



# SINT MAARTEN



# ECONOMIC OUTLOOK 2007



*Economic Outlook Sint Maarten 2007*

*Department of Economic Policy & Research  
Philipsburg, St. Maarten  
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## FOREWORD



Dear Readers and potential investors,

The Department of Economic Policy and Research (DEPR) has once again published St. Maarten's Economic Outlook booklet to provide information to the public, but specifically to investors and the business sector. This booklet will highlight the island's continued economic growth with increases particularly in the construction and real estate sectors. The outlook remains positive in the tourism industry due to continuous improvements and investments to the destination as well as added room inventory.

The forecasts for the next two-year period indicate that the economy will remain relatively stable, given the current levels of construction projects and (foreign) investment. Investors should be happy to note that St. Maarten, with a yearly growth rate of approximately 5 %, is continuing to build consumer and business confidence.

The booklet will also outline government's economic plans, real estate, financial services, agriculture and fisheries the outlook for the labour market, government's plan to further increase the tax compliance and of course our tourism sector.

St. Maarten continues to boast an investment climate that is among the best in the region, with the only true duty-free port in the Eastern Caribbean. As the Commissioner in charge of Economic Affairs, I commend the department for once again spearheading the publication of this very important booklet. St. Maarten is open-minded about its economic development. We are always looking for new, exciting and sustainable economic activities to support the already obvious diversification and to continue to enhance the product St. Maarten. I therefore take this opportunity to welcome potential investors to our island and hope you can participate in our business environment.

Maria Buncamper-Molanus  
Commissioner of Economic Affairs



***Welcome words from***  
***Sector Director Economy & Tourism***

It is with great enthusiasm that I welcome the reader of the second edition of the Department of Economic Policy & Research's (DEPR) publication entitled "Economic Outlook 2007." It is the intention that the Economic Outlook 2007 will serve as a basis to provide its reader with an insight into the economic developments of St. Maarten.

The publication provides a comprehensive overview of a range of subjects such as the Constitutional Developments, the Macro-economic developments, International developments and their impact on St. Maarten, Sector Developments, Labour Market developments and the Economic Outlook beyond 2007.

A secondary objective is to provide potential investors with resourceful information to encourage and stimulate investments into the economy of St. Maarten. After reviewing the data, we are confident that you would agree that St. Maarten has a vibrant economy which will entice the avid investor to our shores.

In addition, the publication also provides the reader with an understanding of government's economic strategy. The publication is an annual event and the information is updated on a yearly basis.

I encourage all readers to peruse this publication as well as share this information with business partners, friends and/or relatives. If you require any additional information, please feel free to contact the department directly. We do hope that the information is of assistance to you and yours in order that you may come as an investor and live as family in our paradise called St. Maarten!

Sincerely,

Miguel de Weever  
Sector Director Economy & Tourism



## PREFACE

This is the second publication of the Economic Outlook of Sint Maarten prepared by the Department of Economic Policy and Research. The primary goals are to provide an accurate economic overview of the island, performance and projections. St Maarten is at a crossroad, as the island moves even closer towards achieving *status aparte*. On November 2, 2006, the St Maarten signed the *closing statement* allowing St Maarten to become a country within the Netherlands. Country status will allow for greater self-determination and allow St Maarten to address issues that are island specific.

The economy of St. Maarten has continued to experience positive economic growth throughout 2006. Tourism is the island's main economic driver and the Tourism Master Plan (Tour Map) will serve as a blueprint for the continued enhancement of the industry.

On the threshold of *Country Status*, the island is exploring economic diversification, which will provide a buffer against shocks and relieve some of the seasonality. The Economic Diversification Study (EDS) was also completed in 2006, which sketch out seven secondary niche markets. As a point of departure, the EDS and TourMap will serve as complementary designs towards a synchronized plan for economic and social expansions on the island.

The island is unique within the Caribbean as the only island that has a complete duty-free port. The island's free market ideology is also very conducive to trade and investments. In 2006, the island completed several major infrastructural changes including the expansion of the Princess Juliana International Airport Ent. (PJIAE), expansions and improvement of the deep water harbour, completion of phase II of the boardwalk. The Westin Resort & Casino and Kooyman mega store opened its doors in 2006.

Several large construction projects are ongoing including expansions to the harbour, a new state of the art Government Administration building, which will provide a one-stop experience. Significant hotel and condominium capacity expansions projects are also ongoing throughout the island. A number of public sector improvement projects have commenced, including the upgrading and beautification of backstreet, one of the primarily shopping and business districts. In addition, a new fire and ambulance building, expansions of the cargo facilities and the Pond-fill roundabout which will greatly alleviate traffic entering Phillipsburg. The outlook for Sint Maarten is bright, and the island is committed to enhancing the social and economic infrastructure that will result in a multiplier effect and prosperity for the island.

Lucy Gibbes  
Head of Economic Policy & Research

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# Chapter 1: En route to Constitutional Change

## 1.1 A New Constitutional Status for St. Maarten

This section provides some background information on the current constitutional system under which St. Maarten is governed. It also highlights some of the processes that the island has and is currently going through in its attempt to become an autonomous country, however remaining within the kingdom of The Netherlands.

### 1.1.1 Background

The year 2006 has been an important one in terms of moving St. Maarten forward in its quest to become its own autonomous country within the kingdom of The Netherlands. For the past 52 years, the island has formed part of the country The Netherlands Antilles. A federation which consists of four other islands namely - Curacao, Bonaire, St. Eustatius & Saba. Along with Aruba, and The Netherlands, this federation comprises the kingdom of The Netherlands.

The Netherlands Antilles is autonomous over internal affairs; however the Dutch government is responsible for defense, foreign affairs, citizenship & extradition. It has a federal government consisting of three parts:

- 1) Governor-General of the Netherlands Antilles (representing the Monarch of the Netherlands)
- 2) A council of Ministers
- 3) A four-year elected 22-member parliament

The division of parliamentary seats per island is as follows:

<b><i>Island:</i></b>	<b><i># of Seats</i></b>
Curacao	14
Bonaire	3
St. Maarten	3
St. Eustatius	1
Saba	1
Total	22

When taking an economic perspective, it is clear that even though Curacao enjoys the largest number of seats in parliament due greatly to its geographical and population size, its income per capita and real growth has not been significantly greater than that of St. Maarten over the last years. See table below.

## GDP Comparison St. Maarten - Curacao

Year	GDP (in mln Naf) St. Maarten	Population	GDP per capita (in Naf)
2002	863.4	31,956	27,018
2003	917.8	33,317	27,547
2004	975.4	35,035	27,841
2005	1,049.3	35,910	29,220

Year	GDP (in mln Naf) Curacao	Population	GDP per capita (in Naf)
2002	3,936.7	126,715	31,067
2003	4,034.4	129,665	31,114
2004	4,097.7	133,350	30,729
2005	4,252.0	135,822	31,306

Source: Central Bureau of Statistics (CBS) & [www.centralbank.an](http://www.centralbank.an)

### 1.1.2 St. Maarten's desire for change

The island territory of St. Maarten has been increasingly unsatisfied with the many imbalances within the political and financial structure of the The Netherlands Antilles. Apart from this reality, the fact that a restructured Netherlands Antilles did not prove feasible and offered no guarantee for the balanced social economic development of St. Maarten, a referendum was held in June 2000 to determine the future direction of the island.

The majority of the St. Maarten population voted to remain within the kingdom of The Netherlands, but as an autonomous 'Country St. Maarten'. In less than two weeks after the referendum, the island territory of St. Maarten set up a framework with 3 groups consisting of a permanent council committee, a political steering group and a workgroup for the realization of the desired constitutional changes.

On October 8<sup>th</sup>, 2004 a declaration report appeared from a committee under chairman Mr. Jessurun. The Netherlands, the country Netherlands Antilles and the island territories were represented in the document whereby recommendations regarding the constitutional structure, justice, governance, public finance and the lay out of the Kingdom were given. The report emphasized that a number of administrative/governmental and financial problems must be solved before the constitution could actually be adjusted.

On the 25<sup>th</sup> and the 26<sup>th</sup> of January 2005 the island territories held discussions regarding the future relations within the kingdom. It was decided to establish five workgroups for the realisation of constitutional changes in the following areas: judicial, financial, personnel and inter-island cooperation. Furthermore, it was later decided in April of 2005 to end the Antillean state relation in 2007.

In the months to follow, all island territories and the Netherlands was to tackle the following ongoing trajectories at the same time; constitutional changes, current financial-economic problems and the necessary social economic changes.

In October 2005, a main line agreement was achieved between the Kingdom constituents. It was established that public finances would be approached through financial reconstruction, whilst The Netherlands seek solutions to the debt problems of the country. The islands were to make funds available for an investment impulse and a social back up plan (Social Economic Initiative). Agreements were also made regarding good governance and legal security. With the start of the round table conference on November 26<sup>th</sup>, 2005 the official process began for constitutional changes within the Kingdom.

### 1.1.3 Journey in 2007 and Beyond

After long and intense negotiations between St. Maarten, Curacao, the Netherlands Antilles & The Netherlands, an historic day for St. Maarten was achieved when the 'closing statement' was signed on November 2<sup>nd</sup>, 2006 at a mini conference in The Hague. It regarded agreements reached on the following points:

1. Judicial procedure and maintenance of law & order; a joint court, tracking & prosecution of criminal offences, police, prison system, immigration, council for the maintenance of law & order, cross border crime, observing international obligations and supporting the legislative process.
2. The Netherlands is prepared to take over the majority of the debts of the island territories and the country Netherlands Antilles. Agreements have been made for one central bank for Curacao & St. Maarten, and social economic development. Also for financial control, norms, and supervision during the transition period in a new political structure. Any debts incurred after the implementation of the new status is for full account of the countries.
3. Evaluation of the new political structure shall take place after 5 years.
4. A plan of action shall be presented by St. Maarten, Curacao, the Netherlands Antilles and the Netherlands on the implementation of the agreement, before February 1<sup>st</sup>, 2007. The accomplished agreement has to lead to the desired autonomous status of the country St. Maarten on the 1<sup>st</sup> of July 2007.

St. Maarten has to take a number of follow-up actions to the above-mentioned closing statement. A project team is currently designing a National Development Plan; it focuses on three main areas:

1. A framework for the development of the country St. Maarten;
2. Multi-annual policy plans for each of the seven ministries which have been determined by the Island Council for the country St. Maarten;
3. A budget for the first year, as well as a planning for the following four years for the country St. Maarten (2007-2011)

Apart from this, sound financial management should be guaranteed and laws have to be prepared. The project team also handles the setup of the future country regulation, laws, international treaties, etc but also the coordination of round table conferences, administrative discussions pertaining to constitutional reformation and general communication to all stakeholders. Varied other work groups have been established consisting of civil servants, technical support, and consultants from the private sector, who are facilitating the many action points.

The new country status was initially scheduled to take effect on July 1<sup>st</sup>, 2007, however due to the scope and complexity of the entire process, a new target date was established. This is outlined in the *Transition Agreement* signed in St. Maarten on February 12<sup>th</sup>, 2007. This agreement also encompasses the following issues:

- Interpretation of the process for implementation of the political changes
- The guiding process thereof
- The Social Economic Initiative
- The debt restructuring
- Short-term Support Measures to the country Netherlands Antilles, St. Maarten, Bonaire, St. Eustatius and Saba

The document underlines the new date of December 15<sup>th</sup>, 2008 for St. Maarten to achieve its new status. The citizens and visitors of St. Maarten must be reassured that with the island's new right for self-determination, the overall welfare of the island will improve. The island government's authorities will increase, however the cooperation and guidance from the kingdom government will ensure political stability. A peaceful and positive transition into the new constitutional status is eagerly anticipated.

## **Chapter 2: Macro-Economic Developments St. Maarten**

### ***2.1 International Economic Developments & Impacts for St. Maarten***

In this section, an insight is given into the global economic position and the position of St. Maarten during 2006, followed by some general projections for 2007.

#### **2.1.1 International Economic Developments**

The global economy continued to expand in 2006; world GDP growth is expected to reach 3.9%, even though signs of gradual moderation have become apparent. In 2007 growth is forecasted to slow down to around 3.3%. This anticipated slowdown, will end a three year run of above-trend economic growth. All major regions, except for the Middle East will most likely see some moderation in growth this year.<sup>1</sup> The U.S. is leading the mild deceleration as only North America is expected to perform significantly below potential. A steep downturn in housing markets, coupled with a mild deceleration in consumer spending, are some factors that may cause a decrease in the U.S. real GDP growth from 3.3% in 2006 to just 2.4% in 2007.

2006 saw an international trend of rising interest rates. Although further interest rate hikes are expected in Europe and Asia, the global monetary tightening cycle is nearing its end. With inflation beginning to ease, the pressure on central banks will diminish in 2007.

Despite an overall increase in commodity prices, the world wide consumer price index (CPI) has held close to 3% since 2003. In 2007, inflation is forecasted to be somewhat milder, due to a slowing in demand. While energy prices remain volatile, prices of most other commodities are expected to retreat.

World oil prices continued to rise through the first half of 2006. In mid-August however, prices began to decline significantly and remained at lower levels in the months that followed. According to the Energy Information Administration (EIA), the price of crude oil is projected to average around \$ 66 per barrel in 2006 and \$65 per barrel in 2007. The graph below presents the level of prices over the past 5 years.<sup>2</sup>

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<sup>1</sup> Global Executive Summary, October 2006 ( [www.globalinsight.com](http://www.globalinsight.com) )

<sup>2</sup> [www.oil-price.net](http://www.oil-price.net)



**Figure 1. Trend oil prices per barrel in US \$ from Oct '01 till Oct '06**

### **U.S.A.**

The U.S. economy opened the year with robust growth in the first quarter of 2006. Real GDP growth reached 5.6 percent, driven mainly by personal consumption expenditures, business investments (in machinery & equipment) & federal spending. In the second quarter, real growth decelerated by about half the rate that was achieved during the first three months, down to just 2.5%. Growth in the third quarter was 0.6 percent lower than the previous quarter. In 2007 the growth is estimated at 2.4%, compared with 3.3% in 2006.<sup>3</sup>

The U.S. dollar remained surprisingly stable in the last months of 2006. It is expected that the dollar's depreciation will gain speed, as spreads between U.S. and foreign interest rates narrow in the year ahead. At the end of 2006 the dollar was forecasted to rise to US\$ 1.30. The Euro is projected to rise to US\$ 1.40 at the end of 2007.

### **Eurozone**

In 2006 real GDP growth in the Eurozone expanded by 0.9% from the first quarter to the second quarter, and by 2.7% compared to the year 2005, this growth was primarily led by buoyant investment. The Eurozone economy was expected to expand by around 2.5% at the end of 2006. This would be its best result since the year 2000.

