

A pair of black-rimmed glasses with a silver bridge and temples is positioned over a document. The document contains various columns of numbers and some text, including 'Pro-forma' and 'General forma'. The numbers are arranged in a grid-like fashion, typical of a financial statement or ledger. The overall color scheme is a light blue/teal tint.

Economic Prospects for Curaçao

A study on the economic prospects of the private sector in Curaçao

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Platform Dutch Caribbean Economists
Curaçao, October 2012

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This study was sponsored by the Curacao Bankers Association

SUMMARY

How will the private sector develop in Curacao in the years to come?

This was the question that the *Platform Dutch Caribbean Economist* asked a hundred entrepreneurs, CEOs and CFOs who manage businesses in Curacao¹. During the interviews the focus was on their opinions and ideas about the economic prospects for their company, their sector and for the Curaçao economy.

This report, *Economic prospects for Curaçao*², summarizes the results of these in-depth interviews which were held in the summer of 2012.

Main research findings:

- Most entrepreneurs are not optimistic about the short-term economic outlook for the island and their sector. Only few are positive about their business prospects. In most sectors the turnover is expected to decrease. The only exception could be tourism: its outlook for the near future seems stable to slightly positive. Surprisingly the majority of entrepreneurs are more positive about their own business, as compared to the sector's performance.
- Almost all entrepreneurs expect their business results to worsen as a result of a lower turnover, more competition, increased cost of doing business. Collection problems are expected to increase.
- Business confidence is weak, and the willingness to invest is low. Many entrepreneurs indicate company investment policies are cautious. For most, this implies that no large investments are foreseen in the near future. Only those investments strictly necessary to maintain business, will be carried out. The few companies considering larger investment on the island are forced to do so to remain competitive or to get in better shape for when the world and island economy picks up once again. Some will invest in other branches or on other islands.
- Most businesses expect employment levels in their sector to decrease or at best remain stable. In most cases employees retiring or leaving the company voluntarily will not be replaced. In some cases forced lay-offs are not ruled out. Many entrepreneurs want to operate their company more flexibly as a result of more uncertainties and fluctuations in demand. In the medium and longer term, this will reduce job security for many employees.
- Consumer confidence is low according to the businesses, which depend on the local market. Consumer spending behavior is expected to be increasingly cautious: the purchasing power and willingness to spend is expected to decline.
- External factors mentioned as important determinants of this short term economic outlook are: the slowly recovering and still fragile world economy, and the persistent uncertainty in the Eurozone economies. Important domestic factors mentioned are the fragility of the local economy, the political instability, the budgetary problems, and the decreasing credit opportunities. In addition, many expect that the strained relations between Curaçao and the Netherlands will sooner or later harm the island economy.
- The economic outlook for the medium term is often somewhat more positive or less negative.
- Many respondents hope that both the global and local economy will pick up by 2015. Most respondents do remain cautious, and expect international and local market uncertainties to continue for some time, at least till 2014. In addition, the need for fiscal cutbacks is expected

¹ The Platform Dutch Caribbean Economists consists of a group of economists and other professionals working in the field of economics in the Dutch Caribbean. The objective of the Platform is professional development and it discusses relevant economic topics in closed and public sessions, particularly related to the economic development of the islands of the Dutch Caribbean.

² The report was sponsored by the Curacao Bankers Association.

to further dampen the growth of the Curaçao economy. Lack of government action and prolonged political instability is feared to put the necessary recovery on hold.

- In this business environment, respondents consider various strategies to deal with the risks and uncertainties facing the Curacao economy. For example, they increase their focus on the quality of service and the costs of production, improve the flexibility of their organization, or plan to expand, to include other product and geographical markets.

Based on the interviews, some entrepreneurs want to close or sell their business. Some will invest to be prepared for better times to come; some will invest in new opportunities. However, by far most entrepreneurs will 'wait and see' and adapt a little to survive the next couple of years.

The overall economic prospect is not positive. Based on the interviews with many entrepreneurs on the island it seems realistic to suppose that developments in the private sector will further worsen until at least 2015. Only a pro active business attitude among entrepreneurs, instead of the *wait and see*-mentality and a government which will create the right business climate could help the island to get out of the present economic recession.

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1 INTRODUCTION AND OBJECTIVE OF RESEARCH

The basic research questions in this report are: how does the private sector expect the Curaçao economy to develop in the short and medium term? And how will businesses behave, how will the private sector of Curaçao develop and proceed from now, the next couple of years till 2019?

The focus of this research is to detect future economic trends in the private sector, based on perceptions, confidence and plans of entrepreneurs.

This research should add to (and not replace) existing statistical data produced by the Central Bureau of Statistics (CBS) and the Central Bank of Curaçao and Sint Maarten, Business Cycle of CBS and Economic Outlook of the Ministry of Economic Development for Curaçao.

During the months of July and August 2012, over 100 entrepreneurs, CEOs and CFOs, were interviewed based on semi-structured questionnaires (for methodology used see [Annex 1](#)). They were selected from all sectors (export and domestic), representing all ethnic group in private sector (Arabic, Chinese, Hindu, Dutch, Latino etc.), small and large businesses, established and relatively newer businesses. Many of the interviewees belonged to the captains of their industry and are well connected on the island.

Most respondents have been very generous with their time and many provided details about the workings of their sector, which have well been taken note of, but could not all be included in this report. This report carefully adds up the results of these interviews to come with the answers as to how the private sector will develop in the near and medium term.

The research was executed by two economists, Roland O.B. van den Bergh and Susan van Velzen, both members of the Platform of Dutch Caribbean Economists. This research is sponsored by the Curaçao Bankers Association.

Disclaimer:

This report is the sum of the information, opinions, ideas and plans of entrepreneurs in Curaçao. Some information has been cross checked by the researchers. The research only includes existing business on the island and does not include any projects of businesses not established on the island as yet.

The authors are responsible for 'summing up' the information in a non-biased and professional manner. Nevertheless it should be noted and stressed that this report is a reflection of what private sector companies (it's shareholders, CEOs or CFOs told the researchers about what they plan to do, think about their business' and their sector's future in Curaçao) and does not necessarily reflect the opinion of the authors.

Content of this report

Chapter 2 describes the general economic prospects for the years up to 2019. However, the time horizon for most of the companies is not that long, it is generally no longer than two to three years, till 2014 or 2015. This relatively short time horizon has to do with uncertainties entrepreneurs are faced with, internationally but also locally. In this chapter, we elaborate on their expectations of turnover, profits, investment plans and employment within the business and sector.

In Chapter 3, we first present the economic outlook of entrepreneurs in the main foreign currency earning sectors, followed by the expectations of entrepreneurs in domestic oriented sectors of the economy.

In the last chapter of this report, chapter 4, we focus on what the business in the private sector can do and what the government should do to stimulate the business activities on the short and medium term.

