised its legislation with the new rules for TRIMS in the WTO.

The *Tourism Incentive Law* introduced new incentives to encourage development in the tourism industry in Turkey. These incentives apply to foreign and national investors for investment in the construction and management of tourism facilities. The principal incentives to investors are listed in Box 3.2.

As a result of these incentives foreign companies have played an increasingly important role in the tourism industry in Turkey since the mid-1980s. Foreign firms are permitted to acquire real estate in Turkey. With respect to FDI, the government has undertaken greater liberalisation than provided for in its GATS schedules. According to Turkey's schedule of specific commitments, a foreign investment above US\$ 150 million requires approval by the Council of Ministers but this requirement was removed in 1995 (WTO, 1999). Foreign capital invested in the tourism sector in 1997 amounted to US\$ 0.2 billion, which represented 14 per cent of total FDI invested in Turkey.

3.3.3. Other Liberalisation Policies

In Turkey international tourism has been largely promoted as part of its SAPs. Measures under such programmes included the devaluation of the national currency (Turkish Lira), public spending cuts, tax reforms, higher interest rates, wage freezes and export promotion. In the context of the economic crisis of Turkey, tourism was promoted to encourage new sources of foreign exchange.²⁸

Air transport has in the past been largely dominated by the state owned Türk Hava Yollari (THY). Private airlines have been allowed into the market since 1983²⁹ and are increasingly competing on national routes. Turkey also has a large number of bilateral agreements with air carriers. Charter flights are authorised on the basis of reciprocity under the rules of the European Civil Aviation Commission (ECAC) of which Turkey is a member (WTO, 1999). Liberalisation of charter flights is particularly important as charters (mainly from European countries) contribute to mass tourism in Turkey.

In 1996 Turkey entered a customs union with the EU. Turkey has implemented a wide range of reforms within the framework of this customs union taking it significantly beyond its Uruguay Round commitments. These reforms should accelerate Turkey's implementation of its WTO commitments (WTO, 1999).³⁰ Services in general, and tourism services in particular, are not yet included in the customs union agreement. In the context of planned WTO services negotiations, a working group has been set up with the aim of harmonising policies with the EU.

²⁸ For example, the World Bank in the 1970s accorded important credits to a tourism development plan in South Antalya (Tourism Concern 1996).

²⁹ Law No 2920.

³⁰ For example, Turkey adjusted its manufacturing tariffs to the levels of the EU external tariff (CET) and has harmonised its legislation with that of the EU in several fields such as competition policy, customs provision, intellectual property rights and standards.

Box 3.2: Economic and Legal Incentives for the Promotion of Tourism Development in Turkey

- ◆ Allocation of public land to investors;
- ◆ Main infrastructure provided by the state (e.g., communication networks);
- ◆ Preferential tariff rates for electricity, water, and gas in special areas;
- ◆ Encouragement premiums;
- ◆ Foreign personnel allowance up to 20 per cent of total (in compliance with law);
- ◆ Exemptions from tax, duties and fees for long and medium term investment credits, exemption from building construction duties;
- ◆ Foreign exchange retention quotas: a certain percentage of foreign exchange earned by tourist establishments may be retained by the investors and used for essential imports required for operation.

Source: adapted from WTO_b 1999; TÜRSAB 1999

Trade and investment liberalisation policies play an important role in Turkey's tourism sector. International tourism developed in earnest in response to SAPs that promoted tourism in the 1970s and 1980s. However, the most important liberalisation measures affecting tourism relate to foreign investment incentives introduced in the 1980s. GATS commitments in Travel and Tourism related services reflect the objectives of Turkey's tourism policy and guarantee market access and national treatment to foreign suppliers of tourism services. Thus, foreign companies have played an increasingly active role in the tourism industry since the 1980s (WTO_b 1999). Finally, the movement of foreign personnel in core tourism services is facilitated although limited to 20 per cent of the local workforce.

3.4. Potential Linkages between Liberalisation of Tourism Services and Environmental and Social Change in the Belek Region

The development of the Belek area is principally directed to the foreign tourism market with a view to attracting foreign currency (PNUE/CMDD/Plan Bleu 1999). The area around Belek was designed as a tourism investment area in the late 1980s by the Ministry of Tourism and has become a major European tourism destination. On the basis of the different categories of issues and questions developed in section 2.4 of the assessment framework, this section attempts to give preliminary indications on potential environmental and social change in the Belek region related to liberalisation of tourism services.