Within the Eurozone, France had the best quarterly results with Germany and Spain growing at the same percentage rate as the area as a whole. The Central Bank raised its interest rates throughout 2006, as it believes that the ongoing strength of the Eurozone economy warrants less accommodative monetary policy.

The latest data and survey evidence indicates overall that the Eurozone economy is currently continuing to grow relatively well. However it is expected that the Eurozone growth is to lose some momentum late in 2007. The GDP growth for 2007 is expected to decrease to 1.7%.

<sup>3</sup>Global Executive Summary, October 2006 ( [www.globalinsight.com](http://www.globalinsight.com) )

## **Asia**

In recent years, developing Asia has dealt with various economic shocks and disasters. The earthquake and tsunami that hit the region towards the end of 2004 had a limited adverse impact on regional growth in Asia and the Pacific. Growth in developing Asia is also being supported by the slow but steady economic pick up in industrial countries.

The outlook for Asia remains positive, particularly in light of the expected dual emergence of the People's Republic of China and India, and the opportunities this will create for the rest of Asia. The region had an estimated growth in 2006 of 5.1% and an expected growth of 4.6% for 2007.<sup>4</sup>

China's economic growth peaked in the first months of 2006, because investment reached a major pace. When investment and export decelerate, growth will moderate but will still remain strong. It is forecasted that China's real GDP growth will slow from 10.6% in 2006 to 9.0% in 2007.

## **Latin America and the Caribbean**<sup>5</sup>

The gross domestic product of the Latin American and Caribbean countries was expected to grow at a rate of 4.6% by the end of 2006. In 2007, a slight decline in the growth rate is anticipated to around 4%.

The inflation rate for Latin America and the Caribbean in 2006 was forecasted to remain much the same as in 2005, in the order of 5% to 7%.

The main factor of uncertainty for Latin America and the Caribbean countries is possible changes in the economic trend in the United States, mainly because the United States is an important market for the region's exports. Another associated risk factor is the upward trend in international interest rates, closely linked to the United States' monetary policy and finally new measures regarding passport requirements for U.S. citizens, which are scheduled to take effect in 2007.

## **International Travel Projections**

According to the United Nations' World Tourism Organisation (UNWTO), 2007 is forecasted to be the fourth year of sustained tourism growth. In 2006 a new record year was reached for the industry, with 842 million arrivals internationally and a growth rate of 4.5%.<sup>6</sup>

International tourism is anticipated to remain buoyant, particularly due to a strong global economy and providing no major setbacks occur. European and Asian travellers have been markedly encouraged to travel abroad by the favourable exchange rates in those regions.

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<sup>4</sup> *Developing Asia: Economic Outlook and Future Prospects*. May 2005

<sup>5</sup> Economic statistical prospective. April 2006,

Global executive summary, *A mild global slowdown relieves inflationary pressures*. October 2006

<sup>6</sup> News Release [www.world-tourism.org](http://www.world-tourism.org), 29 January 2007

## 2.2 Macro-economic Indicators for St. Maarten:

In this section an overview of some key economic and social indicators are presented. Additionally, a look at the economic performance of St. Maarten during the period 2005 through 2006.

	2002	2003	2004	2005	2006
<sup>1</sup> Nominal GDP (in millions Naf)	968.2	1,027.7	1,092.8**	1,175.3**	-
Real GDP Growth (% change)	1.0	4.8	4.5	4.8	-
Inflation (% change)	0.5	1.6	2.1	3.1	2.8(Oct)
Employed Persons		16,200		18,073	
Unemployed Persons		3,433		2,800	
Labour Force		19,633		20,900	
Population <sup>1</sup> (CBS estimations)	31956 <sup>1</sup>	33317	35035 <sup>1</sup>	35910	
Unemployment Rate (%)	-	17.5	-	13.4	-
**preliminary figures					
Number of Households	11,667	12,270	12,764	12,785	13,521
Avg. household size	3	3	3	3	3
<sup>2</sup> <b>Tourism:</b>					
Stay-over arrivals	380,327	427,587	475,032	467,861	467,804
Cruise arrivals	1,055,040	1,171,734	1,348,450	1,488,461	1,421,645
<sup>3</sup> <b>External Account (millions Naf): Transaction Basis</b>					
Trade Balance	-484.3	-542.5	-710.3	-815.5	-400.1(June)
Merchandise exports	294.1	461.6	589.9	812.0	494.9
Merchandise imports	778.4	1,004.1	1,300.2	1,627.5	895.0
Tourism exports	875.3	963.1	1,096.9	1,108.5	645.9 (June)
Tourism imports	250.4	256.4	196.5	186.0	101.2
Net	624.9	706.7	900.4	922.5	544.7
<sup>4</sup> <b>Bank Lending(in millions):</b>					
Total Lending	796.6	826.8	8,971	10,525	12,484
Mortgages	227.0	224.8	2,447	2,496	2,866
Consumer	113.0	119.1	169.8	2,326	2,912
Business	456.4	482.8	482.7	5,703	6,686
<sup>5</sup> <b>Government Finance St. Maarten: ( in millions Naf)</b>					
Revenues	152.2	158.8	177.3	181.6	207.6*
Expenditures	174.9	178.1	184.3	190.1	207.6*
Budget Balance	-22.7	-19.3	-7.0	-8.5	0
* 2006					

<sup>6</sup> Select Vital Statistics:	2003	2004	2005	2006
Live Births	403	473		
Deaths	130	132		
<b>Natural Increase</b>	<b>273</b>	<b>341</b>		
Marriages	143	159		
Divorces	92	81		
Immigration	4057	2277		
Emigration	4307	770		
<b>Net Migration</b>	<b>-250</b>	<b>1507</b>		

<sup>7</sup>**Welfare:**

Total recipients	9590	10,046
Total cancellations	98	88

<sup>8</sup> Education 2005:	Schools	Total students	Total Teachers	Student/Teacher Ratio (all)
Gov't Primary	6	1496	108	1:14
Subsidized Primary	11	3225	169	1:19
Private Primary**	3	276	27	1:10
Gov't Secondary	1	182	19	1:10
Private Secondary	7	2840	275	1:10

**Education 2006:**

Gov't Primary	6	1505	120	1:13
Subsidized Primary	11	3355	198	1:17
Private Primary**	3	347	33	1:11
Gov't Secondary	1	194	20	1:8
Private Secondary	7	2961	305	1:10

\*\* Excludes data from the Springfield College

<sup>9</sup>**Public Health:** Capacity first-line health care 2006:

Midwives-	1	Paramedical Professionals –	13
General practitioners –	21	Dentists-	6
Psychologists-	2	Visiting Specialists-	3
Specialists-	14	Pharmacists-	10
Pharmacies-	11		

**Type of health insurance by population :**

(St. Maarten Health Study 2001)

PP insurance -	6%
SVB insurance –	44%
Private insurance-	10%
Government insurance –	9%
(active & retired civil servants; Island/Federal)	
Uninsured -	31%

Sources 1,6: Central Bureau of Statistics (CBS)  
2 :St. Maarten Tourist Bureau  
3 & 4: Central Bank of The Netherlands Antilles  
5: Island Government Department of Finance  
7: Social Welfare Services, Island Government  
8: Federal Department of Education/ Individual Schools  
9: Sector Health Care Affairs, Island Government

## 2.2.1 Macro-economic review St. Maarten 2006

In 2005, the economy of St. Maarten expanded with a real percentage rate of 4.8, which is slightly higher than in 2004 (4.5%). The majority of the economic growth experienced throughout 2005, resulted from healthy developments in the construction, trade and financial-intermediation industries. In 2006 the economy of Sint Maarten continued to grow; this was underlined primarily by sustained developments in the construction sector; with the progression of various projects such as the new airport, harbour expansion, Westin Resort & residences, new government building and other public projects, fish market & customs building, upgrade/construction of several marina's as well as consequent improvements on the labour market and a steady performance within the stay-over tourism market segment.



Land side view of Terminal Building



Compared to October 2005, the consumer price index (CPI) rose by 2.8% in 2006, due mainly to increases in the sectors food and 'drink & smoking products'. However, the level of prices decreased compared to August 2006 when the CPI was calculated at 3.3%. Price decreases for fuel allowance within these months went down, causing a 1.8% decline in the group energy expenses.

Labour market developments also improved with a reduction in the official unemployment rate, dropping to 13.4 percent in 2005 from 17.5 percent two years earlier. This was according to the Labour Force Survey done by the Central Bureau of Statistics in October 2005. The report showed that compared to 2003, the working population increased by over 1800 persons or 12%, due to an increase of the total population. While the number of jobseekers decreased by some 19%.

The number of stay-over visitor arrivals virtually remained at the same level in 2006 as in 2005. While arrivals increased within some major markets, such as European (3%) and South American (26%), other primary markets namely, North America and Caribbean registered a contraction of 1% and 3% respectively.

The cruise segment also saw a decline of approximately 4% in passenger arrivals during 2006. According to the St. Maarten Harbour Holding Company, the overall drop in the number of cruise visitors was credited to the higher cost of cruising; fuelled by fluctuating oil prices as well as some reluctance to travel to the Caribbean region by some cruise liners.

Furthermore, there was a total of 32 fewer ships calling at our port during the year. A major contributing factor to this decrease, is the fact that the passenger capacity of many ships are steadily increasing, thus the actual number of calls to the port went down.

Developments in turnover tax (TOT) are considered a prime economic indicator when measuring the performance of the economy. Preliminary figures indicate an 8.9% increase in turnover revenues in 2006 compared to 2005. Additionally, business confidence remained high through the first half of 2006, 72% of companies reported to have confidence in the future. While a low percentage of companies, about 5% stated that they have no confidence in the future.<sup>7</sup>

When looking at the number of business license registrations in 2006, requests received were up by approximately 100, compared to 2005. There were also 43 fewer withdrawn licenses recorded during the year compared to 2005.

Government income on a cash basis went up by approximately 16 percent in 2006 relative to the year before. This was accounted for by the strong growth in wage (10%) and profit taxes (48%). The largest increase in revenues was seen in income tax, expanding by over 400 percent in 2006, this was due to exceptionally low receipts in 2005.

Tourism-related tax revenues also made a good showing, with an almost 25 percent increase in room taxes during the first three quarters of 2006 compared to one year prior, while timeshare taxes grew by 11.2%. Revenues from rental tax however, declined by 4.8%. Earnings through vehicle taxes expanded modestly by 3.6% during the review period.

In the banking sector, resident deposits continued to outperform loans, though the pace of growth edged down in 2006 compared to 2005. Overall growth in loans intensified in 2006, by some 19% while deposits accelerated by about 8% in the review period.

Collections received from AVBZ premiums, which is a general insurance on special medical expenses have expanded by 13 percent in 2006. When comparing this increase to the previous five years it can be noted that collected premiums have been rising steadily for the past three years, after a dip in 2003, signalling positive developments within the labour market during this period.

The utilities sector expanded in both electricity and water sales volumes during the year 2006, growth of 5% and 4% were noted respectively.

In 2006, overall gasoline retail sales expanded by some 5%. Due mostly to an improvement in sales particularly in the last quarter of the year.

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<sup>7</sup>Economic growth and confidence in the future (press release, CBS, June 8<sup>th</sup> 2006)

## 2.2.2 Macro-economic outlook 2007

The economy of St. Maarten is expected to continue along its current growth pattern through 2007. This forecast for sustained growth is based on the likely continuation of construction activities, and positive growth within the tourism sector due to increases in the overall room inventory and completion of the new state-of-the-art Princess Juliana International Airport. The retail & wholesale sectors are also expected to benefit from expansions in the above-mentioned industries. Additionally, demand for labour is expected to remain strong with the progression of various commercial and public sector projects, but also in light of the new constitutional changes, whereby additional support may be required especially in the public sector.

### Programs 2007:

For the year 2007 several new programs are being prepared and will be executed with regards to Education, Youth, Labour, Finance, as well as Economy & Tourism. Major focus will be placed on devising and implementing a plan for the diversification of St. Maarten's economy. But also on specific action points stemming from the Tour Map.

The Social Economic Initiative (SEI) is another program, born from the so-called 'Hoofdlijnenakkord' or main line agreement of November 2005, whereby each entity of the Netherlands Antilles agreed to establish an individual action plan for social and economic measures. A team of local experts in consultation with Kingdom partners are currently preparing the SEI. The reform and supporting measures are meant to ensure proper financial and economic foundations at the onset of the constitutional change but especially on a sustainable basis.

Thus far, the following specific policy areas as well as corresponding measures have been identified:

- 1) Spatial planning and traffic congestion
- 2) Development of SME's and economic diversification
- 3) Tourism marketing
- 4) Labour market and education
- 5) Regulation
- 6) Government Finance
- 7) Data

The SEI contributes towards the setting of the policy agenda for St. Maarten, throughout its transition phase towards country status. Agreement on the SEI program should be followed by the next phase, in which implementation plans for the specific measures will be worked out.<sup>8</sup> Funding for the implementation phase will come partly from the Dutch government as well as financing from St. Maarten. To support the execution of the Social Economic Initiatives, the Netherlands shall reserve Ang 26 million for St. Maarten.<sup>9</sup>

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<sup>8</sup> Social Economic Initiative Document February 2007.

<sup>9</sup> Transition Agreement

Upcoming Economic-related projects for 2007 can be summarised as below:

1. Introduction of Social Economic Initiative Program
  - a. Small Business Development Program
  - b. Tourism Diversification
    - i. Conference Tourism
    - ii. Sport Tourism
    - iii. Expo & Trade Shows
2. Development of Diversification Programs
  - a. Marine
  - b. Development of Transhipment Program: Airport & Port
  - c. Education
  - d. Hydro Farming, Agro Processing (small scale)
3. Informational Hub
4. Introduction of new local, regional and international marketing strategy
5. Feasibility studies: Public transportation

Furthermore a number of public sector projects are scheduled to come online throughout the year namely:

**Backstreet Upgrade/Beautification**

**(Before)**



**(After)**



**Festival Village**





**(Artist Rendition) Fire & Ambulance Department Building**

### **Pondfill Roundabout**

**(Before)**



**(After)**



Other works include further extension of the cargo facilities:



## 2.3 Macro-Economic Developments in a Caribbean Perspective

### 2.3.1 Regional Review

2006 has been a good year in terms of economic growth for the Caribbean region. Overall growth totalled 4.2% in 2005. In 2006 the growth was estimated at 6%.<sup>10</sup> Much of this expansion is fuelled by growth prospects for Trinidad and Tobago. In 2006, Trinidad & Tobago was expected to post growth in the order of 10%, resulting from natural gas production & processing activities. Jamaica's economy was expected to grow by around 2.5%, with the normalization of activities in the agriculture and mining sectors. According to data from the Central Bank of Barbados, the Barbadian economy grew by 4.1% in 2005, which is a significant increase on the previous forecast of 2.8%, reflecting the performance of the construction and trade sectors. A 2006 growth rate of between 4.0% and 4.5% is anticipated.