2 GENERAL OUTLOOK PRIVATE SECTOR

In this Chapter the main results of the interviews are discussed. In the first paragraph (3.1) general observations which are more or less valid for all interviewed companies are summarized. Thereafter, we will describe entrepreneur's ideas on turnover (2.2), business results (2.3), investments in the pipeline (2.4), development of the employment (2.5) and finally the view on the investment climate on Curaçao. Each of these paragraph ends with an overview of prospects and strategies, as mentioned by the businesses.

2.1 GENERAL OBSERVATIONS

The maximum time horizon for most of the businesses in the private sector is 2-3 years. Only a few businesses actually are working according to their business plan with a time horizon of 2019 and beyond. 2019 is way too far ahead for most businesses. Companies competing internationally, such as hotels and the refinery have a longer time horizon (up to 5-10 years).

- Negative sentiments dominate among managers about macro level and (sometimes) about sector/branch developments. Sentiments about their own business vary from:
 - quit business
 - 'wait and see'
 - to get ready if 'things' get better
 - to invest in opportunities (whatever the outcome of the parliamentary elections will be scheduled for October, 19th, 2012)
- For some, selling the business is a realistic option, and even an exit or establishment elsewhere strategy (leaving Curaçao) is considered, although more in theory than in practice. Others may not be optimistic, but 'believe in Curaçao'. However, by far, most entrepreneurs have the attitude of 'wait and see' and will adapt a little to survive.
- The origin of these, more negative sentiments, are a combination of the factors mentioned below:
 - Negative market prospects: no growth and no new market opportunities
 - Decrease in profitability: several companies are struggling to survive
 - No or not sufficient investment opportunities on Curaçao
 - Scarcity of motivated and qualified workers
 - Government and politics do a poor job in terms of image of local politics, Central Bank, good governance and corporate governance, providing the right conditions, services and facilities to let the private sector flourish

2.2 RESULTS: BUZZ ON TURNOVER

In general entrepreneurs expect the volume of the turnover for the year 2012 is lower than in 2011. The outlook on the volume of turnover for 2013 and 2014 is even worse. Hard hit sectors with a relatively large decrease in turnover are: retail, construction, cargo and in general, most of small businesses focusing on the local market. In tourism some entrepreneurs have a positive outlook because of some positive developments such as: more tourists from Latin America, some increase in airlift and more cruise tourists.

What causes the reduction in turnover?:

- Economic downturn in Europe and the Netherlands and, to a lesser extent, the in United States (US). This affects investment, among others, in real estate on the island and makes the island more expensive for European tourists. However imports from Europe have becoming cheaper
- Decreasing local purchasing power and decreasing financing opportunities of households. The diminishing purchasing power of government as a result of budget cuts in 2012-2013 will further decrease the demand for goods and services from the private sector.
- Decreased willingness to spend and invest locally (consumers think twice before spending; cut on 'luxuries', shop for bargains, order on the internet; investors are increasingly cautious)

- Many businesses on the island depend mainly on local less consuming customer and do not export
- Some also mention: (perceived) increase in criminality or lack of safety
- Less confidence and more uncertainty among consumers and investors because of the increased political instability in Curaçao since 10-10-10, lack of good governance, no good corporate governance, negative developments in the relationship of Curaçao with the other countries in the Kingdom: the Netherlands, St Maarten and Aruba, crisis at the Central Bank, lack of public policy, no vision for economic development of the island

<p><u>Prospects on turnover:</u></p> <ul style="list-style-type: none"> • In general: decrease in turnover (in volume) or stabilization, no growth, at least not before 2015. Only few expect an increase in turnover • Growth, in most cases, will be generated by take-overs of other companies • Limited export initiatives to boost growth except for some branches and companies 	<p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Try to maintain or increase market share and decrease (sales) prices • Go to market or customer instead of other way around • Increase service levels to keep up to par • Go abroad, increase exports
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2.3 RESULTS: BUZZ ON PROFITS

Profits in the private sector are under pressure: outlook is cautious to negative, with the exception of some businesses in tourism and business services.

Reasons why most business expect a drop in profitability:

- Equal or lower sales and no positive market forecast
- Costs of doing business will increase:
 - labor costs: inflation correction; premium AOV, new health care system introduction of mandatory pension
 - increase in utility costs
- Increase in purchasing prices for goods and services which is also a result of the increase of the sales tax with 1%-point in 2012 and the fear turnover tax rate will increase more towards 7% or 8%.
- The private sector faces more difficulties to compensate increased costs by increasing prices of product or service due to increased competition on the market.
- Increase in collection problems at both public and private sector clients

<p><u>Prospects on making profit:</u></p> <ul style="list-style-type: none"> • Business results for 2012-2014 are under pressure • If market prospect and world economy does not change for the better after 2014/5, profitability of companies will remain (too) low. 	<p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Improve efficiency, restructure business processes • Cut or reduce labor costs (less employees) • Hire more flex workers (temporary or for the season) • Either cut or increase marketing budgets depending on companies' strategy • Decrease profit margins to maintain turnover; some companies use their reserves
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2.4 RESULTS: BUZZ ON INVESTMENTS

In general no large investments are planned or in the pipeline. Private companies will invest only if necessary (replacement investments).

Some have cancelled or postponed earlier investment plans (*'hand on wallet'; 'have to cut somewhere'; 'bit more careful than previously'; 'owners need more comfort'*). Furthermore, some of the investments are

hampered because of limited financing opportunities (private banks become less generous because of increased risk and because of credit freeze for businesses and consumers loans at commercial banks³);

A minority continues to invest on a larger scale (quotes): *'believe in this island'*; *'if you believe in your product, you need to be willing to take risks'*, *'it makes business sense to invest anti-cyclical'*, *'international competition requires upgrading of product'*.

If the upgrading of the refinery takes place and some other large private sector project start next year or in 2014, this could trigger additional investments.

<p><u>Prospects for more investments:</u></p> <ul style="list-style-type: none"> • Investments on the island will remain on a low to very low level • Entrepreneurial behavior: <i>wait and see</i>, and adapt a little to survive. Wait for better times to come • Upswing in the real estate business is expected only if prices drop significantly 	<p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Invest based upon own business model (opportunities, ideas, not on business cycle) • Countercyclical investment behavior • Invest in anticipation of next upswing in economy
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2.5 RESULTS: BUZZ ON EMPLOYMENT

In the medium term, most of the entrepreneurs in several sectors on the island expect a decline or at best stabilization in the number of employees employed. CEOs note an increasing number of people who are looking for a job or who fear losing their existing job. This is fuelled by less turnover, less profitability and moderate business prospects.

Furthermore, automation, ICT and streamlining of business processes will result in reduction of the number of employees.