1. Issues of Supply and Structure

The role of foreign tourism companies in the provision of tourism services has increased since liberalisation in the sector. Investment incentives and policies in Turkey favour large scale investments and facilitate the establishment of TNCs (Tourism Concern 1996). A significant number of the hotels in the Belek area are owned by foreign consortiums.³¹ Foreign tour operators (such as Touristik Union International and Neckermann) are important providers of tourism services in the region.

³¹ These include, for example, the Magic Life, Adonis, Bel-conti, Sol, and Merit Arcadia hotels.

The dominance of foreign-owned companies and their relationship with, and impact on, local enterprises supplying tourism services is an important element to consider. One should assess whether the liberalisation of tourism trade has resulted in a loss of market share and profits for local companies. At the same time, liberalisation may also have resulted in better access to foreign markets for local companies. The environmental and social impacts of changes in market structure and the supply of tourism services need to be assessed, especially in regions such as Belek where a number of foreign companies exist in the market.

Questions to consider include:

- ◆ What is the consequence of increased foreign ownership and subsequent change in market structure on local hotels and travel agencies?
- ◆ What are the resulting social and environmental impacts? For example, has there been a trend towards the repatriation of profits to the originating countries at the expense of the destination country--Turkey? On the other hand, can it be argued that establishment of foreign companies has led to a transfer of technology (such as more efficient waste treatment facilities) and increased training and employment opportunities for the local workforce, which benefit both the environment and the local population of Belek?

2. Issues of Development and Practice

Tourism investment in Belek is concentrated on the beachfront and is directed towards the development of large-scale luxury resorts. Concentration of tourism development on the beach, an important natural resource, has the following consequences:

- ◆ construction of massive projects has a negative impact on the fragile dune ecosystem;
- ◆ the presence of a large number of tourists staying in the beachfront hotels in a concentrated space and time period affects the sustainability of the ecosystems;
- ◆ there is an under-exploitation of other resources in the region, which could allow for diversification of tourism activities and greater possibilities for year-round tourism activities.

There is some evidence that the Belek Tourism Investors Union (BETUYAB) is trying to diversify tourist activities by promoting nature tourism in the area. At this point, however, it appears to exist as a sideline to the predominant seaside holidays offered in the region.

Questions to consider include:

- ◆ Is the concentration of large-scale tourism developments encouraged by investment incentives and liberalisation policies?
- ◆ What are the resulting environmental and social impacts that have been observed in the Belek region?
- ◆ How can more diversified and sustainable tourism developments be encouraged?
- ◆ What measures would ensure that FDI is directed towards less socially or environmentally fragile areas?

3. Issues of Physical Infrastructure

In order to attract and develop international tourism the Turkish government has invested heavily in tourism related infrastructure. In the Belek region, all infrastructure in the

tourism investment areas (including water, sewage treatment, communications and roads) was provided by the Ministry of Tourism. BETUYAB has contributed one-third of the costs (DHKD-WWF 1996). On the basis of information contained in the BMP, it appears that infrastructure serves international tourism development rather than the needs of the local populations. For example, high capacity disposal plants are built for the holiday resorts while in the villages around Belek telephone networks are insufficient and summerhouses have neither water supply nor a sewage collection or treatment system. Furthermore, Belek lacks an appropriate system of public transportation.

Questions to consider include:

- To what extent does tourism related infrastructure benefit the local population in the Belek region?
- How can FDI flows and technology transfer be directed to infrastructure that benefits the society and environment?

4. Organisations and Institutions

Liberalisation processes tend to facilitate the movement of foreign personnel although no precise information is available on the proportion of the foreign workforce in the tourism sector in Turkey or in Belek. A 1996 study on tourism in Turkey has pointed out that most of the higher paid tourism management positions are filled by foreign personnel (Tourism Concern 1996).

Information and findings from the BMP raise questions as to whether tourism development in the region benefits the local population. It notes that local people have not been consulted about, or involved in, the tourism development projects. Local farmers complained that they are not allowed to sell their products in the hotels. However, employment opportunities have been created with the construction of new hotels, although most of the jobs created are poorly paid and seasonal. It is necessary to examine how international tourism development and liberalisation has impacted labour standards and traditions in the case of the Belek.