According to the Eastern Caribbean Central Bank (ECCB), assessments up to the half year 2006 show an expansion in economic activities compared to the corresponding period in 2005 in the Eastern Caribbean Currency Union (ECCU). On an individual country basis, output for the entire 2006 was expected to be positive, except for Grenada and Montserrat where construction activity declined. The expansion in the ECCU, was fuelled mainly by public and private sector construction, as some countries prepared for the Cricket World Cup (CWC) 2007.<sup>11</sup>

The table below illustrates some select macro-economic indicators in the region.

	Inflation rate (%)	Unemployment	Real GDP growth (%)	Population
<b>St. Maarten</b>	2.8 (Oct '06)	13.4% ('05)	4.8 ('05)	35,910
<b>Anguilla</b>	13.1 (Sep '06)	7.8% ('02)	10.2 ('04 est)	13,477 ('06 est)
<b>Antigua and Barbuda</b>	0.9 ('05 est)	11% ('01 est)	3.8 ('05 est)	69,108 ('06 est)
<b>Aruba</b>	3.9 (May '06)	7.6% ('04)	2.4 (2005)	71,891
<b>Curacao</b>	3.4 ('05)	18.2 ('05)	0.8 ('05)	135,822 ('05 est)
<b>St. Thomas</b>	2.6 (2004)	7.1% (2005)	-	52,838
<b>Barbados</b>	1.43 (2004)	9.8% (2004)	4.4 (qrt1-06)	271,600
<b>Puerto Rico</b>	6.5 ('03)	12% (2002)	0.5 ('06 est)	3.9 million
<b>Dominican Republic</b>	51.2	-	2.0 (2004)	8.6 million
<b>Haiti</b>	16.6		1.8 (2005)	
<b>Trinidad and Tobago</b>	5.3		7.0 (2005)	1,065,842
<b>Dominica</b>			3.5 (2005)	14,500
<b>Grenada</b>			5.2 (2005)	
<b>St. Kitts and Nevis</b>			6.8 (2005)	
<b>St. Lucia</b>	3.9 ('05)	18.7% ('05)	5.8 (2005)	164,791 ('05)
<b>St. Vincent &amp; the Grenadines</b>			2.8 (2005)	

<sup>10</sup> Economic Projection Centre, ECLAC

<sup>11</sup> ECCB Economic & Financial Review June 2006, Volume 26 Number 2

## **2.4 Labour Market Developments in St. Maarten**

During the year 2006, labour market developments on St. Maarten were positive. Improvements were noticeable since 2005, after reports from the Central Bureau of Statistics confirmed an official drop in the unemployment rate from 17.5% in 2003 to 13.4% in 2005. A number of job opportunities have been created in 2006 and this trend is expected to remain favourable in 2007. Thanks to the completion of various construction projects which have or will become operational in the short-term. Some include:

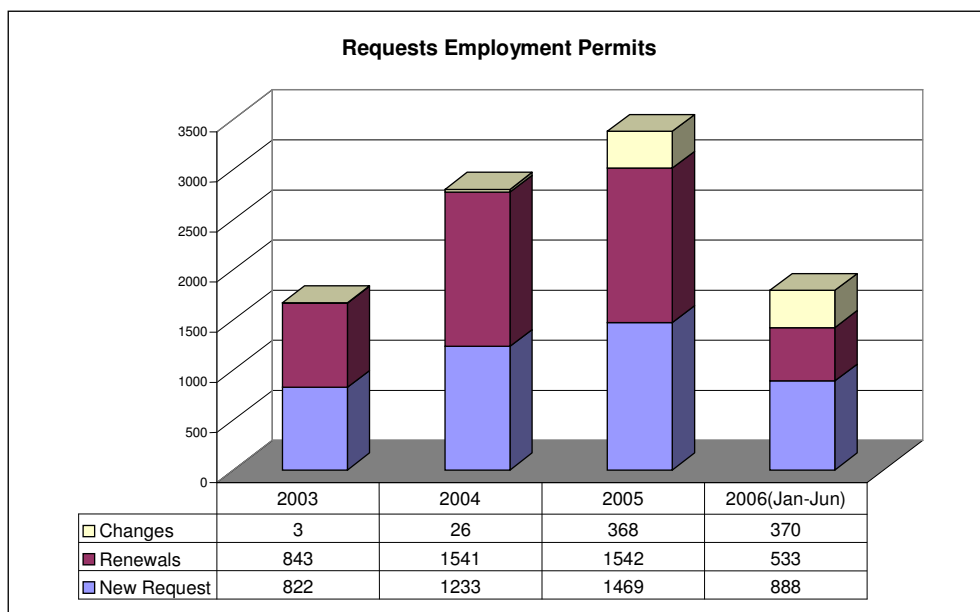
<b>Establishment:</b>	<b>Opening date:</b>	<b>Estimated # of positions required:</b>
Kooyman N.V.	November 2006	45
Westin Resort & Casino	November 2006	200+
Ace Mega Center	September 2007	80

The benefits of such projects on the labour market, are clearly that jobs are created both during and after the projects are completed. Numerous construction-related jobs have been provided due to the continuity of projects such as the new government building, harbour expansion, several commercial buildings & other condominium developments throughout the island.

### **2.4.1 Highlights 2006 & Prospects 2007**

Several key issues were underlined in 2006, such as an increase in the minimum wage by around 22 percent from Naf 6.35 to Naf 7.79 per hour. This measure was seen as both positive and overdue for many that form part of the working class. On the other hand, even though St. Maarten has no import taxes, is a duty free port, is considered to be a good place for doing business because of its trade preferences within the European Union (EU) and the United States, the cost of doing business is still relatively high compared to some other Antillean & surrounding islands. The island government also agreed to a reduction of the Island Surtax from 30 to 25% in an effort to mitigate the expense to businesses with the increased minimum wage.

Moreover, given the fact that the Island Territory is in full gear to become an autonomous country within the kingdom, various other preparations have continued as it relates to labour matters. Activities have been stepped up to decentralize the Federal department of Labour & Social Affairs- a formal decision is expected to be made in mid 2007. Also the island government granted its approval for an enhanced employment permit policy, late in 2006. The draft policy is applicable to permit requests submitted after January, 1, 2007, with an objective to restore an acceptable balance between local and foreign labour on the labour market. The Island Labour Office also discontinued the issuance of employment permits for the period of 1 year, for a number of specific professions with requirements ranging from low-educated to (college) degree holders. The chart below shows the developments in employment permit requests from 2003 through June 2006.



**Figure 2.**

Although 2006 saw a growth in momentum on the labour market, many challenges still exist. Some of the main challenges that continued in 2006 were a widespread lack of skilled labour; particularly in the construction & hospitality sectors. A number of companies within these sectors complain that it is difficult to hire local young people who are qualified and willing to do the work. As a result, many companies resort to seeking skilled labour from the outside, as in many cases these persons are more willingly to work longer hours for lower wages.

In 2007, the island government has as one of its labour-related priorities to better prepare the local workforce for available jobs on the labour market. There will be an attention shift to training & re-training of workers. Our local Labour Office believes that there should be more opportunities for people who might have lost their jobs in one area to be trained in another job within the same sector.

Training programs such as “Social Formation Program” and the Support the Netherlands Antilles Youth Development Program (SNAYDP) will continue. Public-Private cooperation with regard to training programs for the un – and underemployed will be enhanced and stimulated. The department will also develop a retraining program for those presently receiving financial aid, in order to reintroduce them to the labour market.<sup>12</sup>

Statistics from the Island Labour Office show that in 2006, a total of 566 persons registered as unemployed at the office. A great majority of these unemployed persons have attained a highschool education or even lower. Youth unemployment on the island remained an area of concern in 2006, with approximately 30% of the unemployed falling within this age bracket of 15-24 years. Generally, these factors compound the problem of companies being able to acquire highly skilled workers, and thus prove more difficult to place persons with a lower educational level, in a suitable position. Nonetheless, during the month of July alone, a total of 281 persons were called up for the Westin Resort Job fair, several other job fairs were put on throughout the year, geared towards the youth and public at large.

<sup>12</sup> Dept. of Labour & Social Welfare Budget 2007

In 2007 the Island Government aims to concentrate on several issues to improve the labour market situation on St. Maarten. Central to this process, will be the establishment/revision of an official Labour Market Policy (LMP). Currently a draft LMP does exist, however the document has not been ratified due to a number of setbacks including the fact that it was never consulted in a tri-partite platform. The present draft labour market policy will serve as a basis in creating a new and finalised LMP for St. Maarten. This document will entail specific goals & objectives with regards to the desired make-up of our dynamic labour market, and will address vital issues such as Education & Training, Undocumented workers, Health Care, Flexibilisation, Short-term contracts and many other items.

A policy plan has also been drafted for the future ministry of Economy, Tourism, Transportation, Telecommunications & Labour, in which much focus will be placed on the synchronization of the Economic, Labour, Education and Immigration Policies. The intention is that the labour market constraints will be the determining factor to influence economic policy. The point-of-departure will be to allow/encourage businesses to invest in sectors/industries where there is limited or no need for imported labour.<sup>13</sup>

Additionally, the following surveys & research will be carried out:

- Needs Survey (Matching labour supply & demand)
- Social Directory
- General Vacancy Count (by the Central Bureau of Statistics)
- Policy Plan for the Disabled
- Policy Plan for the Elderly

Finally, with the decentralisation of the Federal Labour Department, the Island Government will be directly responsible for executing the following additional tasks:

- Labour inspection
- Complaints
- Free judicial assistance ( the execution, not financing)
- Mediator
- Dismissals

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<sup>13</sup> Ministerial Policy Plan – Ministry of Economy, Tourism, Transportation, Telecommunications & Labour (November 2006)

## 2.4.2 Key Indicators of the Labour Market (KLIM)

### **Population and Labour Force data 2001, 2003 & 2005**

	<b>Census 2001</b>	<b>Mar2003</b>	<b>Oct-2005</b>
Employed population	15413	16200	18073
Unemployed population	2271	3433	2798
Labour Force	17684	19633	20871
<b>Total population</b>	<b>30369</b>	<b>33317</b>	<b>35910</b>
Unemployment rate	12.8%	17.5%	13.4%
Participation rate	50.8%	48.6%	50.3%

Source: CBS

### **Employed Population by Gender**

	<b>2001</b>	<b>2003</b>	<b>2005</b>
Male	8,280	8,781	9,714
Female	7,133	7,419	8,359
Total	15,413	16,200	18,073

Source: CBS

### **Employed Population by Economic Activity, Sint Maarten**

	<b>1997</b>	<b>2000</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
Agriculture, fishing and mining	102	95	118	161	205
Manufacturing	396	427	448	530	559
Electricity, gas and water	230	249	242	254	286
Constructions	1462	1706	1540	1513	1669
Wholesale and Retail	3054	3298	3098	3226	3524
Restaurants and hotels	2490	2378	2438	2563	2870
Transport and storage	1152	1365	1408	1376	1503
Financial intermediation	566	582	499	467	517
Real estate, renting	964	1245	1435	1442	1629
Public administration/Social Sec.	1005	974	1016	1129	1335
Education	594	668	548	631	672
Health/Soc. work	377	439	398	451	500
Other community	1268	1401	1507	1603	1797
Private Households	728	749	689	701	760
Extra Territorial	37	38	115	155	248
Total	14424	15615	15495	16200	18073

Source: CBS

### ***Migration Sint Maarten (Island Registry)***

	<b>Emigration</b>	<b>Immigration</b>	<b>Balance</b>
1998	512	1959	1447
1999	799	1505	706
2000	800	2060	1260
2001	758	1989	1231
2002	857	1816	959
2003	4307	4057	-250
2004	770	2277	1507

Source: CBS

## **2.4.3 Minimum wage Developments**

### **Background**

In the first half of 2004 the process to increase the minimum wage was started by the island government of St. Maarten. An assessment study was ordered by the Commissioner of Labor & Social Affairs, which was carried out by J&S Consulting whereby a proposal was made to increase the minimum wage from Naf 6.35 per hour to Naf 7.47

Justifications to increase the minimum wage were namely:

- ❑ Minimum wage was unchanged since 1993
- ❑ Cost of living increased steadily since 1993
- ❑ Purchasing power has reduced
- ❑ Increase of the minimum wage should be implemented when the economy is growing, not when it is declining or stagnant.

“Two Labour summits were held in July and September of 2004. The purpose of the labour summit was for all stakeholders to comprehensively discuss/debate and resolve issues within the labor market, affecting the social and economical development of the Island territory of St. Maarten. The main topics discussed at the Labor summit were:

1. The dismissal law
2. Short term labour agreement
3. Minimum wage report by J&S consulting
4. Cost of living
5. Other matters related to Labour issues”<sup>14</sup>

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<sup>14</sup> The struggle to implement the minimum wage, commissioner of labor & social affairs, Mr. Louie Laveist

### Developments 2006:

A memorandum of Understanding (MOU) was signed on February 15, 2006; a consensus was reached between the social partners of the Labour Summit Joint Committee. Some points agreed to in the MOU include:<sup>15</sup>

- ❑ Parties agreed to increase the minimum wage to the amount of ANG 7.79 per hour, based on a 40-hour work week. (Effective November 2006)
- ❑ Parties agreed to work out mutually acceptable terms and conditions for the immediate implementation of the flexibilisation regarding the article of dismissal in the labour law section 1.4.
- ❑ The government of the island territory of St. Maarten agreed to the reduction of the Island surtax from 30% to 25%.
- ❑ Parties agreed to support the eradication of the abuse of the short-term contract.

As of November 1, 2006, the following gross hourly minimum wages went into effect for the island territory St. Maarten:

		Per week in case of :	Per month in case of:
St. Maarten	Per hour	40-hour work week	40-hour work week
All categories	Naf 7.79	Naf 311.60	Naf 1,349.23

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<sup>15</sup> MOU, minimum wage February 15<sup>th</sup>, 2006

## 2.5 Fiscal Developments in St. Maarten 2006

Over the last two years the island government of St. Maarten has continued to face strict liquidity challenges. In light of this, a number of internal measures have been employed in order to curb especially general operational expenses. Apart from this, other creative methods are consistently being sought. Such as the formation of the so-called income-generating committee that was formed in 2006 to investigate and advise government on potentially viable ways to increase overall revenues. Government income through taxes on a cash basis increased steadily in 2005(6.7%) and 2006(15.7%). This came due to buoyant growth in the proceeds from profit, income and room taxes particularly in 2006. Government expenditures have also notably been on the increase; 2005 saw a realised deficit of Naf 8.5 million.