Exceptions for sectors where employment opportunities are expected to growth:

- In tourism and some professional business services
- At the high end of the labor market where it is still difficult to find right (qualified, experienced) people

Furthermore: work ethics and a lack of social skills are frequently mentioned by the businesses. There is a need for a better match between labor market requirements and education, in particular vocational education. Several respondents mention the forthcoming 80/20-legislation, reluctance to extent working permits to non-residents and fear negative effects on their business. Contrary to political arguments public policy and the mismatch on the labor market results in less employment on Curaçao, also for the *'yu Korsou'*.

<p><u>Prospects for employment:</u></p> <ul style="list-style-type: none"> • Less employment: many businesses will reduce their number of employees • To remain competitive, the pressure to reduce labor costs (and the number of employees) will increase in the years to come • Few businesses foresee growth in number of employees; however, new business on the island could provide new jobs 	<p><u>Strategies:</u></p> <ul style="list-style-type: none"> • Keep employment on same level, but decrease hours worked (or less overtime); • Retiring employees will not be replaced • No renewal of temporary contracts (market for temporary labor declines significantly) • Forced layoffs are not ruled out
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³ Monetary measure of the Central Bank of Curacao and St Maarten (CBCS) to reduce the outflow of foreign currency and to decrease the huge deficit on the current account of the Balance of Payment.

2.6 RESULTS: BUZZ ON INVESTMENT CLIMATE

There is gradually decreasing confidence among local and foreign private investors in the future of the business, of the sector and in the island.

Many respondents suggest that government and government policy is not focused on establishing a good business climate, except for those who belong to the 'inner circle', who have good relations with government officials. The business climate deteriorates as a result of absence of any economic vision and sustainable economic policy, poor government services, an outdated, not well maintained economic infrastructure, deteriorating relations within the Kingdom of the Netherlands and hardly any or no willingness to communicate and work together with private sector.

- Public investments, such as those for Nos Hospital Nobo (NHN) are on hold due to the country's fiscal situation and the formal instruction of the Council of Ministers of the Kingdom (RMR). USONA-subsidies have been stopped.

<p><u>Prospects of changes in business climate:</u></p> <ul style="list-style-type: none"> • Business climate will worsen if political instability remains and quality of governance is not improved. • Very limited new business ventures, foreign direct and local investments. • Lack of innovation and new business initiatives will make Curaçao a less attractive country to invest or establish for local and international companies. 	<p><u>Strategies:</u></p> <p>Up to the new government, but many offered suggestions.</p> <ul style="list-style-type: none"> • Develop MLT-strategy for economic growth focused on export • Furthermore of course: within sustainable budgetary framework based on competitive advantages; put eggs in multiple baskets • Invest in quality of education • Decrease administrative burden, communicate with sector, increase professionalism of governance • Invest in competitiveness of economy, ensure fair play
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3 SECTOR DEVELOPMENTS AND PROSPECTS

In this chapter, first of all, the economic prospects in Curaçao's main currency earning sectors are discussed, e.g., tourism (paragraph 3.1; including tourism related sectors), international financial services (paragraph 3.2), oil business (paragraph 3.3) and logistics (paragraph 3.4). Entrepreneurs' prospects for the domestic sectors, such as retail, wholesale, construction et cetera, are presented in paragraph 3.5.

All paragraphs are structured along similar lines and discuss general market trends in relevant subsectors and the economic perspectives. Indicators discussed are turnover, profits and losses, investments and employment. Each paragraph closes with a summary of suggested strategies to cope with less turnover, less profit, and perceived opportunities for future business mentioned by the entrepreneurs in the sector.

3.1 TOURISM AND TOURISM RELATED BUSINESS

Trends in tourism

Hotel industry

- More accommodation has become available in recent years. Growth in rooms is leveling off. Although several new tourism projects are on the drawing board, hardly any of these is ready to start construction.
- Growth in rooms on the island is not matched by an increase in the number of tourists arriving on the island. Some mention a dip in tourist arrivals in recent months⁴.
- The demand from Latin America is increasing, but is limited because of a lack of destination promotion as well as airlift. The recent downgraded status of the airport of Curaçao by the US Federal Aviation Authority to category 2 IASA-rating hinders the growth in air traffic.
- There is a lot more uncertainty in the market. Many tourists book last minute. Some notice a trend towards (renewed) seasonality of the sector. Furthermore the continuation in growth from the United States and Europe has become more uncertain as a result of the economic conjuncture and euro crisis. For Europe a low Euro – US dollar rate will make the island more expensive. Those who charge in euros have to deal with increasing volatility and uncertainty.
- The revenue per average room (RevPAR) is under pressure because of lower occupancy rates, more competition in the market and because rates are under pressure as a result of a shift to late/last minute bookings. In general there seems to be a shift in demand towards more economic accommodation; tourist prefer 4 or 5 stars hotel but are not willing to pay a high price like they did in 2008, before the crisis.
- Costs for hotels will increase as a result of increased personnel costs (also because of an expected increase in social premiums), merchandise and utility costs.
- Positive development in airlift to the island, such as Air Berlin, fuelled by government subsidies. Also local carriers carry more passengers. However, sustainability of airlift is uncertain. Increase in airlift is not enough to fill all the rooms on the island. Without more airlift increase in tourism is not possible and thus new tourism accommodation will not be constructed.
- The human resource factor in the tourism industry and particular in the hotel industry remains a bottleneck: the sector finds it hard to find qualified and motivated people. Permanent training on service, motivation and skills remains a necessity to keep up with the required international service standards.

Cruise tourism

- Developments in cruise tourism to the island are unrelated to stay-over tourism. In 2012, Curaçao has performed well compared to competing destinations, perhaps because it is perceived to be a relatively 'new destination'.

⁴ The increase of tourist arrivals according to the statistics is more positive than developments as perceived by hotel managers. "We do not see it in our figures". The data is blurred because it includes large quantities of ethnic, friend- and family tourism.

- However, consumption in terms of on-island spending by cruise tourists has decreased, and the spin-off is considered to be relatively low. Tourists spend less in local shops and on trips, and have shifted from more expensive cruise trips to more economical ones.
- Further developments in cruise-tourism depend on the capacity of the harbor; present arrivals can be dealt with in current situations, but further growth cannot be accommodated without additional investments in berthing facilities.
- At present a policy is missing to further lengthen the cruise season, optimize timing of visits to avoid ‘congestion’ or empty slots, and further optimize position in line versus other destinations on route.

Yachting

- Growth perspectives for visiting yachts are limited due to lack of facilities for larger yachts and competition from abroad. Immigration and customs regulations, and application of regulations are not perceived to benefit future prospects of the sector on Curaçao.

2nd homes

- The market for 2nd homes has become a buyer’s market and prices are under pressure. Development of a 2nd home project, particularly for foreigners (of which most have a Dutch nationality), is being postponed.