Questions to consider include:

- ◆ What is the ratio between local and foreign labour and low-skilled and highly-skilled labour the tourism sector? Have these ratios changed following implementation of liberalisation policies directed at tourism services?
- ◆ Are institutional avenues for training and participation of local populations in decision making sufficient?
- ◆ Is there any evidence that low wages, poor working conditions, child labour, and human rights violations have been encouraged or diminished by changes brought about by liberalisation of tourism services?

5. Government Policy and Regulation

In Turkey the *Tourism Incentive Law* and other investment provisions aimed at attracting FDI play an essential role in terms of the potential impact of trade in tourism services. These should be assessed in more detail to determine, among other things, whether

existing incentives to encourage FDI result in foreign leakage. In addition, it is essential to research whether environmental and social regulations in place are adequate to encourage the potential benefits from trade in tourism services and to minimise negative effects.

A site-specific question relates to land-use and the relationship with liberalisation. Information from the BMP shows that the Ministry of Tourism owns Belek's Tourism Development Area. Investors have obtained 49-year lease allocations from the Ministry in areas where hotel investments began in 1990. Thus, trade and investment liberalisation has favoured a change in land tenure and privatisation of natural resources. This might have contributed to environmental disruption (e.g., tourism development in Belek is concentrated on the seaside and threatens important breeding grounds of sea turtles). Regulations have given priority to those investors who planned to finish construction first. This encouraged many builders to carry out their projects with few environmental criteria (DHKD-WWF 1996). It appears that some regulations tend to embrace concerns of short-term profitability rather than sustainability.

Questions to consider include:

- ◆ Do investment incentives and liberalisation policies reflect sustainable development objectives?
- ◆ What are the effects of liberalisation policies on land use and natural resources?
- ◆ Are changes in land use detrimental to the local Belek population?

PART IV

Conclusions and Recommendations

The conclusions and preliminary recommendations of this study are organised into two sections. Section 4.1 contains conclusions that relate to the liberalisation of trade in services and in particular tourism services, with respect to its linkages to sustainable development. Section 4.2 includes findings and lessons learnt from the preliminary development framework for sustainability assessment in the services sector. These conclusions are divided further into two sub-sections. Section 4.2.1 identifies areas for further work that might be undertaken to conduct effective sustainability assessments in the services sector, with an emphasis on tourism services. Section 4.2.2 suggests avenues for further work based on the preliminary analysis of the Belek example.

4.1. The Liberalisation of Tourism Services and Sustainable Development

The role of the services sector, including tourism services, in national economies and international trade is increasing. Between 1990 and 1999 trade in services expanded faster than trade in goods. Services trade globally was estimated at around US\$ 2.2 trillion in 1997 (WTO Focus 2000). Conventional trade statistics, based on balance of payments, understate the economic importance of services trade. Analysis in Part I shows that gaps and inconsistencies in data make it difficult to assess the degree of liberalisation achieved under GATS and the full implications of such liberalisation.

The tourism industry is often cited as the largest industry in the world and estimated to amount to US\$ 3.5 trillion of global GDP (World Trade Agenda 2000). The sector is also particularly important in terms of employment.

This study indicates that the tourism sector has received the highest number of commitments under GATS, and is already largely liberalised especially under the 'commercial presence' and 'consumption abroad' modes of supply. This can be explained by the fact that the sector was already liberalised before the completion of the Uruguay Round negotiations. The potential impacts of further tourism liberalisation are nonetheless expected to be significant, especially through increased foreign investment in destination countries and because of the further liberalisation in related sectors such as transport.

A review of existing GATS provisions and of the negotiations on services liberalisation in the WTO, shows that further liberalisation in tourism services will most probably be achieved by a combination of the following measures (Tourism Watch/ Equations 1999):

- ◆ An increase in the number of commitments in the tourism sector (such as hotel, restaurants and catering, travel agencies, tour operators and tourists guides);
- ◆ Existing trade restrictions on trade in services (as fixed in a country's schedule) will be lowered by re-negotiating specific commitments. Presence of natural persons (Mode 4), the most restrictive mode of supply, is a key area for liberalisation and is of particular concern and importance to developing countries;
- ◆ Member governments will also attempt to include tourism-related industries, which have previously been excluded from the scope of GATS (e.g., passenger air traffic).