The table below provides data on the budget of the island territory of St. Maarten for the years 2005-2007.

x 1000 Naf	Actual	Budget	Budget
	2005	2006	2007
<b>Revenues:</b>			
General Administration	4,400	4,600	5,100
Public Order & Safety	1.1	600	26
Traffic, Transp.& Waterways	515	600	533
Economic Affairs & Tourism	11,300	10,800	16,900
Education	10.80	1,000	100
Culture & Recreation	-	-	-
Social Affairs & Welfare	2,900	3,300	4,200
Public Health & Environment	50	1,800	160
Planning & Housing	2,400	2,400	2,700
Financing & Funding	160,000	182,500	194,300
<b>Total</b>	<b>181,600</b>	<b>207,600</b>	<b>224,000</b>
<b>Expenditures:</b>			
General Administration	38,800	28,950	45,300
Public Order & Safety	3,900	5,300	6,500
Traffic, Transp.& Waterways	10,900	7,800	6,700
Economic Affairs & Tourism	12,200	21,570	21,600
Education	63,800	68,600	65,100
Culture & Recreation	4,800	6,280	7,700
Social Affairs & Welfare	23,100	15,600	18,600
Public Health & Environment	12,500	28,000	32,700
Planning & Housing	2,200	3,900	2,800
Financing & Funding	17,900	21,600	17,000
<b>Total</b>	<b>190,100</b>	<b>207,600</b>	<b>224,000</b>
<b>Balance</b>	<b>8,500</b>	<b>0</b>	<b>0</b>

\* Figures rounded up

## **2.6 Development Cooperation**

“**Development Aid**” (also development assistance, international aid, overseas aid or *foreign aid*) is aid given by developed countries to support the economic, social and political development of developing countries. It is distinguished from humanitarian aid as being aimed at alleviating poverty in the long term, rather than alleviating suffering in the short term.

Sint Maarten has and will receive in 2006-2007, development aid from the Netherlands (USONA) and Europe (EDF & Interreg). A further breakdown of these funds will be provided in tables at the end of this chapter.

### **2.6.1 Dutch Development Aid**

Since October 2004, a development fund, called ‘Uitvoeringsorgaan Stichting Ontwikkelingsgelden Nederlandse Antillen’ (USONA), was initiated for the Netherlands Antilles. USONA is responsible for a legitimate and efficient management of the annual 40 million Euros, which The Netherlands makes available for development projects in the Netherlands Antilles.

The Program and Project Bureau (PPB) of the island government of St. Maarten, is responsible for the requesting of funds, writing of proposals and outsourcing of projects. Each year, this department sends proposals to the USONA with projects that the island government wishes to execute.

Projects that fit within the three main programs may receive funding if approved. These programs are: Administrative Development, Sustainable Economic Development and innovation in Education. An allocation formula between the islands and the country has been fixed as follows: Bonaire (10%), Curacao (59%), Saba (2%), St. Eustatius (2%), St. Maarten (17%) and the country (10%). Thus, St. Maarten is entitled to 6.8 million euros or approximately NAF 15 million per year.

Apart from the above-mentioned programs there are other activities managed by USONA at the request of the ministry of Internal Affairs & Kingdom Relations (‘Binnenlandse zaken en Koninklijke Relaties’). For these programs separate budgets have been agreed upon, namely:

- Security Plan Netherlands Antilles
- Social Formation Obligation
- Ku Kara pa Laman
- Acute Poverty Alleviation
- Harbour Buy Back funds, St. Maarten

Additionally, within the framework of constitutional development it is anticipated that some funding will be made available for the so-called Social Economic Initiative (SEI).

The below table makes mention of a few projects for St. Maarten, financed through USONA in 2006-2007.

<b>Program:</b>	<b>Project:</b>	<b>Objective:</b>	<b>Contents:</b>
<b>Administrative Development</b>	Project Integrity (Approved in September '06)	Promote active, open and sound office practices within the government apparatus.	<ul style="list-style-type: none"> <li>- Organize integrity workshops for civil servants.</li> <li>- Implement an integrity-risk analysis</li> <li>- Design a code of conduct for civil servants and drivers.</li> </ul>
	Project Legislation Lawyers (Approved in April 2006)	Develop legislation in the following priority areas: <ul style="list-style-type: none"> <li>-Finance</li> <li>-Public scheduling - economic, administrative &amp; social development.</li> <li>- Training &amp; Education for employees to aid in developing legislative products.</li> </ul>	<ul style="list-style-type: none"> <li>-Attract technical bodies to make the required legislation.</li> <li>-Design a training plan per legal employee.</li> <li>- Train current legal employees. - Transfer of knowledge by the legislation lawyers to the legal employees.</li> </ul>
<b>Sustainable Economic Development</b>	Project Breakwater bridge en Drainage Fresh Pond (Approved in June 2006)	<ul style="list-style-type: none"> <li>- To improve traffic settlement in Philipsburg West,</li> <li>- Avoid/Limit flooding</li> </ul>	<ul style="list-style-type: none"> <li>-Placing of a new bridge over the Fresh Pond with a larger movement of traffic capacity.</li> <li>- Increase water evacuation capacity under the bridge by dredging the Fresh pond for a larger storage capacity.</li> <li>-Placing of dam walls.</li> </ul>
<b>Education</b>	Project High School- phase 3 (Approved in December 2005)	Extensions & Upgrade to infrastructure for VSBO.	Modernization/additions of practice rooms, rooms for care students, extra theory, cultural & artistic shaping, gym facilities and a computer room.
<b>Harbour Buy Back funds</b>	Medical Equipment (approved in July 2006)	- Purchase of medical equipment.	Purchase of dialysis equipment, defibrillator, several sterilizers, wheelchairs, adjustable beds and upgrading of the intensive care unit.

source: [www.usona.an](http://www.usona.an)

## 2.6.2 (Planned) Developments 2006 & 2007

The table below is an excerpt of listed previous and current projects that were determined by the Executive Council of St. Maarten, by means of a plan of action from the Program and Project Bureau (PPB).

Planned Spending 2006-2007 in NAF		
Projects for public service development	Commitments 2nd half 2006	Commitments 2007
Public Services Level Study	328,700	
Administrative lawyer	1,100,000	
Legal experts	1,050,000	
Financial/ economic advice Governor's Cabinet	325,000	
Management resources support	650,000	
Government technological structure	720,000	
Project on integrity improvement	175,000	
New tax office		650,000
Core tasks discussion		250,000
Mandate ordinance		550,000
Soundboard management & executive council		56,000
Upgrading personnel policy		700,000
Counterpart management resources		460,000
Furnishing new government administration building		3,500,000
Complaints office		100,000
New building ordinance		100,000
Function-oriented training & study		500,000
Public Services & ICT		6,000,000
Paperless council	240,000	
Constitutional developments	3,400,000	1,600,000
Beautification Philipsburg		3,600,000

As indicated above, government is seeking to introduce a *paperless council*. This system will facilitate the safe sharing/transferring of information electronically. Select individuals will have access to the information.

Furthermore, constitutional developments will remain a driving force in 2007, especially given the new target date of December 15<sup>th</sup>, 2008. An amount of Naf 5 million has been committed to this project so far, of which Naf 1.6 million will be spent in 2007.

Another major project for 2007 will be the completion of the new government building which is slated for late 2007.

Projects/Funding through Development Aid:

Projects for long term Economic Development	Budget Estimates	Financed by:	Budget 2006	2007
<b>Basic Infrastructure Investments</b>				
<b>Waste Management</b>				
<b>Garbage</b>				
1a Garbage Disposal System Fase 1A	50,000	SXM, EU/FR		
1b Garbage Disposal System Fase 1B	275,000	SXM, EU/FR/OF	250,000	
1c Garbage Disposal System Fase 1C	100,000,000	SXM, EU/FR/OF		10,000,000
<b>Water Management</b>				
<b>Sewage</b>				
2a SXM East-AWZI-Elaborate Scenario	14,500,000	OF/SXM	4,500,000	8,000,000
2b SXM East-Sewage-Elaborate Scenario	26,940,000	OF/SXM	2,000,000	8,000,000
2c SXM West-AWZI-Elaborate Scenario	6,000,000	OF/SXM		3,000,000
2d SXM Sewage-AWZI-Elaborate Scenario	2,540,000	OF/SXM		2,540,000
<b>Other</b>				
3 Breakwater Bridge	500,000	OF		1,300,000
4 Prins Bernard Bridge	1,000,000	OF		1,000,000
5 Port Breakwater	4,500,000	SMPA	1,000,000	3,500,000
6 Drainage Projects Various Regions Evaluation UNESCO/HE GEBE/Intaquin	2,225,400	OF/SXM	556,350	556,350
<b>Road Network</b>				
<b>New</b>				
7 Purchase land in general	4,000,000	SXM	1,000,000	1,000,000
8 Link 2 road network	8,500,000	OF	1,000,000	4,500,000
9 Link 3 Ring Road Great Salt Pond	20,000,000	OF/SXM	1,000,000	6,666,666
10 Link 4 Cakehouse Road	11,000,000	SXM	5,550,000	5,500,000
11 Link 7-Fase 2	3,000,000	SXM		3,000,000
12 Simpson Bay Lagoon Overpass	2,050,000	SXM	50,000	2,000,000
<b>Existing</b>				
13 Maintenance roads (paved and unpaved)	30,022,000	SXM	7,534,000	7,461,000
14 Streetlights	2,000,000	GEBE	500,000	500,000
<b>Intersections</b>				
15a Welfare/ Waterfront	250,000	SXM	250,000	
15b Suckergarden/ Nisbeth Road	1,000,000	SXM	1,000,000	
15c Roundabout Bishop Hill Road	1,300,000	SXM		1,300,000
15d Roundabout Cole Bay	1,000,000	OF/SXM		1,000,000
15e L.B. Scott Road/ St. Peters Road	200,000	SXM		200,000
15f Suckergarden/ Arch road	300,000	SXM	300,000	
15g Roundabout Bernard Bridge	1,000,000	SXM		
<b>Ports</b>				
16 airport extension	214,020,000	PJIA	71,340,000	
17 Home Port Facilities	30,000,000	EDC & SMPA	15,000,000	
18 Harbour Mega Yachts	13,500,000	SMPA	6,750,000	

*\*See Abbreviations on page 36*

Projects for Urban Development & Upgrading		Budget Estimates	Financed by:	Budget 2006	2007
<b>Algemeen</b>					
19		183,000,000	GEBE	45,750,000	45,750,000
<b>Philipsburg</b>					
20	Zoning Plan Philipsburg	300,000	SXM	75,000	
21	Visual Quality Plan Philipsburg	100,000	SXM	100,000	
22a	Upgrading Frontstreet, Fase 1	5,400,000	SMPA		
	Upgrading Frontstreet, Fase 2	4,000,000	SMPA		
22b	Upgrading Cannegieter Street	3,000,000	OF/SMPA	3,000,000	
22c	Upgrading Backstreet	1,500,000	OF/SMPA		
22d	Upgrading C. Richardsonstreet	750,000	OF/SMPA		
22e	Upgrading Petersonstreet	350,000	OF/SMPA		
22f	Upgrading Longwall Road	150,000	SXM		
22g	Beautification Courthouse - Administration Building	1,000,000	OF	1,000,000	
22h	Over the Bank + Yrausquin boulevard + Sucker Garden Road	500,000	Third Parties		
22i	Airport road beautification	1,000,000	Third Parties		
23a	Boardwalk Philipsburg Phase 2	4,000,000	SXM		
23b	Expansion Captain Hodge Wharf	unknown	SMPA		
23c	Boardwalk cruise terminal	1,000,000	Third Parties/SXM		
24a	Traffic circulation and parking plan	150,000	SXM	150,000	
24b	Parking facilities Philipsburg	7,100,000	Third Parties/SXM/OF	2,366,666	2,366,666
25	Organisation City Management	55,000	SXM		55,000
26	District Maintenance and security policy plan	50,000	SXM	25,000	25,000
<b>Over the Pond</b>					
27	Over the pond development	20,000,000	Third Parties/ SXM		1,000,000
<b>Pond Island</b>					
28	Pond island development	10,000,000	Third Parties/ SXM	500,000	5,000,000
<b>Cole Bay</b>					
29	Development plan SXM West	100,000	SXM	50,000	
30	Industrial zone Cay Bay	30,000,000	Third Parties/ SXM		250,000
<b>Simpson Bay</b>					
31	Masterplan Simpson Bay Lagoon	500,000	SLAC		250,000
32	Mooring Facilities Simpson Bay Lagoon	400,000	SLAC	100,000	300,000
33	Upgrading Kim Sha Area	250,000	SXM		250,000
34	Fish Market Simpson Bay	4,300,000	SXM	2,000,000	2,300,000

Funds for the urban development and upgrading will be used for the further development of Philipsburg, and future developments of Over The Pond, Pond Island, Cole Bay and Simpson Bay.

<b>Projects Targeted Tourism Development, Promotion &amp; Marketing</b>		<b>Budget Estimates</b>	<b>Financed by</b>	<b>Budget 2006</b>	<b>Budget 2007</b>
<b>Tourism</b>					
35	Tourism Master Plan	800,000	OF		
36	Tourism Marketing Master Plan	4,000,000	OF	2,000,000	2,000,000
37	Tourist office	1,000,000	OF	250,000	750,000
<b>Monuments</b>					
38	Monument Plan	30,000,000	OF	3,000,000	3,000,000
39	Culture Park Belvedere	12,000,000	OF	6,000,000	6,000,000
40	Fort Amsterdam	10,000,000			
41	Mary's Fancy	4,000,000	SXM/OF	2,000,000	2,000,000
42	Emilio's Estate	2,000,000	OF	250,000	1,000,000
<b>Lowlands</b>					
43	Lowlands development plan	500,000	SXM		
<b>Economic Diversification &amp; Investment climate</b>					
<b>Economic Diversification</b>					
44a	Economic Diversification Study	100,000	OF		
44b	Economic Diversification Incentive Study	60,000	OF	60,000	
44c	Diversification Promotion Activities	250,000	OF		250,000
44d	Diversification Subsidy/Stimulation Program	500,000	OF		500,000
44e	Commercial Zoning Policy	100,000	OF		100,000
44f	E-Commerce Zone Plan	500,000	OF		500,000
44g	Light Manufacturing Plan	500,000	OF		500,000
<b>Economic Stimulation</b>					
45	Economic Stimulation Plan	PM	PM		PM
46	Investment Policy	PM	PM		PM
<b>Other</b>					
47	Waterside Project	50,000,000	EDC/SMPA	250,000	8,000,000
48	Commercial Center Belvedere	1,200,000	Third Parties		
<b>Total</b>					

The tourism development fund is meant for the upgrading and innovation of the tourism industry on St. Maarten, to ensure that the island remains a top tourist destination within the Caribbean region.