Other tourism- related activities

- Other tourist-related activities, such as car rentals, taxis, restaurant visits, trips, diving, visiting tourist attractions, and nightlife fluctuate more or less with the number of stay-over tourists. In many cases this market has become saturated, because expansion in the growth of stay-over tourism slowed down after 2010.
- Restaurants near tourist locations are doing (more or less) fine, but are cautious to make any growth predictions, mainly because of economic developments in The Netherlands and elsewhere.
- In general, several domestic-oriented companies are trying to enter the tourism market to get ‘a piece of the pie,’ while at the same time tourism-oriented businesses try to get some business out of the local market. This trend can be seen at: car rentals, restaurants, bars, shops and also casinos, which depend more on locals than on tourists.
- Small tourism-related activities, in particular new start-ups, operate as informal businesses (not paying tax and social premiums).

Outlook for tourism and tourism-related activities

<i>Turnover</i>	<p>Due to increasing uncertainty in the market, it is difficult to forecast developments. In the short term, turnover is expected either to stabilize or increase slightly until the 2014/15 season. Room capacity is there and cruises are scheduled. It is still highly uncertain if the tourism sector will expand after the 2014/15 season.</p> <p>Future developments in stay-over tourism are highly dependent on:</p> <ul style="list-style-type: none"> ○ Economic developments in the Euro zone and elsewhere, and their effect on travel and tourist behavior ○ The crime situation in Curaçao. Criminality and perception of criminality is thought to have a higher impact on tourists’ destination choice than for instance, the local political turmoil⁵ ○ Sustainable airlift combined with destination marketing⁶, diversification and improvement of tourism product (also via educational system) ○ Destination marketing
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⁵ However, several entrepreneurs, also outside the tourism sector, stress the fact that political quarrels between Curaçao, the Netherlands, St Maarten and Aruba will after some time harm the interest of foreign investors and reduce tourist arrivals from the Netherlands.

⁶ Most respondents who mentioned airline subsidies welcome them; some suggestions related to importance of sustainability; co-investment by airlines themselves and combination with cargo ‘deal’; better targeted to new markets and new passengers, including follow-up marketing.

	<p>For the next few years, on average, total expenditures by cruise tourists will stabilize: less spending per cruise tourist will be compensated by more cruise tourists.</p> <p>Any substantial growth on cruise tourism will depend on a second (and third) mega cruise pier.</p>
<i>P&L</i>	<p>The costs of doing business in hotel and other tourism-related activities are expected to increase somewhat. The prospects on a higher profitability are low; most expect profits to drop until the 2014/15 season, except for some who are working in a niche market or as sole provider. The sector hopes that in 2015 it will become more profitable once again (like in 2008/9).</p>
<i>Investments</i>	<p>Planned investments in hotels, restaurants and other facilities will continue, albeit not abundantly. Facilities need regular innovation and/or upgrading to keep up to par with the international competition.</p> <p>Many new investments depend on local and international market forecasts. These have become more uncertain, making the potential investor more reluctant to invest. Therefore, some large hotel and tourism-related real estate projects remain in the pipeline. Most of these are 'on hold' and are not expected to start before 2015.</p>
<i>Employment</i>	<p>The employment outlook in tourism and tourism related business is mixed, but most expect neither growth nor decline for the next 2-3 years. Any overall growth in employment needs should be matched with seasonal and flex workers because tourism is by nature a seasonable business and increasingly uncertain and less predictable.</p>
<i>Other</i>	<p>Government influence in the sector is substantial and is thought to be hampering an efficient functioning of the market. For example:</p> <ul style="list-style-type: none"> - Room tax is levied. An increase in gambling tax is being considered - Tour busses, taxi and casinos need licenses to operate - Government provides tax holidays to hotels and other large projects - Either lack of or selective use of maintaining law, order and rules by politicians and government officials <p>Furthermore government is considered by many to be the first responsible for the (poor) investment climate and (too little) destination marketing.</p>

Business strategies and opportunities for tourism sector

- Promote Curacao, together with others in the sector and in government, as a true destination and lobby for more airlift.
- Diversify accommodation portfolios to accommodate different market segments.
- Increase flexibility of labor force and, and at the same time, invest in quality of personnel to improve service levels.
- Invest in the business to keep up with the international standards and competition.
- Some niche opportunities will remain, for instance in the field of catering to specific groups of tourists like Germans, Brazilians and Latinos.
- Invest in new products and services catered for the tourist (such as marine, medical, nightlife tourism)
- 'Just wait and see'-attitude: little further investment in shops, tours and other cruise tourism-related business, as long as no second (and third) cruise pier is constructed.

3.2 INTERNATIONAL FINANCIAL SERVICES

Trends in international financial services (IFS)

- The economic impact of the sector was around 16% a decade ago, but the sector importance is in decline.

- Turnover in the international financial services sector is decreasing, and has been decreasing for a while.
- The sector is still sophisticated in terms of professionalism, offering the quality of service the client expects. However, many larger 'offshore' clients have left while others are in the process of liquidation. Curaçao is no longer 'jurisdiction of choice' but one of the many opportunities.
- Causes of less sector activity mentioned:
 - Competition worldwide from other jurisdictions
 - Switching costs for clients are low; most of the client have no emotional ties with the island
 - Expiration of the '*grandfather clause*' in 2019 and uncertainty what will become in place (if any)
 - Lack of innovation of products. Others dispute this, and point out that, for instance, the Curaçao Trust was introduced, a new product service quite similar to the Anglo trust
 - Uncertainty on what, when and how of necessary changes in legal foundations of sector.
 - Lack of island (destination) and product marketing
 - Lack of cooperation between companies within the sector, lack of cooperation between IFS, Government of Curaçao and Central Bank to come to realize Tax Information Exchange Agreements (TIEAs) and taxation treaties
- Curaçao is moving from an image of tax heaven towards an image of an international financial centre; the island has 13 TIEAs signed. The country Curaçao is on the white list of the OECD, but (still) on the black 'tax heaven' list of Brazil. There is Anti Money Laundry regulation in place.

Outlook for the IFS

<i>Turnover</i>	Forecasts differ within the sector. Most think that the activities or turnover will reduce, anticipating the lift of the <i>grandfather clause</i> in 2019. Some interviewed companies expect severe drop in sector's activities; others are more positive and are shifting their focus towards the Latin American market.
<i>P&L</i>	The sector is profitable, but the profitability is diminishing because of the drop in activities of several companies.
<i>Investments</i>	No large investments are planned or needed. Doubt exists as to whether sufficient budgets will be allocated for investment in promoting Curaçao as jurisdiction (destination marketing) and in marketing by the sector and individual companies.
<i>Employment</i>	Employment within the sector and related to the sector will decrease for some years until 2014/2015. Some IFS companies foresee a further decline, other see a revival of the sector.
<i>Other</i>	The future of the sector is expected to depend to a large extent on the willingness of government to invest in TIEAs, tax treaties, promotion and working together with the sector.