The scope of GATS would be significantly broadened if these related sectors are successfully negotiated.

Given the preliminary nature of both the methodological and practical parts of the assessment, it is not yet possible to draw precise conclusions on the causal relationship between liberalisation of tourism services and sustainable development. Nevertheless, this study has identified a number of areas that warrant further examination to determine more comprehensively what some of the key linkages are between sustainable development and trade in services in general, and tourism services in particular. These are presented to highlight areas where liberalisation of services trade can impact the environment and social well-being and as such are brought to the attention of stakeholders and policy makers to consider as negotiations proceed to liberalise services trade.

1. ***The impact on sustainable development of trade in tourism services can be both positive and negative.*** Positive effects include economic benefits from increased FDI, increased revenues from spending of foreign tourists, more employment and business opportunities. The export of tourism services can provide governments with additional income and incentives to protect natural resources and develop appropriate social infrastructure and networks. However, leakage of profits can undermine local small-scale providers so that much of the economic benefit remains in, or flows back to, the originating countries and companies, while environmental and social impacts are felt principally in destination countries.
2. ***Environmental and social effects in the tourism services sector are largely related to the process of liberalisation of foreign investment and foreign establishment.*** Next to Mode 2 (consumption abroad), Mode 3 (commercial presence) is the mode of supply of tourism services that may have the most important impacts. Mode 4 (movement of natural persons), which is currently the most restrictive mode in tourism services, may also have important social effects, particularly in developing countries.
3. ***Linkages between liberalisation of tourism services and sustainable development are dependent on a number of factors.*** These can include infrastructure, regulations and institutions in place in destination countries. The degree of liberalisation and foreign incentives in place is likely to play an important role with respect to the type and significance of the effects observed. However, the economic impacts of liberalisation commitments directed to tourism services are difficult to assess due to data limitations at both national and international levels. Furthermore, countries can be more liberal in practice than is reflected in their schedule of commitments under GATS.
4. ***The WTO's proposed Annex on tourism as an approach to liberalisation has advantages and disadvantages for sustainable development.*** The "cluster" approach put forward in the Annex incorporates a number of services including travel reservation systems, air and other transportation and travel related financial services into a "tourism cluster". This approach has the advantage of including the different components of the tourism sector and of elaborating a more accurate definition of the sub-sectors and services activities. However, by linking different services sectors, WTO negotiations could be accelerated and higher levels of liberalisation might be achieved more rapidly than would otherwise be the case, thereby undermining countries' abilities to examine and assess the economic, social and environmental effects of new commitments.

5. ***Liberalisation of tourism services is primarily an act of domestic liberalisation.*** Because a country does not have to rely on the interest of trading partners to open its market, tourism is a relatively easy sector to liberalise. Services negotiations are not based on tariff negotiations, and rules regulating services trade frequently impact upon domestic issues, such as qualification or licensing requirements (CIEL 2000). The direct impact of GATS on domestic regulations raises questions about the regulatory power of governments and the compatibility between obligations under GATS and domestic policy objectives. The role of domestic regulations and their interaction with trade policies are likely to be of particular significance. The extent to which liberalisation in services trade implies changes in domestic regulation, and the environmental and social impacts of these changes are important issues examine to better understand the relationship between liberalisation in this sector and sustainable development.
6. ***Trade in tourism services is characterised by important imbalances in the share of business and distribution channels between tourist sending and receiving countries.*** Much of the economic and political power in the tourism industry is held by developed countries. Anti-competitive practices, such as restrictions on the movement of persons, limit the potential benefits of liberalisation, particularly for developing countries.

4.2. The Development and Implementation of Sustainability Assessments for Liberalisation of Tourism Services

This set of conclusions concerns the development and implementation of sustainability assessment for trade in services and in tourism services in particular. In light of the experience obtained from undertaking this study, at a general level and through the application of the preliminary framework to a case study, the following areas are suggested for further work to contribute to the development of an effective assessment framework.