### Abbreviations of Funding Sources

Abbreviations:	Organisation:
OF/SXM	'Ontwikkelingsfonds' via USONA St. Maarten
EU/FR/ OF	EU=INTERREG, 'Ontwikkelingsfonds'
SLAC	Simpson Bay Lagoon Authority Cooperation
REDA	REDA Sociaal
BZK	Binnenlandse Zaken en Koninkrijks relaties
IO	'Innovatie onderwijs'
EDF	European Development Fund
AMFO	'Antilliaanse Mede Financierings Organisatie'
SESNA	Small Enterprises Stimulation Programme in the Netherlands Antilles
EDC	Economic Development Cooperation (private funding)
SMPA	St. Maarten Ports Authority
SMHHC	St. Maarten Harbor Holding Company
HBB	Harbor Buy Back Funds
SW	Social Welfare (Island Government)
FBF	Fronstreet Beautification Funds
PS	Public Sector
DOS/DEPOS	Dienst Ontwikkeling Samenwerking
USONA	Uitvoeringsorgaan Stichting Ontwikkeling Nederlandse Antillen

## **Chapter 3: Sector Developments St. Maarten**

### **3.1 *Agriculture & Fishery***

#### **3.1.1 Agriculture**

The agriculture sector is still very small on St. Maarten; however a number of possibilities do exist to further stimulate and develop the industry. The main problem surrounding the development of agriculture on Maarten is the limited land available for farming. On the island only a few people currently practice the occupation, while the total amount of produce harvested could not sustain even 1% of the island's population.

In 2007, more attention will be placed by the island government on introducing programs within specific areas within this sector, based on the recommendations coming out of the Economic Diversification Study that was completed in 2006. Emphasis is on hydro-farming and agro-processing, as the land constraints will not be a factor to prevent the development of this industry.

#### **3.1.2 Fishery**

St. Maarten has one fish market situated in Simpson Bay. The fish market has recently been renovated and is scheduled for completion in the first quarter of 2007. It will accommodate fish vendors but will also create opportunities for small entrepreneurs offering other goods such as vegetables/provision and souvenirs. The area surrounding the fish market will also be complemented by restaurants.

Fishing is a relatively small sector on St. Maarten. Presently there are about 10 fishermen working in the fish industry, and this number is not expected to grow by much in 2007. At present there are no major fishing companies on the island, thus fisherman work independently with their own boats and fishing gear.

The amount of fish that is caught has decreased steadily over the past years; especially after the passing of hurricane Luis in 1995. A lot of the fishing grounds have been destroyed. Fish is sold locally per kilo; prices have been edging upwards over the past 2 years, from US\$ 6 per kilo in 2005 up to the current price of US\$ 9 per kilo. Nonetheless, prices are expected to remain stable in 2007, however depending on developments on the oil market. Local gasoline prices continue to impact the fishermen costs to go out and fish.

One of the major challenges reportedly facing the fishing sector on St. Maarten is the lack of specific-designated territories/zones where fishermen can fish. Presently it is not required for fishing boats to have certain licenses, and so fishing is practically allowed everywhere. As a consequence, outside fishermen from surrounding islands also come into domestic waters to fish, which takes place in an uncontrolled environment. There are plans presently underway to help in resolving this issue.



## **3.2 Construction Sector**

This sector has been one of the island's main economic drivers in 2006. With numerous multi-million dollar developments in the private and public sectors. Insiders within this industry have stated that the growth in momentum is expected to continue for the next 4-5 years, before construction activities begin to cool.

One of the biggest projects for 2006 was undoubtedly the completion of the new terminal building at the Princess Juliana International Airport. Another major project to open its doors late in 2006, was the Dawn Beach (Westin) Residences, works will continue on this establishment through 2007. The completion of the fish market in Simpsonbay, new government administration building on pond island, beautification/upgrade of Backstreet, festival village and further expansion of the A.C. Wathey Cruise & Cargo facilities, all form part of some major public-level developments that will be highlighted in 2007.

Furthermore, the majority of construction companies surveyed in the third quarter of 2006 noted that their overall business improved when compared to the first nine months of 2005. Being that most of these companies have been and are still engaged in several projects ranging from big to medium-sized throughout the island. Their general expectations of profitability for 2007, is that their will be improvement.

Based on the sample of construction companies surveyed, there were over 200 persons employed on a full-time basis in the sector in 2006 and another 400+ sub-contracted labourers. Due to the wide-scale construction activity presently ongoing on the island, many construction companies hire part-time (sub-contracted) workers during the course of the project.

According to the companies surveyed; on average, skilled labourers earned approximately Naf 21.04 per hour in 2006, while part-time labourers received an hourly rate of about Naf 13.58.

Capital investments accounted for the majority of the investment made by construction companies during 2006. During 2007, companies expect to also spend on buildings/machinery as some expansions have been planned.

Overall prices within this industry increased by some 15-20% in 2006, caused mainly by rising material costs. Prices for cement increased by up to 20% while costs for steel were up by more than 100% in some cases. These increases came due to sustained shortages of materials, especially for sand, steel, cement and gravel. Which stemmed from high demand in China and India but also due to heightened construction production in the Caribbean region.

Another challenge that persisted in 2006 amongst construction companies operating in St. Maarten, was the lack of skilled labourers. Companies indicated that with the high number of projects being carried out simultaneously, it was difficult to find skill labour at times. It seemed like there just was not enough available on the market, as many also migrated to Holland and the US, while others were simply not sufficiently trained through our educational system to meet the job requirements. Some youngsters were also not interested in the so-called 'hard work' of this industry. As a result, some companies admitted to going abroad to seek skilled labourers in other Antillean islands, while others remained here and hired skilled labourers from abroad.

### 3.3 Financial Services Sector

#### 3.3.1 Commercial Banks

The financial services sector on St. Maarten can be described as having a simple structure; it is fairly diversified between banking and insurance companies with a limited international presence on the market. It comprises of four main commercial banks which concentrate primarily on loans and investments while insurance companies provide life and general insurance protection. The 'Postspaar' bank and 'Centrale Hypotheek Bank' also operate within this market, offering mortgages usually up to a fixed amount, as well as other select financial services. Most banks on the island are subsidiaries or divisions of a larger bank abroad.

In 2006, over 500 persons were employed in the commercial banking sector with a total of 18 branches and about 35 ATM's throughout the island. St Maarten also saw its first drive through ATM. While some banks boasted the launching of new products such as online/internet banking services, prepaid credit cards and merchant cards, others swanked their increased visibility throughout the community.

According to local industry experts, this sector benefited from positive economic developments on St. Maarten through 2006. The majority of banks indicated that overall business performance had increased considerably in 2006 compared to 2005, growing by atleast 10% and higher. Figures from the Central Bank of the Netherlands Antilles show an overall increase of 7.5% in resident deposits in 2006 and 19 percent growth in total loans relative to 2005.

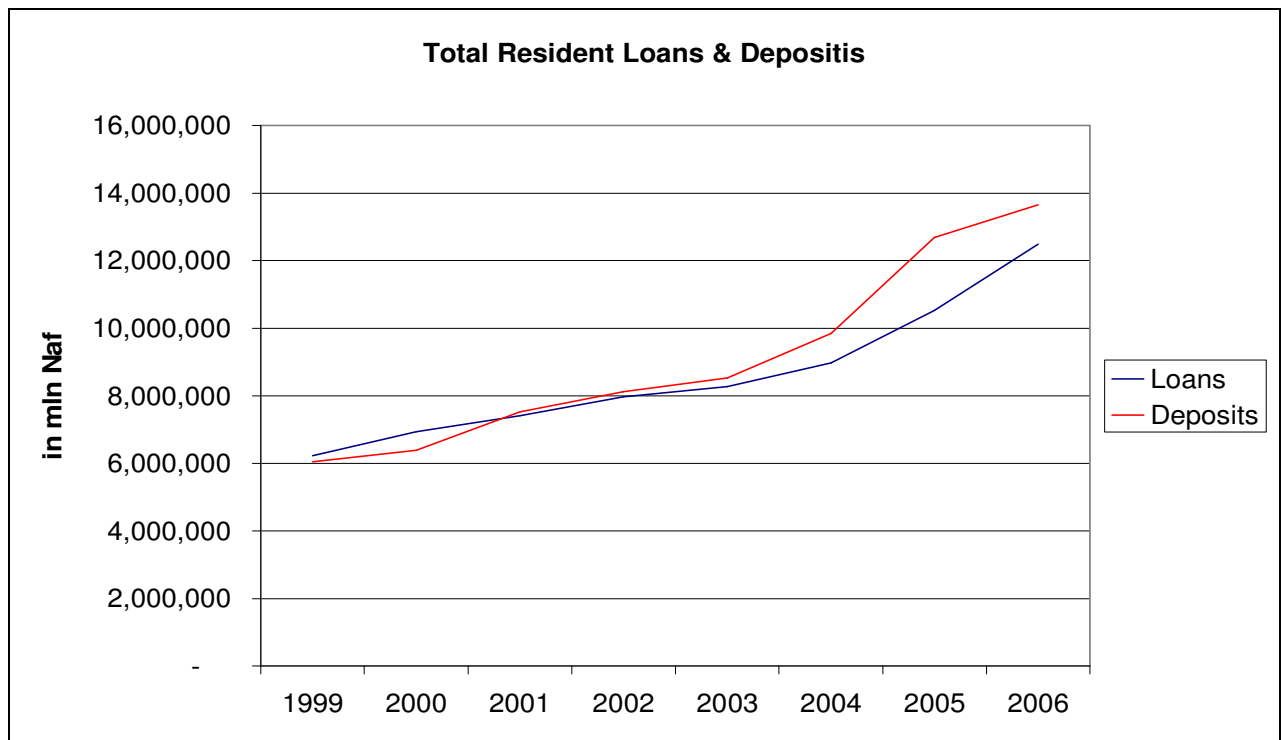


Figure 3.

source: Central Bank of the Netherlands Antilles

While consumer spending reportedly increased in 2006, the impacts of steep land and real estate prices were also quite evident. The commercial building boom, which is largely geared towards non-resident buyers, has boosted an upward spiral in real estate prices causing many residents to be priced out of the market. This is despite the fact that mortgage lending rates have declined in 2006, resulting from less demand and increased competition. Conversely, in some cases interest rates for personal loans increased in 2006, consistent with rising demand for more affordable consumer goods.

### *Prospects*

The economy of St. Maarten is projected to continue to expand in 2007. Performance in the banking sector is also expected to remain positive; with commercial banks revealing that they expect their profitability will either remain strong or improve throughout the year. Considerable improvements in consumer spending are expected to continue, particularly in the small business sector and commercial real estate. Though some indications suggest that credit demand and cash spending is likely to level off as prices continue to be pushed upwards in light of the ongoing economic growth. Consumer savings are also anticipated to increase in 2007. Moreover, interest rates may edge up slightly during the first half of the year.

Investments within this sector in 2007 will most likely be seen in the form of renovations/extensions of existing branches, opening of new branches and ATM services, but also in advanced technologies and increased security.

### 3.3.2 Financial Offshore Sector

The offshore sector in St. Maarten is still considered to be less significant than its onshore counterparts within the financial services sector, namely the commercial banks and insurance companies. The financial offshore sector represents a mere 2-3% of the island's GDP and is generally not a well-known sector throughout the island. This is the case, despite the long history of the Netherlands Antilles, especially Curacao having established itself as a major offshore financial centre after the Second World War. The main offshore business sectors currently operating in the Netherlands Antilles are: Investment & Holding companies, Intellectual Property Holding companies, Real Estate Holding companies, Mutual Funds, Trading companies, Offshore Banking, Offshore insurance companies, Ocean shipping and Aviation companies.<sup>16</sup>

These companies operate their business outside the Netherlands Antilles, however through their 'trust/management' company in the Netherlands Antilles and are subject to special tax rates, which are considerably lower than onshore companies. The companies are required to obtain a General Exchange License from the Central Bank, allowing them to carry out all types of business transactions with non-residents without further permission from the Central Bank.

Given the amendment to the Federal Law in 1999, whereby the issuance of new licenses for offshore companies was discontinued in the Netherlands Antilles, the actual number of new establishments declined significantly in Curacao as well as in St. Maarten. Nevertheless, existing offshore companies were given an extension in the law until 2019 where after they would be considered as local N.V.'s with equal taxation to the onshore companies.

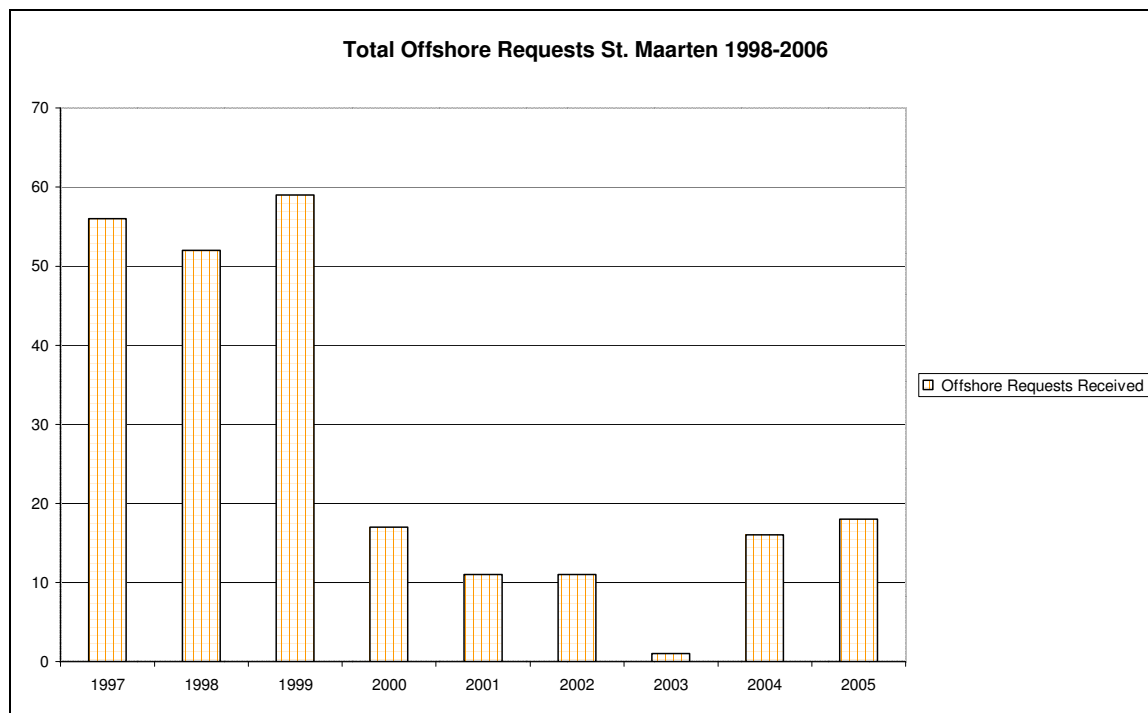


Figure 4.