Business strategies and opportunities

- Go out to visit the market, to the clients abroad as a IFS company and as sector; in particular to Latin America to promote the financial and fiscal products Curaçao is offering.
- CIFA, an organization which represents the sector, and government should work more closely together to promote Curaçao as jurisdiction, negotiate a new tax treaty with the Netherlands to soften the expiring of the *grandfather clause* and to prepare TIEAs and tax treaties with other countries.
- Advocate increased knowledge of the sector within government and improve the delegation of knowledge on international tax planning and tax treaties.

3.3 LOGISTIC SECTOR

Trends in the logistic sector

Harbor and dry dock

- Growth in harbor activities has weakened, mainly driven by negative developments in the container business. There is a continued stable demand for a 'basic package' of imports. However, global and local market uncertainties and a declining confidence of both investors and households do leave their mark on the sector. From the beginning of 2012 respondents indicated that imports are decreasing due to a decreasing building portfolio and a decrease in consumer goods.
- The trans-shipment sector has not developed positively: it is losing business to other harbors in the region. Ideas of using Curaçao as a hub for freight and passengers on a large scale are not considered to be realistic.
- Import patterns appear to be changing and are notably different from earlier years (no 'spikes' around e.g. Valentine or carnival). This may be a result of increasingly cautious stocking behavior on the part of domestic wholesalers and retailers, but the precise underlying causes are unclear.
- Both the container harbor and CDM face important strategic decisions. The harbor used to be known as an excellent, efficient, and safe harbor, but is increasingly in need of modernization.
- Within the region, however, Curaçao is still perceived to be a 'safe' harbor to dock, but it also has the image of being one of the most expensive harbors in the Caribbean.

Airport

- Cargo services are decreasing because of the decline in cargo capacity after a major airline (Martinair) stopped its flights at the end of 2011, less document handling, relatively high cost of the airport compared to other airports. So far the airport has not been very successful at developing a cargo hub (high costs, limited airlift, cargo capacity and competition of other airports).
- Ground handling increased its business as a result of an increase in arriving passengers. This has been triggered by some more airlift (for instance Copa from Brazil, Air Berlin from Germany, DAE to Miami).
- Development as intended or planned of airport related activities (airport city, economic zone) have not been realized in the past. There is doubt in the market if the concepts of airport city and space port are feasible. The number of transit passengers increased, but not substantially. Curaçao lost the COPA hub (close to 1 million transfers annually) to the Dominican Republic.

Economic zones

- Free zone activities are very much dependent on developments in Venezuela and some other Caribbean islands. The expansion of business is limited compared to the growth of Colon, the free zone in Panama. The latter has to do, among others, with airlift, connections, the number of goods offered at the free zone and the costs of operating a free zone company.
- Expansion of the free zone in the harbor, in addition, is limited due to the lack of physical expansion possibilities.
- Some respondents add that free zone activities currently do not add a lot of economic value: too little export and too little value-added trade.

Outlook for the logistic sector

<i>Turnover</i>	<p>Most respondents in the logistic sector do not expect any growth in turnover for the next couple of years due to a lack of (large) construction projects on the island⁷ and decreasing consumer expenditure.</p> <p>For the harbor, some optimism exists for the medium and longer term, because of an expected global increase in logistic movements, the upcoming capacity increase of the Panama canal. But most do not expect this to imply significant growth opportunities. The</p>
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⁷ If refinery will be upgraded, a \$2,6-3,1 billion project, this will have a positive effect on the logistic sector on Curaçao. One larger project is probably going to start the new hospital (NHN) and another is the construction of a large shopping mall by Sambil.

	<p>upgrading of the refinery, a NHN and investment in new hotels might change the sentiments in the sector.</p> <p>The airport expects some growth as a result of some increase in tourist arrivals. Turnover might increase if airport city and space port concepts are realized in the future.</p> <p>Developments on airport depend on in particular on the developments in tourism. Some growth is expected but further growth depends on increased seat capacity and airlift.</p> <p>Free zones expectations are more or less status quo for the years to come. Developments after 2015 are difficult to forecast.</p>
<i>P&L</i>	No overall trend in the sector's profitability; the sector is too divers. However, most respondents in the private sector expect profitability for the next couple of years to be under pressure.
<i>Investments</i>	The harbor needs investment, Curacao Dry Dock needs investment, the airport needs investment. Whether investment will be realized is uncertain. If it is not, future growth in logistic activities is at stake.
<i>Employment</i>	Employment in the logistics sector is expected to remain stable. A slight increase in activities on one hand and some automation on the other will level each other out.
<i>Other</i>	Government policy related to the public companies such as the harbor, airport, dry dock is not existing or not known. Government owned businesses will trigger private sector development and investments if these companies invest in upgrading their facilities and services.

Business strategies and opportunities

- Improve efficiency and reduce costs.
- Increase service levels provided and invest in improved efficiency through automation.
- Diversify business activities to be less dependent on developments in one sector or branch only.

3.4 OIL INDUSTRY

Trends in the oil industry

- The refinery has a capacity of approx. 320,000 barrels a day. The average production is around 230,000 barrels daily. The refinery employs around 1000 workers. Additional contractors employ approximate 500 laborers. These figures will not change significantly for the years to come but can change significantly if the refinery is upgraded.
- Petroleos de Venezuela S.A. (PDVSA) is the operator of the refinery and the oil terminal at Bullenbaai and has a lease contract with the owner, Refineria di Korsou (RdK), a 100% government owned company. The lease contract expires January 1st, 2019.
- In 2010 the refinery had to shut down for 7 months due to problems in the delivery of electricity from BOO. The production of the refinery is running on 75-80% of its normal capacity as a result of the 'BOO problems'.
The BOO (build own operate) plant produces steam and electricity for the refinery and has recently been restructured. It is now fully owned by the Refineria di Korsou. To renovate the plant to secure delivery of electricity investments of at least \$ 60 million are needed the years 2012-2013.
- The revision of the 'cat cracker', an approx. \$70 million project, was executed in 2012. No huge investment plans are planned for 2013, only regular maintenance.
- The economic impact has gradually diminished and is estimated at around 6% of GDP. Its impact on foreign currency in- and outflows are much higher.

- It is estimated that upgrading the refinery will cost around \$2.6 – 3.1 billion. To realize such an investment takes at least 4 to 5 years.
- If no substantial investments are made in the refinery, by 2015 many of its products cannot be sold any more due to stricter environmental regulations in the Western world. This could result in a soft closing of the refinery activities. The refinery needs substantial investments on the short run to secure its viability.
- The oil storage at Bullenbaai is generating much profit for PDVSA, according to some respondents. Therefore the PDVSA wants to keep this business, regardless of what happens to the refinery.

Outlook

Negotiations from the government/RdK with existing and/or potential operators/investors are crucial for the continuation of the refinery activities on the island.