4.2.1 General lessons learned with respect to the preliminary framework for assessment

1. ***There is an urgent need to develop better statistics on trade in services.*** Existing data is insufficient for governments to undertake effective sustainability assessment of the effects on sustainable development of their past market access commitments or potential benefits from future commitments that might arise from ongoing negotiations. This is particularly acute in the area of tourism services where suitable accounting systems do not exist. While tourism satellite accounting is an important contribution, emerging accounting systems should be expanded to include mechanisms to reflect potential environmental and social costs of tourism development. In addition, in order to assess the full economic effects of commitments, data and statistics should take into consideration the four modes of supply of services, as defined in GATS. For example, related to tourism services this means that travel services records should not only reflect consumption abroad (Mode 2) but also commercial presence and other modes of supply.
2. ***A better understanding of the impact of services liberalisation is needed across sectors.*** Tourism is not the only sector where further and more detailed work should be carried out. Similar attention should be paid to related sectors such as transport and construction services. Because of the interdependencies between different

services sectors, assessments should be able to take into account cross-sectoral effects. For example, this study shows that the impact of air transport liberalisation on tourism should be examined further and included in a sustainability assessment of tourism services. It is still unclear how air transport will be dealt with in GATS.

3. ***The relationships between competition policy and trade policy should be further addressed and potential impacts on sustainable development examined.*** Trade in tourism is adversely affected by anti-competitive practices. National and international competition policies could help counter the effects of abuse of dominance in trade.
4. ***The extent to which GATS works like an investment agreement warrants further examination.*** GATS rules have important implications on investment flows and liberalisation particularly through commitments concerning commercial presence (Mode 3). Further work is needed to examine the sustainability implications of investment provisions in GATS in different sectors including tourism.
5. ***The lack of consensus on what sub-sectors and activities should be included in 'tourism services' makes it difficult to set the scope of any assessment framework focusing on trade in tourism.*** The literature reviewed and findings of this study suggest that the scope of the framework should be larger than GATS classification, which is limited to 'core' tourism services (i.e., hotel and restaurants, travel agencies and tour operators, tourist guides, and 'others'). In order to capture the range of economic, social and environmental effects associated with trade in tourism, all components of tourism services, such as transport of tourists, financial services, hotels and infrastructure, environmental services and telecom services, should be included in the analysis. While this will add comprehensiveness, there is a risk that such a broad exercise would require excessive time and resources. One suggestion may be to establish a list of priority sectors, depending on the purpose of the assessment, which will constitute the focus of the exercise ('screening phase').
6. ***Further work should be done to clarify links of causality among different forces for liberalisation.*** An important difficulty is to establish precisely what is the result of GATS and what flows from other factors (both internal and external to the country under review), such as those related to other liberalisation and macro-economic policies, or other domestic regulatory framework. An additional difficulty is that commitments under GATS can be more restrictive in some cases than the actual level of liberalisation accorded by the country. This suggests that in the assessment, a comprehensive review of both domestic regulations and international trade and investment policies is necessary.
7. ***A sustainability assessment framework for tourism services should be able, if called upon, to consider impacts in both tourism originating and tourism destination countries.*** The assessment framework developed in this study focuses on the potential effects of trade on destination countries, as this is where most significant effects are felt. Nevertheless, originating markets of tourism trade may also be impacted by trade tourism policies and their liberalisation (e.g., health) and may therefore be included in the assessment framework.

4.2.2. Lessons learned with respect to the preliminary scoping study

The preliminary scoping study on Turkey provides a practical application of the assessment framework, with a view to highlighting the utility of such an exercise. It was particularly useful in testing the relevance of ways in which economic activity generated

by liberalisation might flow through to the environment and social wellbeing, and thereby pointed to a number of avenues for further work. Some of these are presented below.

1. ***The relationship between commercial presence (Mode 3) and presence of natural persons (Mode 4).*** Potential effects on sustainability related to the liberalisation of services trade through GATS Modes 3 and 4 appear particularly relevant in Turkey. The interaction between these two modes of supply and sustainable development should be examined as a priority in any future assessment.
2. ***The role in the market of foreign ownership.*** The dominance of foreign-owned companies and their relationship with, and impact on, local enterprises supplying tourism services is important in Turkey, and in the Belek area in particular. One should assess whether the liberalisation of tourism trade has resulted in a loss of market share and profits for local companies. At the same time, it may also have resulted in better access to foreign markets for local companies. The environmental and social impact of changes in market structure and supply of tourism services need to be assessed, particularly in regions such as Belek where there is a clear influence of foreign companies involved in providing tourism services.
3. ***Regulatory incentives to attract investment.*** In Turkey the *Tourism Incentive Law* and other investment provisions aimed at attracting FDI should be assessed in detail in an assessment. In regions where investment flows are significant, such as in Belek, the relationship between increased investment and sustainable development should be reviewed as a priority issue. In addition, a sustainability assessment in the region should examine and assess the extent to which investment associated with liberalisation of tourism services is directed at infrastructure development that serves the needs of the local population and supports sustainable development in the region.
4. ***The spatial concentration of investment.*** Evidence shows that tourism investment in Belek is concentrated on the beachfront, and that it is essentially directed at the development of large-scale luxury resorts. The spatial concentration of investment should therefore be a priority concern in an assessment. Concentration of tourism development on the beach has several important consequences such as degradation of the fragile dune ecosystem. Further research on the role of the type of tourism development (i.e., highly seasonal and concentrated) that occurs is needed, as well as consideration of measures that could be implemented to mitigate negative impacts.