Source: Dept. of Permits & Licenses (VOSEC)

<sup>16</sup> Business-& Director's License Policy for Offshore Companies

Furthermore, after the offshore industry in Curacao began experiencing some instability due to volatile political developments in Venezuela, the Executive Council of the island territory of St. Maarten appointed an offshore committee to prepare for the possible flow of existing offshore companies to St. Maarten. To this end, a number of actions were taken to improve the necessary infrastructure to facilitate and promote the sector on our island:

- 1) Approval of an “Offshore Business License Policy’ in March of 2006.
- 2) Streamlined business license and residence permit procedure.
- 3) Adjustment in the fees to the Chamber of Commerce equal to those fees levied in Curacao
- 4) The Inspector of Taxes on St. Maarten honours existing tax ruling(s) granted in Curacao to offshore companies that relocate business to St. Maarten.

Finally, in 1998 a new legal entity was introduced in the Netherlands Antilles namely, the Private Foundation. This entity present opportunities for the offshore market in St. Maarten to develop further despite the above-mentioned change to Federal Law. At present the number of these so-called private foundations is on the rise. In 2006 there were an estimated 58 new registrations compared to 19 in 2005.<sup>17</sup>

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<sup>17</sup> St. Maarten Chamber of Commerce & Industry

### 3.3.3 Insurance sector

The insurance sector is currently booming on St. Maarten. The expansion within this sector is driven by a number of factors namely, rapid economic growth, population growth, growing fleet of cars, level of criminal activity and rising popularity of insurance products. All of which contribute to a rapid increase in demand for insurance products. Apart from this, the high degree of volatility which the economy of St. Maarten has faced, especially because it is situated in a hurricane zone, makes economic insecurity a major concern.

Six insurance companies operate in St. Maarten: Ennia, Fatum, Nagico, Gulf Insurance, Sagicor and New India Assurance Co. These companies operate under supervision of the Central Bank of the Netherlands Antilles. Additionally, there are about 20 insurance brokers on St. Maarten, which also operate under supervision of the Central Bank. The companies and brokers offer a broad range of insurance products, varying from life, medical and liability insurances to marine and car insurances.

The sales volume of insurance policies increased considerably in 2006 compared to 2005. The increase in turnover volume for the insurance sector as a whole is estimated at around 10 percent. This was shown by a survey among insurers, carried out by the Department of Economic Research and Development (DEPR). Most insurers expect their sales volumes to increase slightly in 2007 compared to last year.

According to CBS inflation figures, average prices for insurance products remained relatively stable between 2002 and 2005. The survey results of DEPR indicate that in 2006 there was not much fluctuation in rates either.

Employment in the insurance sector increased slightly in 2006. For the year 2007, again a slight increase in employment is expected. The average gross wage paid per hour lies around Naf. 20. Finding skilled personnel for vacancies is sometimes a concern for the companies. Most of the companies tend to solve the lack of know-how by providing training programs for their staff.

### **3.4 Real Estate**

The real estate market on St. Maarten has been on a steady rise for the past five years in both the commercial and residential sectors. After Hurricane Luis in 1995 the prices for real estate dropped as demand decreased. Since that period however, the island real estate market has made tremendous recoveries. Some suggest that the market is currently overheating with the rapid increase of housing prices. While recent trends show that local banks are also more willing to finance a larger sum of money to individuals with minimum down payment.

In 2006, generally the real estate continued to be more of a sellers market; due mainly to limited available land. Though some real estate agents were of the opinion that it was both a sellers and buyers market since the market had stabilized throughout the year. A sellers market for residential homes below half a US\$ million and a buyers market for homes above US\$ 1 million. Commercial properties are becoming more difficult to acquire, as there is less flat land available. The price per square meter of land has also risen steadily as a result of the scarcity of land; sellers are currently able to set the prices.

A recent development that followed through in 2006 was pre-construction purchasing. High demand for homes, condominiums and other commercial buildings has led to these developments being sold before the actual construction takes place. Buyers speculate that the value of the properties will rise in the short-term; after construction these buildings are usually resold at a higher price or rented out to residents, visitors and medical students here on the island.

Over the years, the real estate market has seen several changes. Neighbourhoods that were traditionally considered to be middle income as they enjoyed moderate pricing, such as Saunders and Belair, are today experiencing high-end market prices as well as a shift in clientele. Moreover, a number of large investments are being made in condominium projects as opposed to traditional hotel developments as they generate a higher return on investments within a shorter period of time. Additionally, the Caribbean is still considered a safe destination for travellers and foreign investors, who want more than just a vacation in the Caribbean, but a home away from home on a crime free, paradise island.

Some less positive factors that have and will continue to impact the real estate market are the traffic congestion on the island as well as the lack of continuous infrastructure and roads.

#### ***House Market Prices***

The tables below give an overview of average estimated house market prices for 1 to 3 or more bedroom homes in 2006/2005. The figures were assembled from interviews held with various real estate agencies. When viewing the table it is clear that the type of home and location plays a major factor in the price. The prices are average estimates and therefore pricing can be more or less than above given estimations.

2006				
District:	Avg. Price 1 bed	Avg. Price 2 bed	Avg. price 3 bed	Avg. price 3 bed or more
1 Airport, Lowlands	\$202,500	\$376,667	\$558,333	\$720,833
2 Arch Road/ Sucker Garden	\$77,917	\$145,833	\$209,063	\$256,250
3 Belair	\$162,500	\$247,000	\$366,667	\$539,000
4 Betty Estate/Saunders	\$123,938	\$234,500	\$326,875	\$407,000
5 Cay Bay	\$66,667	\$128,750	\$191,667	\$225,000
6 Cole Bay	\$130,000	\$225,000	\$337,500	\$404,000
7 Cul de Sac	\$102,083	\$170,833	\$264,583	\$333,333
8 Defiance/Oyster Pond/ Guana Bay/ The Hope	\$187,500	\$297,500	\$440,625	\$623,750
9 Dutch Quarter/ Mount William Hill	\$73,438	\$146,875	\$216,250	\$294,000
10 Ebenezer	\$98,438	\$194,500	\$283,250	\$362,000
11 Fort Willem/Little Bay	\$126,563	\$221,875	\$317,188	\$418,750
12 Madame Estate	\$95,833	\$183,333	\$257,500	\$356,250
13 Middle Region	\$77,917	\$145,833	\$203,750	\$250,000
14 Philipsburg	\$225,000	\$350,000	\$362,500	\$683,333
15 Point Blanche	\$166,667	\$237,500	\$418,750	\$532,500
16 Simpson Bay/ Pelican	\$225,625	\$395,500	\$550,000	\$750,000
17 St.Peters	\$100,000	\$172,500	\$241,667	\$308,333
<b>Overall average price 2006</b>	<b>\$131,917</b>	<b>\$227,882</b>	<b>\$326,245</b>	<b>\$439,078</b>

**Table 3.4a Average House Prices per district 2006**

2005				
District:	Avg. Price 1 bed	Avg. Price 2 bed	Avg. price 3 bed	Avg. price 3 bed or more
1 Airport, Lowlands	\$143,250	\$244,400	\$371,550	\$522,100
2 Arch Road/ Sucker Garden	\$69,292	\$107,250	\$175,250	\$233,594
3 Belair	\$155,833	\$243,438	\$328,000	\$474,375
4 Betty Estate/Saunders	\$101,354	\$213,281	\$296,938	\$362,188
5 Cay Bay	\$58,750	\$107,813	\$152,083	\$201,000
6 Cole Bay	\$115,625	\$200,000	\$298,000	\$240,000
7 Cul de Sac	\$89,479	\$145,625	\$235,938	\$292,917
8 Defiance/Oyster Pond/ Guana Bay/ The Hope	\$157,292	\$262,813	\$396,406	\$465,000
9 Dutch Quarter/ Mount William Hill	\$64,667	\$107,250	\$187,375	\$244,125
10 Ebenezer	\$79,271	\$175,469	\$251,391	\$288,188
11 Fort Willem/Little Bay	\$98,229	\$168,958	\$259,688	\$341,250
12 Madame Estate	\$77,292	\$158,750	\$250,125	\$361,667
13 Middle Region	\$69,292	\$107,250	\$163,667	\$224,792
14 Philipsburg	\$196,250	\$313,333	\$439,167	\$584,167
15 Point Blanche	\$140,000	\$202,188	\$354,375	\$439,375
16 Simpson Bay/ Pelican	\$178,750	\$313,590	\$408,250	\$605,000
17 St.Peters	\$82,083	\$152,813	\$202,083	\$283,750
<b>Overall average price 2005</b>	<b>\$110,395</b>	<b>\$189,660</b>	<b>\$280,605</b>	<b>\$362,558</b>

**Table 3.4b Average House Prices per district 2005**

Upper -end areas that sell bigger homes (3 or more) at prices for >\$500.000 are namely, Lowlands, Simpson Bay, Pelican, Belair, Philipsburg, Defiance, Oyster Pond, Guana Bay and Point Blanche.

Middle- end areas that sell bigger homes (3 or more) at prices for \$250.000 to \$500.000 are namely, Cole Bay, St. Peters, Betty Estate, Saunders, Cul de Sac, Fort Willem, Little Bay, Ebenezer, Madame estate, Dutch Quarter and Mount Willem hill.

Lower -end areas that sell bigger homes (3 or more) at prices for <\$250.000 are namely, Cay Bay and Middle region.

When reviewing the overall housing prices across all districts, between the years 2002-2006, a significant growth pattern can be seen. Over all categories of homes; prices nearly or more than doubled in the past five years.

	2002	2003	%chg 02/03	2004	%chg 03/04	2005	%chg 04/05	2006	%chg 05/06
1 bed	\$76,805	\$88,796	15.61%	\$100,669	13.37%	\$110,395	9.66%	\$131,917	19.50%
2 bed	\$113,269	\$139,467	23.13%	\$168,629	20.91%	\$189,660	12.47%	\$227,882	20.15%
3 bed	\$158,819	\$189,705	19.45%	\$241,377	27.24%	\$280,605	16.25%	\$326,245	16.26%
3+ bed	\$199,086	\$222,715	11.87%	\$298,747	34.14%	\$362,558	21.36%	\$439,078	21.11%
Overall Average	\$137,495	\$160,671	16.86%	\$202,857	26.26%	\$236,306	16.49%	\$281,782	19.24%

**Table 3.4c Overall Average House Prices 2002- 2006**

It is expected that in 2007 house market prices will increase by another 10-15 percent. Prices are anticipated to continue rising for a period of time, however at a slower rate when compared to previous years.

### 3.5 Retail and Wholesale Sector

#### 3.5.1 Developments in recent years

The retail and wholesale sector (i.e. trade) is steadily growing in St. Maarten. According to preliminary National Account figures, the added value in the trade sector increased by 6.6 percent between 2004 and 2005. The trade sector is, together with the financial corporations and public utilities, the most rapidly growing economic sectors on the island. Trade makes up about 20 percent of St. Maarten's total GDP.

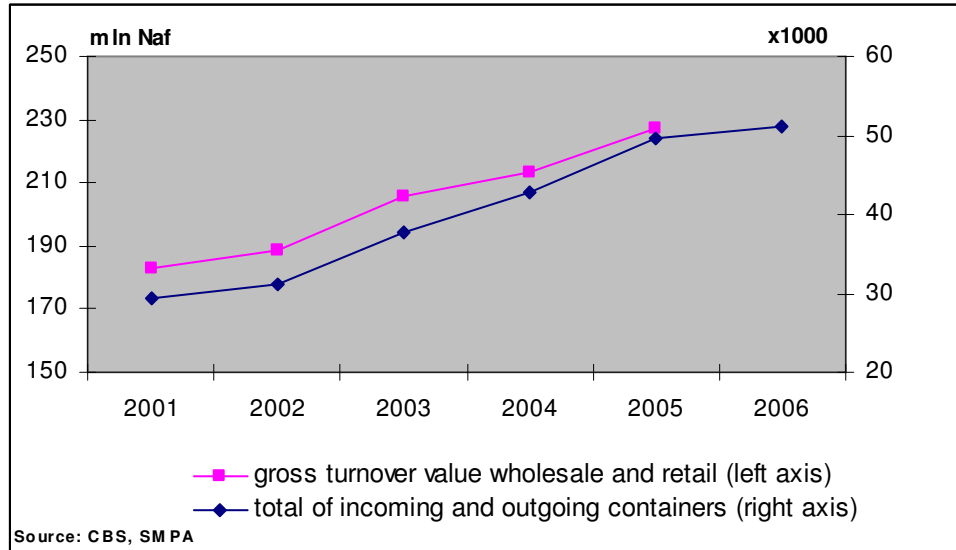


Figure 5.

Although for 2006 no GDP figures are yet available, a look at the developments in container vessel traffic is taken. This is because retail and wholesale products are mainly transported by container vessels, which gives some indication of the volume development in the sector. Figures on the movements of container traffic points out that volume growth in the trade sector leveled off in 2006. Container growth declined from 16.4 percent in 2005 to 2.8 percent in 2006.

Moreover, the growth of employment was in line with the economic growth in the retail sector. In the period 2001-2005 the number of employed people increased steadily as well.



Figure 6.

Retail and wholesale shops on St. Maarten are highly related to tourism. According to the Chamber of Commerce about 50 percent of the retail and wholesale industry is directly dependant on tourism and around 90 percent is indirectly or directly related to tourism.

A recent study on the economic contribution of cruise tourism in the Caribbean shows that about three quarters of cruise passenger expenditures in St. Maarten is spent on retail products.<sup>18</sup> The expenditure per cruise passenger on retail products was about US\$ 110.00 on average between May 2005 and April 2006. The competitive position of St. Maarten's retailers in the Caribbean is very good. Of the 19 destinations covered in the BREA survey, St. Maarten accounted for the second highest per cruise passenger expenditure.

### 3.5.2 Prospects

Sustained tourism growth, but also economic diversification will be crucial factors in the outlook of this industry for the next years. Further stimulation of new small businesses, especially by nationals, will continue to be encouraged by the island government, private sector and financial institutions who are willing to provide loans to aspiring business people. In 2006 the Chamber of Commerce already took the initiative to train people who were interested in starting up their own business. This was accomplished through a 3-month course geared at training persons on basic skills of trading.

Although the retail & wholesale industry has shown positive growth in recent years, the industry is not considered as a highly viable one on its own. This is especially due to its high dependency on tourism, which makes the trade sector quite vulnerable. If tourism flourishes, trade business does well, similarly if the tourism market is struggling, most retailers and wholesalers will find that they lose business.