If no substantial investments PDVSA are made this or next year, the refinery will not be able to produce products which match international environmental standards. Therefore the refinery might shut down in 2015 down long before the end of the lease contract.

Turnover	The output of the refinery, without BOO-problems, is expected to remain stable on 230.000 barrels a day. This is not expected to change in 2013-2014.
P&L	PDVSA is an integrated company. Notwithstanding, the refinery is considered as a profit unit; according to some sources the refinery is not profitable because of a low refining margin. To the contrary, the oil terminal at Bullenbaai is considered to be very profitable.
Investments	Regular maintenance investments as planned by the Refinery Isla B.V. (PDVSA). Uncertainty about investments to meet international product specifications on quality and environment in 2015 and upgrading of the refinery.
Employment	After upgrading the refinery, direct employment with the refinery and contractors could structurally increase with approximately 250 employees. If no investments are made, the refinery may have to close between 2015 and 2019.
Other	Upgrading of the refinery is expected to cause a boost in related and other activities on the island. It might cause a tipping of the economic conjuncture from negative in 2012-2014 to positive in 2015.

3.5 DOMESTIC SECTORS

Trends in the domestic sectors

In this report, domestic sectors are defined as those sectors which are dependent for more than 75% of their business on sales to local consumers and local businesses⁸. The main domestic sectors are industry (excl. refinery), construction, wholesale and retail, repair and maintenance, catering and (local) restaurants, transport (not tourism related), telecommunication and local business to business services. Although very diverse, these sectors have some characteristics in common.

- The development in turnover in the domestic sector depends on the purchasing power of consumers⁹, businesses, government, willingness and ability¹⁰ to spend as well as on income and price elasticity of goods and services.

⁸ Not considered domestic are businesses that offer goods and services to foreigners and companies exporting services and goods for more than 75%.

⁹ Increase in the turnover tax rate from 5% to 6% is decreasing consumer spending. It is estimated that a 1%-point increase in turnover tax rate results in an average price increase of 0.6-0.7%-point. However a lower Euro has softened the effects of the price increase somewhat.

¹⁰ Decreasing credit opportunities, also because of increasing job insecurity, limits consumer spending.

- Businesses selling basic goods or services like supermarkets (and wholesalers selling to the retail), telecommunication companies, fast food restaurants, businesses selling small and medium sized cars, and banks and insurance companies (providing loans and insurances to consumers) have seen a steady annual increase in turnover during the last 5 to 10 years till the year 2010. Since 2010 no or hardly any growth is recorded.
 - Businesses selling luxury goods and services such as luxury cars, jewelry, electronics, clothes, shoes home decoration, hardware et cetera. have reported substantial increases in turnover during the period of 2005-2010 a slowdown in 2010-2011 and a substantial drop in local sales in 2012.
 - In general Business to Business (B2B) services, which developed very well last decade in terms of turnover, employment and profit, have remained stable after 2010 with exception of for instance architects and employment agencies.
 - Consumer preferences have shifted towards cheaper items and/or less consumption. This is also true for the food sector.
 - In particular, the domestic-oriented SME are relatively hard hit by the diminished purchasing power; most of the larger businesses appear to have been able to stabilize their turnover.
 - Costs of doing business have increased and are expected to increase further: higher utility tariffs, increase in transport costs, rise in social premiums.
 - As competition is reported to be strong and supply abundant, there is little room for price increases. According to some this is partly due to unfair competition of illegal or not fully compliant companies. In addition, some mentioned increased competition from internet sales.
 - As a result of negative developments in turnover and profitability, employment in the domestic sector is under threat.
 - Most of the domestic businesses are gradually reacting on these trends by:
 - Cutting on costs, in particular personnel costs (mostly through natural attrition, but forced layoffs are not ruled out)
 - Making use of more flex or seasonal workers
 - Reducing use of water and electricity
 - Postponement of investments or have a 'wait and see' attitude towards the future; this is also fuelled by worsening of the P&L, no confidence in future growth and little opportunities in the local market.
 - Intensify collection efforts, also to deal with increasing collection problems.
- Some domestic sector companies are expected to sell their business or to go out of business.

Specific trends per sector

Construction and local industry

- The booming days in construction are clearly over. The local construction sector was hit hard after 2009-2010. Volume of construction works (houses for residents or no- residents and commercial buildings) and thus employment dropped significantly. Within the construction sector, the turnover of the companies doing civil works (road, sewage, water works, etc.) or work as contractor for Refinery Isla B.V. remained stable up to now.
- The outlook is very uncertain. Construction companies have to keep their staff on the payroll to keep knowledge and experience within the company, pending projects to be tendered. This is costly.
- In particular, small construction companies, which are often hired by the big ones, are hit hard. Some will go out of business, others will slim down their operation. In general, running a profitable business has become difficult.
- The industrial activity basically moves up and down with the island conjuncture. Exports are limited and decreasing because of competition in the region. Most industrial companies are the only producer on the island. Any competition they face, comes from abroad, with results in competition on the local market which keeps the margins low. Nevertheless, most of local industrial activity seems a stable business because most are on the market for some decades yet.

Wholesale

- During the last decade, part of the wholesale business moved to the retailer as a result of the introduction of the (cumulative) turnover tax. To get around this several wholesalers are changing part of their business model: more focus on value added services and on handling of the purchasing order but in name of the retailer thus avoiding double taxation. The latter is only possible for larger shipments which implies that larger retailers have a tax advantage of 6% on their smaller competitors.
- Wholesale companies are starting to import cheaper brands next to their premium brands to meet the consumers demand for cheaper products.
- Pharmaceutical wholesalers face lots of uncertainty because of possible government interference in the price setting of prescribed pharmaceutical products. This will reduce margin significantly. If implemented this will change the business. Some are considering diversification towards other medical products.
- The changing character of the business, the turnover tax problem and lack of growth perspective will probably restructure the sector: several wholesalers are expecting acquisitions and mergers in this sector.

Retail

- The retail sector is diverse and can be divided into food and non-food, with non-food covering a broad range of consumer products, such as hardware, cars, books, jewelry, electronics and clothing. However, as it turns out, the general outlook does not differ significantly between respondents, regardless of their subsector. All respondents indicate a decrease in turnover in the retail sector, with some already noting a decline in 2011, others somewhat later in 2012. Some indications from entrepreneurs on 2012: car sales down with 40%, home ware 10% less turnover, building materials -25% turnover, supermarkets same level of sales but in volume -3%. Furthermore competition from the internet increasingly hurts local sales.
- Competition is reported to be strong and supply abundant. Nevertheless, new shops have opened or expanded in the food (for instance Chinese mini markets), fashion and jewelry branches. Some add, this is partly possible because of unfair competition or not fully compliant companies.
- Respondents do see some opportunities for growth in the medium term, but stress these are highly dependent on possibilities to strengthen purchasing power.
- The island has too many retail outlets in relation to the number of inhabitants. The general opinion is that growth in sales can only be generated by more tourism and more immigrants. The entry of the Sambil group from Venezuela, which is planning to open a huge shopping mall on the island is seen with much skepticism and fear. It will make operating a profitable business increasingly difficult for incumbents.