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ANNEX 6

Main Environmental Impacts of Tourism

Negative/ positive effect	Type of effect		Main origin of effects	Remarks
Positive	Conservation restoration and protection of natural and built habitat	Creation of protected areas and natural parks	Perceived need to develop attractions for tourists such as safaris/ increased revenue from tourism	Positive effects on biodiversity, natural and cultural heritage
Positive	Development of infrastructure	Improvement to roads, water supply, waste management systems	Increased revenue from tourism, necessity to create infrastructure in order to attract tourism development	May decrease environmental pollution and improve environmental quality
Negative	Extensive use of natural resources			Can lead to competition with local populations if resources are scarce
		Land	Construction of tourism infrastructure	Deforestation, loss of biodiversity
		Water	Over consumption, Irrigation, swimming pools, personal use for tourists	Problem in areas where water is scarce
		energy	Transport Lodging	Use of non-renewable energy
Negative	Pollution	Solid waste	tourism infrastructure (hotels, cruise ships)	
		Wastewater	Tourism infrastructure	
		Noise	Mainly from transport and tourism activities such as motorboats	
		Air emissions	Transport, energy	Contributes to Global warming
Negative	Destruction or alteration of ecologically fragile areas	Rain forests, coral reefs,	Absence of proper tourism management and policy	
Negative	Harm to wildlife and habitat	Disruption of biological resources	Clearance of vegetation for tourism development, tourism activities	Example: sea turtles in the Mediterranean endangered by tourism

ANNEX 7

Barriers to Trade in Tourism

The OECD (2000) as compiled an overview of trade barriers in tourism in OECD countries, which identifies key categories of barriers for the tourism sector as defined under (GATS) as follows:

- a. barriers to Modes 1 and 2;
- b. barriers to establishment and investment;
- c. licenses and authorizations
- d. economic needs tests;
- e. nationality/residency requirements;
- f. barriers to the presence of natural persons; and
- g. other limitations listed in schedules

In addition, barriers identified by the OECD Tourism Committee include currency allowances and means of payment restrictions (such as declaration, registration and notification requirements); administrative formalities (such as visa requirements); and fiscal charges (such as air taxes). Barriers to air transport relating to CRS and the selling and marketing of air transport are also considered.

Major barriers to trade in tourism affecting in particular developing countries have also been identified by an Expert Meeting in UNCTAD₆ (1998) in the context of developing. They include:

- ◆ Restrictions on the work of professionals in the tourism sector;
- ◆ Limitations to real estate property rights
- ◆ Sectoral regulatory restrictions
- ◆ Anti-competitive practices stemming from the abuse of dominance by tour operators;
- ◆ Difficulties associated with the delivery of visas;
- ◆ Limitations in access to and the use of GDS;
- ◆ Insufficient availability or inadequacy of air transport services to and from tourist-receiving countries.

ANNEX 8

Map of Turkey



Belek is located east of Antalya and is the main tourism investment area on the Southern coast of Turkey.

Other publications distributed by WWF International

The International Experts' Meeting on Sustainability Assessments of Trade Liberalisation, 6-8 March 2000, Quito, Ecuador, *Full Report of the Meeting*

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Please contact:

Delwyn Dupuis

WWF International

Ave du Mont-Blanc

1196 Gland

Switzerland

Tel: +41 22 364 9002

Fax: +41 22 364 8219

E-mail: ddupuis@wwfint.org

Website: www.panda.org