Another risk is the small number of wholesalers on the island. Lack of competition makes companies behave like monopolists. Monopolism incites higher prices, less innovation (which leads to inefficiency and rigidity) and poor supply in quality and diversity of goods. This has its consequences for the retailer market as well. They have all the same products in store and behave non-competitive. The higher prices could eventually lead to a contraction in consumption and subsequently a slowing of the economy.

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<sup>18</sup> Report by Research Agency BREA (Business Research & Economic Advisors)

## **3.6 Telecommunications Sector**

### **3.6.1 Recent Developments**

The telecommunications industry on St. Maarten is characterized by a combination of infrastructure providers and service providers. Telem, Smitcoms, UTS and St. Maarten Cable TV are the main infrastructure providers. Smitcoms, UTS and ECC also have the concession to operate as International Carriers. The service providers are mainly composed of Internet Service providers (IPS) and mobile carriers.

The telecommunication market on St. Maarten is considered a viable market for the present stakeholders. Developments through 2006 suggest that this sector performed well throughout the year, and expectations for 2007 are optimistic. Looking forward there is considerable growth potential on the island as well as the region. Primarily in terms of, increasing the usage of current capacity, upgrade of present infrastructure, continuous provision of innovative products & services but also improvements to the quality of these services offered.

This industry is well known on the global marketplace for its dynamic character, whereby rapid changes in various technologies are very common. The life-span of many product and service innovations are very short and so many local operators in the market are in the process of strategizing, investing and upgrading their systems, and human resources.

Seeing that this industry is highly technological, it is not considered to be very labour intensive. While the constant upgrade and expansion of services may create job opportunities for some, a number of mergers/alliances are likely to take place on the island within the short term, leading possibly to redundancies in some areas.

Moreover, the telecommunication industry has been coping with liberalization of the market and the threat of deregulation. In 2006, the island government commenced with the establishment of a new telecommunications policy that will take the above-mentioned into account. It is geared towards ensuring a balanced telecommunications environment. Many argue that at that the core of this government policy, should be stricter requirements, and conditions to raise the barriers of entry into the market. This would prevent the current players in the market with a competitive advantage, from being forced out by larger multinationals.

In light of these pending pressures, stakeholders in the telecommunications sector are keen on the need to remain adaptive and make key investments. Operators and service providers are focused on the following issues:

- a) upgrading their infrastructure
- b) investing in new technologies
- c) training and retraining their employees
- d) offering alternative services
- e) improving their service
- f) pursuing strategic alliances

### 3.6.2 Prospects 2007 and beyond

At present, telecommunications is mainly a Federal Government responsibility, and is being regulated by the Ministry of Telecommunication in Curacao. Concessions and adherence to regulation is the responsibility of the Federal Government, in particular to the Bureau of Telecommunication & Post.

It is important for the island government to regulate and institute its telecommunication policy, this policy as it pertains to the issuance of business licenses will be submitted for approval in 2007. Furthermore, it is crucial for the establishment of the island's own Bureau of Telecommunication, considering the current move towards self-determination as a country within the kingdom of The Netherlands.

The telecommunications industry remains an important sector in which the government intends to further stimulate in its strategies to diversify the economy of the island.

### 3.7 Tourism

Tourism is the primary engine of St. Maarten's economy. This industry contributed significantly to the steady rate of political, social, and economic progress, which the island has achieved in the past forty years. As a consequence, massive investment in tourist facilities and infrastructure has been provided to support the mass movement, accommodation and entertainment for our visitors.

This paragraph will cover international and Caribbean tourism market developments. But will also specifically highlight tourism developments in St. Maarten in both the stay over and cruise tourism sectors.

#### 3.7.1 International tourism market developments

According to tourism reports of Global Insight, worldwide tourism arrivals increased by 5.6%, reaching approximately 800 million in 2005. Arrivals typically grow along with real GDP, though a bit faster each year on average and with more volatility. Over the past two years the industry has overcome several facets from natural disasters, to high oil prices, economic uncertainty, health issues and terrorist activity. Nonetheless, all regions are expected to have expanded in 2006, with the Caribbean, Latin America, North and South East Asia and Oceania all gaining market share.

<i>International Arrivals, annual percentage change</i>											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Western Europe	6.18	-1.30	2.46	-0.30	3.14	4.75	3.42	2.32	2.59	2.99	2.82
Eastern Europe	-0.01	-15.99	30.94	-27.72	13.75	5.50	1.42	2.46	2.93	3.44	3.49
North America	5.00	-5.91	-3.33	-6.99	10.89	5.32	4.53	4.73	4.62	4.67	4.57
Caribbean	6.00	-2.50	-4.54	5.99	7.19	5.65	6.26	4.04	4.06	3.98	3.25
Latin America	3.74	-4.46	-8.80	6.92	16.41	6.64	6.16	4.04	3.99	3.66	3.14
Middle East	21.57	-0.44	15.52	-1.41	10.46	12.35	3.11	3.75	4.73	5.86	6.49
North Africa	8.66	-1.80	0.64	9.17	15.50	5.86	1.92	3.35	3.45	3.62	3.48
Sub-Saharan Africa	1.73	1.99	3.34	2.13	3.48	7.64	3.31	3.65	4.02	4.49	4.55
North East Asia	13.81	3.30	15.77	-11.96	15.90	8.86	12.11	8.28	7.92	6.90	6.49
South East Asia	12.97	7.82	7.93	-12.38	29.58	2.87	8.43	9.16	8.38	7.54	6.62
South Asia	8.18	-7.04	-6.44	14.64	16.35	11.93	-0.43	6.01	6.16	6.65	6.35
Oceania	8.60	1.07	2.34	0.03	10.65	4.42	7.21	3.48	3.81	4.53	4.42
World	5.88	-3.89	7.17	-7.14	9.09	5.59	4.18	3.73	3.92	4.14	3.97

Global Insight's outlook for the global tourism industry for 2006 and beyond is underpinned by three key assumptions:<sup>19</sup>

- ❑ **Global economic moderation** - the next several years to be one of lower volatility in terms of economic growth, inflation and interest rates. There is an increase in financial market volatility, including stock market crashes and foreign exchange crises. With the exception of increased financial volatility, the moderation of the global economy bodes well for sustained travel demand.
- ❑ **Growing risk tolerance of the traveller** - External events may temporarily influence destination choices, but the traveller is less deterred by risk than ever before. And the final assumption relates to changes in the industry.
- ❑ **Transportation has become more affordable** - Despite high oil prices due to low-cost airlines and booking advantages that the Internet offers to individual travellers. This will continue to spur demand. On the destination side, supply continues to expand, keeping competition high and prices controlled.

The Caribbean will mostly likely continue to enjoy the effects of a weaker dollar, as Europeans find these dollar-based tropics more affordable and Americans continue to prefer nearby destinations. The region is also expected to gain from increased trends such as with 'low cost carriers' who are anticipated to define the entire tourism industry within short.

However, Caribbean inbound travel specifically from the US will likely be impacted negatively, with the January 1, 2007 implementation of the Western Hemisphere Travel Initiative (WHTI). While land and cruise-based implementation has been delayed, a substantial amount of Caribbean inbound travel takes place by air. Many local governments around the region have launched campaigns and continue to come up with creative initiatives to mitigate the possible adverse effects to the Caribbean, since the passport requirements for air travellers went into effect.

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<sup>19</sup> Global insight 'Global tourism report, 2006, issue 2'

### 3.7.2 Stay-over tourism

In 2006, total stay-over visitor arrivals practically remained the same as the previous year. Growth was noted especially in the South American and European markets, increasing by approximately 27% and 3% respectively. Promotional activities were especially geared towards attracting a more diversified spread of visitors; with more regional visitors from these markets. The largest market which is the North American, shrank somewhat (-1.7%) after a weaker showing from the Canadian market in 2006. The moderation of the U.S economy since the second quarter of 2006 may have also influenced the growth potential of arrivals from that market throughout the year.

Market:	2002	2003	2004	2005	2006
North America	214,899	251,792	282,822	281,364	276,710
South America	10,767	9,313	10,512	10,051	12,706
Europe	87,147	88,259	96,404	93,821	97,058
Caribbean	33,366	39,913	44,907	40,426	39,034
Rest of the World	34,148	38,310	40,387	42,199	42,296
<b>Total</b>	<b>380,327</b>	<b>427,587</b>	<b>475,032</b>	<b>467,861</b>	<b>467,804</b>

% change per market	2003/2002	2004/2003	2005/2004	2006/2005
North America	17.17%	12.32%	-0.52%	-1.65%
South America	-13.50%	12.87%	-4.39%	26.42%
Europe	1.28%	9.23%	-2.68%	3.45%
Caribbean	19.62%	12.51%	-9.98%	-3.44%
Rest of the World	12.19%	5.42%	4.49%	0.23%
<b>Total</b>	<b>12.43%</b>	<b>11.10%</b>	<b>-1.51%</b>	<b>-0.01%</b>

The below chart illustrates the total volume of air arrivals into St. Maarten on a monthly basis over the last three years. It is noted that arrival traffic has stabilised after reaching a sustainable rate in 2005. Overall and stay-over arrivals to the island are expected to increase in 2007. Resulting from increased direct airlift at the brand new Princess Juliana International Airport, as well as continued villa/condominium developments and international branded properties.

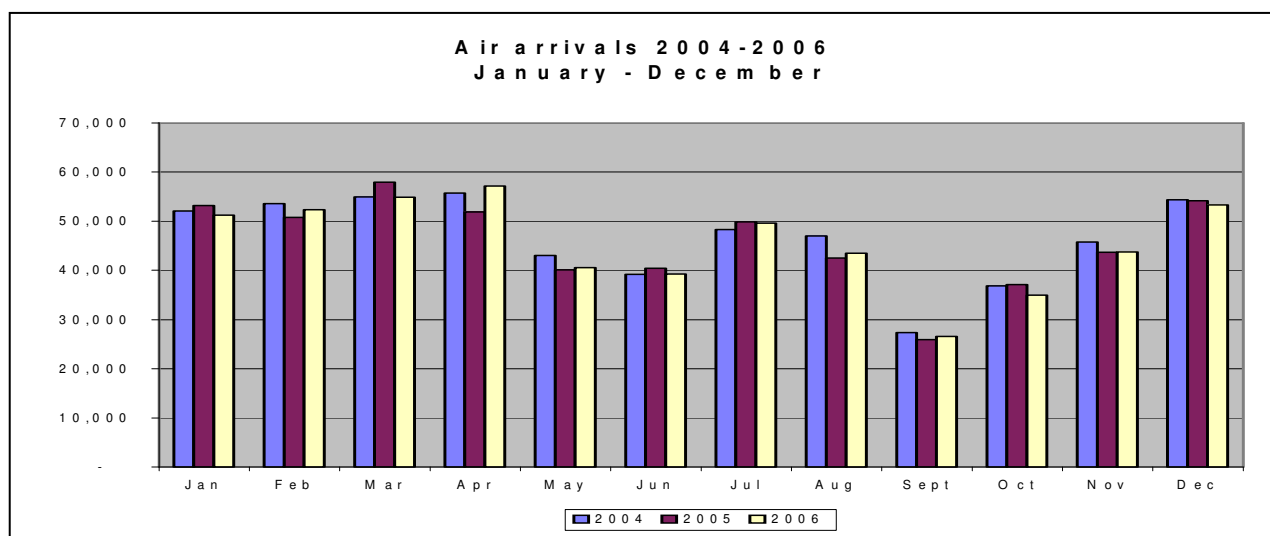


Figure 7.

### 3.7.2 Cruise Tourism

The economic impact of **stay over tourism** on St. Maarten is quite different from the group of tourist arriving by cruise ships. A **cruise tourist** stay approximately one day on the island, spending an average US \$145.15 per day; this was according to a recent study conducted by BREA.<sup>20</sup> Cruise tourists' main activities during their stay are visiting beaches, water sports, duty-free shopping and organized tours.<sup>21</sup>

The region's cruise tourism was adversely affected by a number of factors in 2006, namely the increase in fuel prices for cruise companies, a weak dollar compared to the euro, appreciation of the house market prices in the U.S and the fact that many Southern U.S citizens are still trying to recuperate from the natural disasters (Katrina and Rita) in 2005. Developments in the U.S, such as an increase in their homeports have also made an impact during the year.

Despite these challenges, St. Maarten has remained committed to improving its ports facilities and overall product in this very dynamic industry. In 2006, additional cruise ship moorings for mega-size cruise vessels were installed, the re-enforcement of existing fenders along the cruise ship jetty took place as well as the construction of a new tender jetty. All of which will have positive effects for our cruise tourism, as St. Maarten strives to be one of the leading ports in the region.

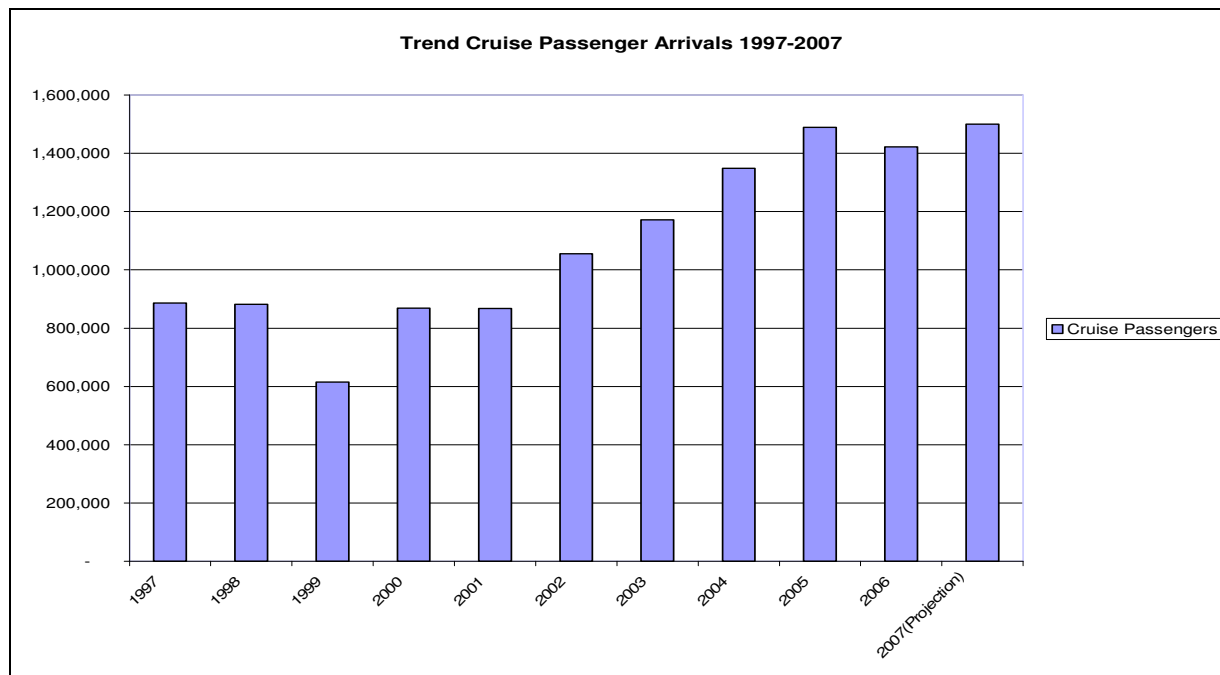


Figure 8.