Financial services

- Local banks and insurance companies have shown a positive development during the last 5-10 years. Business activities increased, local market expanded and employment increased slightly. Profitability of the sector is high and so far has not been affected by the economic conjuncture on the island¹¹.
- Competition on the local banking and insurance market is increasing. So far this has not harmed the bottom line of the financial institutions. However the companies interviewed expect that business results will go down, but that their business and sector as a whole will remain profitable.
- Present credit measure by the central bank, effective since February 2012, hampered the development of banking business on Curaçao.
- More ICT will cause that retirees will not be replaced. In the insurance branch it is expected that the insurance broker will become more of a professional, selling value-added service to its client. This means that in the future, most insurance companies will sell insurances directly to the customer without a broker.

Business and other services

- Business to business (B2B) and other services include professional services such as attorneys, business consultants, architects and real estate brokers as well as other services such as employment agencies,

¹¹ It should be noted that financial institutions on Curacao are active on the other Dutch Caribbean islands as well.

security, cleaning services et cetera. Some companies in the sector also provide services to others businesses which are export oriented (international financial services, dry dock, tourism, non-residents et cetera.)¹²

- Many of those services are only moderately dependent on the business cycle. For example, both in good and bad times, professional advice is needed. The same goes for security services. Temporary work agencies usually do relatively well in times of economic slowdown. Respondents expect security services to have remain more or less stable. However, in the professional advisory sector, most respondents expect sector turnover and profits to decrease somewhat, a.o. due to declining business from the international financial services sector and a decreased demand from the cost-cutting public and private sector. Demand for temporary work services is very low¹³.
- Other business services like those provided by architects, engineers, and real estate brokers, whose business depends on the developments in the real estate market, faced a huge drop in activity.
- After 10-10-10 there was an increase in all kind of services requested by the government. The formal instruction to the Curaçao government to balance its budget made in 2012 an abrupt end to this increased demand.
- In general, respondents indicate competition in this sector has increased. In the advisory and in the security business, respondents indicate this puts competitive pressure on tariffs.
- Sole proprietorships ('éénmanszaken') and small businesses, often working in the informal sector, are vulnerable to changes in the private sector on Curaçao. Many are expected to stop their business if they do not have assets of their own, access to credit and do not manage their business on a low cost base.

Outlook domestic sectors

Turnover	As both the global and local uncertainties and instabilities are expected to continue, most respondents expect the negative trends in turnover to continue; those who do not, foresee stabilization at most. Purchasing power is not expected to gain strength; nor is consumer confidence. The willingness to spend is low because of uncertainties about future income and pension. Additional impulses are not expected, neither from government expenditure in light of expected fiscal cutbacks to balance the government's budget nor from private investments (or new private sector projects). In addition development aid will be reduce to zero in 2014. Most of the domestic oriented companies foresee that business will remain slow for at least the next 2-3 years.	
	<i>Local industry and construction</i>	Activities are expected to remain low for some years, at least until 2015. It will be a period of surviving the recession. The future of the contractor at Isla after 2014 will depend on the execution of plans to upgrade the refinery. However, the start of NHN, new hotel projects and upgrading of the refinery could make a difference.
	<i>Wholesale & retail</i>	In volume of sales some decrease is expected. Turnover will not pick up before 2015, and only if more tourists come to the island.
	<i>Financial services</i>	No further growth is expected for the next 2-3 years as a result of market development and credit policy imposed by the Central Bank.
	<i>Business & other services</i>	Turnover is expected to decrease until at least 2015. In particular small companies and sole proprietorships will be hit hard.

¹² In his paragraph, the authors have limited themselves to services mainly focused on the local market. It should be noted that some service companies on the island have an outlet on one of the other Dutch Caribbean islands as well.

¹³ This observation is in contradiction with the trend and intention of business to hire more seasonal and temporary labor.

<i>P&L</i>	<p>Profits are expected to further decrease as well. On the cost side, costs of doing business are not expected to decrease and more likely to increase (e.g, because of further increases in social premiums and the turnover tax rate). Competition is expected to increase significantly putting profitability of the business under pressure.</p> <p>Small businesses will particularly be hit hard in markets which are saturated, such as the retail and restaurant businesses.</p>
<i>Investments</i>	<p>Investment policies reflect the general negative outlook. Business confidence is weak, and the willingness to invest is low. Without exception, respondents indicate company investment policies are cautious. For most, this implies that no large investments are foreseen for the near future. Only those investments strictly necessary to maintain business will be carried out. Most consider additional investments are too risky. Those who do consider larger investments, do so within a risk-reducing strategy, and consider investments in other branches, takeovers, acquisitions and/or in foreign markets.</p>
<i>Employment</i>	<p>The employment outlook in the wholesale, retail, construction, local industry, security and financial sector is negative for the years to come. Forced layoffs are not ruled out. None of those interviewed expect an increase in employment at sector level. Some forecast a growth of their own company but this will be at the expense of another company.</p> <p>The employment outlook for the other domestic sector services is mixed. In the advisory sector, respondents either expect a small decrease or stabilization.</p>
<i>Other</i>	<p>In a shrinking market, competition will increase among businesses. This will create room for mergers and acquisition by the larger and financially stronger companies.</p> <p>Another factor mentioned is the level of criminality and its effect on the establishment decisions of companies. Some companies or owners of a company have quit or are expected to quit business at Curaçao.</p>

Business strategies for the domestic businesses

- Go to the market and meet clients, develop new markets; look for niches in the markets.
- Look for export markets and opportunities. This can also include Aruba, Bonaire and the Windward islands.
- Diversification of business activities in particular if the business is part of a sector which is hard hit by the economic recession.
- Cut costs and increase flexibility within the company, make the company less dependent on government.
- Restructure the business. Because smaller business are facing hard time, now is the time for mergers and acquisitions.
- To invest in personnel is considered to be a must and a permanent point of action. The quality of service will become increasingly important to make a difference in a crowded market.

4 WHAT BUSINESSES AND GOVERNMENT CAN DO

A time horizon of 7 years, until 2019, is too far ahead for most in the business sector in Curaçao. However, for the next 2-3 years, entrepreneurs have better defined ideas about how their business and sector will develop. Almost all sectors will face a decrease, and at best, a stabilization in turnover. Tourism possibly is an exception, although its short term outlook is uncertain; some expect a small increase in turnover. All expect a drop in profitability.

Here in this chapter we elaborate what the private sector suggested to do themselves and what government should do. Noteworthy is the observation that the entrepreneurs interviewed are often more positive, i.e., less negative, about their own company's expected performance, compared to the sector performance. Another observation is that many entrepreneurs are leaning toward government to take the first step, instead of doing the utmost themselves to boost and revitalize business.

4.1 WHAT BUSINESSES CAN DO

We distinguished four types of behavior of entrepreneurs in Curaçao: those who: a) quit business; b) 'wait and see' and adapt a little to survive; c) get ready if things get better; d) invest in opportunities.

- a) Quit business.
Some companies will go broke or will simply stop with their business. A substantial number of entrepreneurs is quietly discussing the selling of their business because of a lack of succession, because they are tired or because another opportunity is waiting. Companies with sufficient (market) potential can be considered as an investment opportunity (see d).
- b) Wait and see, adapt a little to survive. What an existing company can do is the following:
 - Most (cost-)effective: cut labor costs
 - Make use of temporary or seasonal laborers
 - Redefine business processes/ get rid of all inefficiencies
 - Reduce use of water and electricity
 - More attention on collection of invoices
- c) Get ready for better times to come.
 - Adapt product lines and services to the needs of the consumer
 - Invest in market intelligence and marketing
 - Get access to (more) credit¹⁴
 - Invest in the upgrading of personnel
- d) Invest in (new) opportunities
 - Make strategic decisions on diversification or concentration. Based on that, look for niche market, search the market for acquisitions or consider a merger focused on future growth or positioning in the market.
 - Focus on other geographical markets, focus on more export
 - Invest countercyclical
 - Consider Public Private Partnership.

4.2 WHAT GOVERNMENT CAN DO

The vast majority of businessmen interviewed are negative about the quality of government, as well as the political instability and uncertainties (see 2.1). Most stress that the situation has worsened since 10-10-10. Therefore, the sentiment among many of entrepreneurs is: *do not wait for government to act. Make your*

¹⁴ The freeze domestic private credit extension, imposed by the CBCS, is hampering the possibility to increase the credit limit at commercial banks.

own plan, do your own thing. However, in the interviews, several points were put forward about what government can or must do¹⁵.

- a) Improve the investment climate. This includes a number of areas, of which most mentioned are:
 - Reduce the red tape and related to that: modernize legislation
 - Make labor market more flexible (no 80/20-regulation, easier working permits)
 - Reform taxes on the island: simplify, lower average income rates, no sales tax but instead a ABB like on Bonaire or VAT like in Europe; make it a level playing field without exemptions
 - Have a vision on the economy, have an economic policy. No ad hoc policies and politics
 - Ensure a sustainable budgetary framework
- b) Improve education
 - Improve and invest in the quality of education to improve both public and private sector services
 - Improve the match between labor market requirements and education, in particular vocational education
- c) Image
 - Improve the image of government abroad and improve political and economic relations with the Netherlands (in view of importance of aid from the Netherlands, tourists, second home owners, pensioners from the Netherlands for Curaçao economy)
 - Improve business confidence, strengthen the integrity and governance of government and fight corruption
 - Invest in reduction of criminality on the island
- d) Invest in economic infrastructure
 - Investment in economic infrastructure in for instance in harbor (incl. second/third mega pier), airport, roads, utilities, etc.
- e) Destination marketing
 - Curaçao is relatively unknown abroad. This is true as tourist destination and as international financial center. Most perceive destination marketing to be mainly a government task.
- f) Public Private Partnership.
 - Explore opportunities to develop projects on the basis of a PPP. Examples mentioned: low and middle class housing, harbor and airport development and medical tourism

The issues mentioned above can only (to some extent) be accomplished if there is mutual communication between government and private sector. At the moment this is lacking.

¹⁵ In some of the interviews, we asked our respondents to what percentage they were dependent on the government of Curaçao. Although government influence is present, many entrepreneurs answered that the influence of government is limited especially in international competing sectors. This puts the skepticism and negativism voiced by respondents into some perspective.

ANNEX : METHODOLOGY OF RESEARCH

- A bottom up approach: trends on company level added up to sector level and sectors added together determines the private sector on Curaçao.
- Most interviews were held in July/August 2012.
- Across economic sectors. Companies were interviewed in the sectors: mining, (local) industry, oil business, construction, wholesale, retail, restaurants, hotels and tourism related businesses, transport, communication, financial services local and international, business services, other services.
- Only private sector companies were interviewed, including some foundations and public enterprises.
- Ensured confidentiality of persons and businesses interviewed.
- High response rate in most sectors (albeit some after a while; supermarkets, wholesale), limited response from the public enterprises and oil sector.
- Qualitative approach, with focus on trends in turnover, results, investments employment in own company and sector for the years 2011-2013 (and further) and explanations of these trends.
- Interviewed probed to suggest opportunities.

Pros and cons about the research

Pros:

- Gives insight and indication in what is in the mind of the entrepreneurs and therefore gives a forecast of what can or will happen in the private sector in Curaçao
- Adds to existing knowledge about the economy next to statistical analysis of Central Bureau of Statistics (CBS) and Central Bank of Curaçao and Sint Maarten (CBCS) and the economic outlook of the Ministry of Economic Development
- Can be used as guideline to adapt and adopt company's business plan and economic policy of government

Cons:

- It is about the future & about individual expectations of the future. Whether this will become reality is uncertain
- Only existing companies are interviewed and no new entrepreneurs and starters in private sector
- It's qualitative research. The analysis is not 100% objective because researchers add up subjective opinions and behavior of entrepreneurs based on interviews of approximately 100 respondents¹⁶

Research context

The research took place in a period during which the government of Curaçao resigned and new elections were called for. The Council of Ministers of the Kingdom (RMR) instructed the Curaçao government to balance its budget for 2012 and to compensate for deficits of earlier years. During this period, the Chamber of Commerce and Industry published that no substantial growth could be expected in 2012. Also, the Central Bank's president warned about a possible economic disaster in 2019, if the refinery should close and most of the international financial services would leave the island. In August, the government of Curacao resigned after two members of Parliament withdrew their support from the coalition government. Elections are set to take place in October 2012.

¹⁶ Several respondents manage and/or own more than one company and/or are involved in one or more economic sectors on the island.

Some quotes of some CEOs and CFOs in Curaçao:

"I do not think Curaçao is turning into a Haiti; the Netherlands will not let Curaçao down".

"We are going down".

"We believe in this island and see, on the longer term, a good future".

"The business climate has not been any worse the last 20 years" .

"Curaçao has lots of opportunities, and we make the best of it ourselves".

"I can survive the next couple of years, but it's no fun".

"I am very worried; Curaçao leans towards a dictatorial regime. The only opportunity I see is to sell the company, pack up my bags and go".

"2019? Nobody dares to look beyond tomorrow. However, that is exactly what we should do".

" 10-10-10 has brought the worst government ever".

"All this negative talk is no good; we must start working".