<sup>20</sup> Business Research and Economic Advisors, 'Economic Contribution of cruise tourism to the Caribbean economy' October 2006

<sup>21</sup> St. Maarten Cruise Passenger Survey; St. Maarten Tourist Bureau (Quarter 3 – 2002)

Month	2006	2005	%chg 06/05
January	165,773	178,231	-7.0%
February	157,220	164,100	-4.2%
March	176,707	182,012	-2.9%
April	146,473	150,387	-2.6%
May	89,624	79,501	12.7%
June	69,248	77,829	-11.0%
July	66,864	74,366	-10.1%
August	74,942	69,554	7.7%
September	63,630	63,183	0.7%
October	82,239	116,473	-29.4%
November	158,110	172,452	-8.3%
December	170,815	160,449	6.5%
<b>Total</b>	<b>1,421,645</b>	<b>1,488,537</b>	<b>-4.5%</b>

In 2005, a total of 1,488,537 cruise ship passengers came into St. Maarten through its harbour. At the end of 2006 total cruise arrivals declined by 4.5 percent to 1,421,645. However this figure is expected to increase in 2007 to 1.5 million in light of ongoing developments at the harbour. Over the past two years the total number of cruise calls to the island also went down, this is partly due to the fact that cruise ships are becoming larger, and while the number of visiting

passengers is expected to increase the actual number of vessels docking at the port may decline. In the past, the harbour accommodated ships with a capacity of 3000 passengers; in the near future the port expects to host ships with a capacity of up to 5000 passengers.

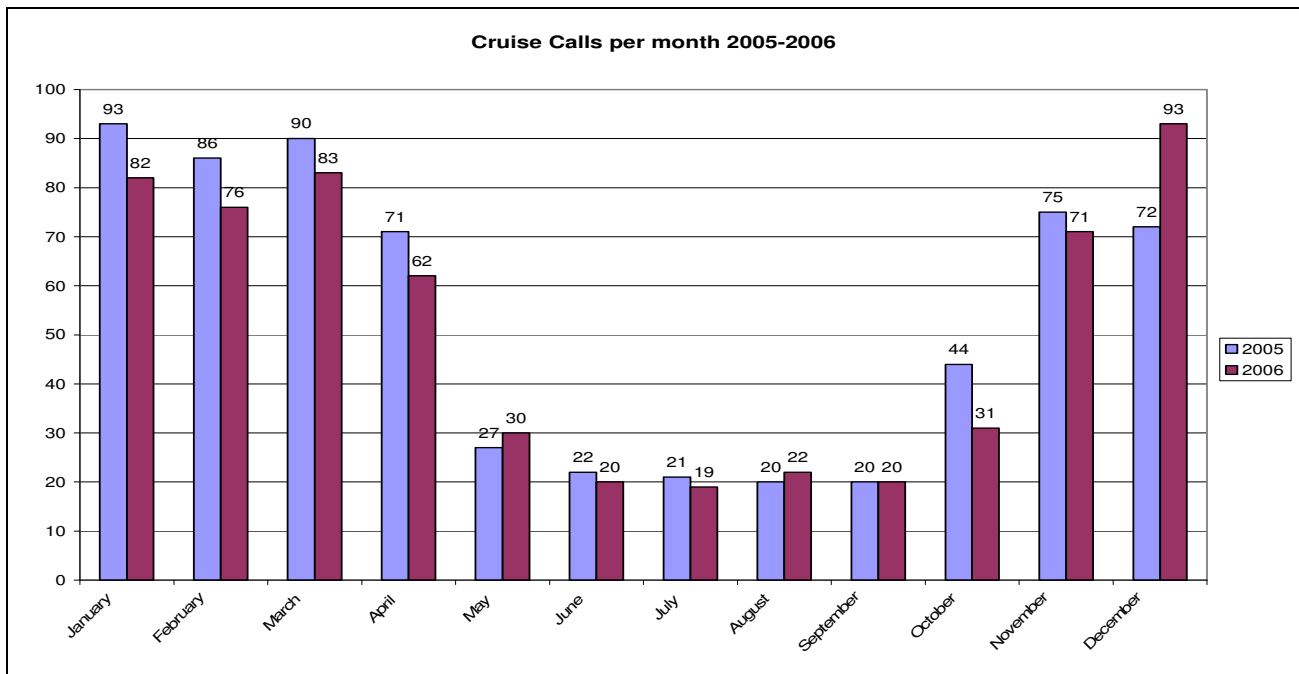


Figure 9.

Additional findings from the previously mentioned BREA study, showed that combined passenger and crew spending, along with other expenditures by the cruise lines generated a total of **246.4 million** (\$US) in cruise tourism expenditures in St. Maarten during the 2005-2006 cruise year.<sup>22</sup>

The below table shows a comparison in cruise passenger expenditures amongst nineteen other Caribbean cruise destinations during the same review period. St. Maarten has the second highest average daily expenditure by a cruise passenger in the region, placing after the US Virgin Islands.

<b>Destination</b>	<b># Visitors (Thousands)</b>	<b>Average spending</b>	<b>Total expenditures</b>
<b>Antigua</b>	391	\$84.00	\$32.90
<b>Aruba</b>	479	\$113.26	\$54.20
<b>Bahamas*</b>	1,586	\$60.54	\$96.00
<b>Barbados</b>	405	\$111.82	\$45.30
<b>Belize</b>	610	\$87.77	\$53.60
<b>Cayman Islands</b>	1,672	\$82.73	\$138.30
<b>Cartagena</b>	32	\$114.73	\$3.70
<b>Costa Maya</b>	606	\$76.28	\$46.20
<b>Cozumel</b>	1,714	\$91.64	\$157.00
<b>Curacao</b>	254	\$53.34	\$13.50
<b>Dominica</b>	190	\$51.20	\$9.70
<b>Grenada</b>	246	\$53.82	\$13.20
<b>Key West</b>	853	\$55.21	\$47.10
<b>Martinique</b>	78	\$39.35	\$3.00
<b>San Juan**</b>	1,187	\$96.94	\$115.00
<b>St. Kitts</b>	94	\$57.40	\$5.40
<b>St. Lucia</b>	346	\$82.62	\$28.60
<b>St. Maarten</b>	<b>1,304</b>	<b>\$145.15</b>	<b>\$189.30</b>
<b>U.S.V.I.</b>	1,632	\$176.69	\$288.30
<b>All Destinations</b>	13,677	\$86.03	\$1,340.30

source: Economic Contribution of cruise tourism to the Caribbean economy(October 2006)

<sup>22</sup> May 2005-April 2006

## **3.8 Transportation Sector**

### **3.8.1 Airport**

The Princess Juliana International Airport Operating Company N.V (PJIAE) operator of the Princess Juliana International Airport completed phase II of its master plan in the fourth quarter of 2006. Phase II, for which construction officially commenced on June 18, 2004, ensured the continuing race for PJIA to meet the increasing demands of the traveling public to and from St. Maarten.

The 27,000 square meter terminal building has more than doubled the size of passenger capacity being able to accommodate 1.3 million more passengers per year. The new facilities ensure continued compliance with the ever-changing international safety, security and passenger comfort standards and provide the island with a state-of-the-art modern facility that truly reflect the spirit, character and friendliness of St. Maarten/St. Martin. ”<sup>23</sup>

The phase II project represented a capital investment of US\$ 87 million. This consisted of a new terminal building, extended aircraft apron, increased car parking capacity and upgrading of the infrastructure which included the rerouting of the airport road around the new terminal facility.

In June 2005, the roof of the new terminal building was completed and the new rerouted road was opened in July 2005. By October 2005 the building was completely airtight and work continued on the interior. The terminal building finally became operational on October 24<sup>th</sup>, 2006 and was officially inaugurated on November 10<sup>th</sup>, 2006 by Her Majesty Queen Beatrix.

Since its opening, the old terminal has been demolished to make room for additional aircraft parking. The apron was expanded to accommodate more aircraft parking at the beginning of the 2006-2007 high season, which began on December 15, 2006. If traffic develops as forecasted, a third phase of the PJIA will be executed, consisting of an extension of the terminal building and the construction of a full parallel taxiway system. ”<sup>24</sup>



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<sup>23</sup> [www.investinsxm.com](http://www.investinsxm.com)

<sup>24</sup> Marketing department PJIA

### **Current specifications of the new airport include:**

- ❑ Passenger capacity of 2.5 million per year
- ❑ 4 jet-bridges for large aircrafts
- ❑ Passenger busses are used to transport passenger to the smaller commuter aircraft and other large aircrafts not parked at a jet-bridge.
- ❑ 46 check-in counters all outfitted with the CUTE (Common Use Terminal Equipment) System. This means that as opposed to having dedicated counters, as was the case in the previous terminal, airlines can now use any counter if and when available, without having to move or install any equipment.
- ❑ Safety and security remains top priority at PJIAE, as in major airports worldwide
- ❑ Increased security measures; 100% Hold Bag Screening (HBS) with Explosive Detection System (EDS).
- ❑ Increased security personnel with enforcement of strict adherence to safety and security policies
- ❑ FIDS (Flight Information Display Screens) throughout the terminal and BIDS (Baggage Information Display Systems) in the Baggage Reclaim area.
- ❑ Large, spacious and fully air-conditioned departure hall.
- ❑ 70% of the retail shops are post security (in the departure hall) to form the new Airport Mall.

### *Overall Industry Trends*

Improvements in technology, deregulation in aviation policies and changes in socio-economic developments have all influenced how airports are run today.

The influence of technology on the aviation environment has allowed for the production of larger and more economical aircrafts, and flights over longer distances. Deregulation in aviation policies has increased accessibility to more markets, but also increased competition.

Changes in socio-economic developments, such as rising incomes and a growing desire to travel have increased the number of airport users all over the world. Airports compete with each other for destination passengers as well as connecting passengers. Secondly, due to the continuous threat of terrorism, airports all over the world have implemented stricter security measures.

Passenger traffic worldwide is slowly on the increase, in spite of the increasing rise in fuel prices, which continue to drive airfare upwards. In addition, the ongoing threat of terrorism still plays a major role in air travel worldwide. Prospects for 2007 are widely positive. Air arrivals to the Caribbean region are expected to increase by about 4% in 2007 compared to 2006.

Forecast models for St. Maarten indicate that aircraft movements will continue to increase steadily in 2007 and beyond. PJIAE will continue to attend international forums on a yearly basis; such as Routes and Network, where dialogues with potential airliners are critical in order to expand service to PJIAE. These would hopefully translate into increased aircraft and passenger movements at PJIAE.

### 3.8.2 Harbour

“The main stakeholders of the St. Maarten Harbour group of companies are the St. Maarten Harbour Holding Company (SMHHC), and the St. Maarten Ports Authority (SMPA). The main difference between SMHHC and SMPA is that SMHHC is the asset management company in charge of the finances, while SMPA deals with the logistics, security and operation of the company.

The port of St. Maarten has been a major contributor to the island’s economy in the past few years. The new harbour, which opened in 2001, has allowed St. Maarten to join the exclusive ranks of Caribbean destinations that attract over 1 million passengers to their shores every year. The St. Maarten Harbour has also been ranked number 9 in the top twenty of world cruise ports and destinations in 2005. Therefore taking St. Maarten to another level and ensuring international recognition in this market. St. Maarten’s aim is to continue to make improvements to its harbour in order to stay within the ‘top ten’ of cruise destinations. The harbour is expected to expand further in 2007, as the need for increased capacity becomes more pertinent due to ongoing developments within the cruise industry. Monthly surveys will also continue in order to measure and ensure customer satisfaction”<sup>25</sup>

Some noteworthy specifications and benefits of the Dr. A.C. Wathey Cruise and Cargo facility include:

- Perfect facilities for docking and loading, namely the extended pier, cruise terminal building, new tender jetties and expanded cargo section.
- The cruise jetty is almost a half-mile long and can accommodate five cruise ships at a time. An extension to the cruise jetty will accommodate larger genesis-type vessels
- Connecting roads and walking path to the Boardwalk & busy shopping center
- Hurricane proof design

*St. Maarten is the Caribbean’s Cargo Gateway.*<sup>26</sup>

Additionally, the harbour provides ample facilities for the safe transportation of Cargo to and from St. Maarten and the transshipment to neighbouring islands in the Caribbean. The Port of St. Maarten is currently a leading hub in the Eastern Caribbean and is looking to extend these services in the future to other destinations. The current situation of The Captain David Cargo Quay, located at the Dr. A.C. Wathey Cruise and Cargo Facility:

- A 270 meters (890 feet) docking area (excluding cargo North and Cargo South cargo handling and docking areas).
- The facility operates at a depth of 10.5 meters (35 feet).
- Container storage capacity was expanded in 2006 to 2500 TEU’s (Twenty Foot equivalent unit).
- The Captain David Cargo Quay provides dedicated pipelines for both fuel and fresh water for all cargo vessels.

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<sup>25</sup> SMHHC- Managing Director, Mark Mingo, 2006

<sup>26</sup> 2006, Folder from the DR. A.C. Wathey Cruise & Cargo Facility

On a yearly basis there are over 50 different cruise lines docking at Dr. A.C. Wathey Cruise and Cargo Facility. Just to mention a few of the cruise lines; Empress of the seas, Caribbean Princess, Sea Princess, Disney Magic, Freedom of the seas, Crown Princess, Explorer of the seas and Carnival Victory. Many of which come to the harbour on a weekly basis.

In 2005, the harbour leased out land to the cement-bagging supplier Caricement/Holcim. This cement bagging plant moved its facility from Simpson Bay to a new environmentally controlled plant at the harbour cargo area. It is located well under the mountain not affecting the operations of the cargo and or cruise facility. Strict laws ensure proper control of the cement dust and other health and safety factors within a housed environment. Windward Roads N.V. has been the main contractor for excavation work. The financial cost tied to this project was approximately US\$ 1.7 million. The project facilitated increased revenues for the harbour but also served as a supply hub for some of the construction needs of the neighbouring islands; the project has been deemed successful to date.

### *Developments 2006*

In order to facilitate the larger cruise vessels docking at the harbour, two new cruise ship moorings have been added to the cruise jetty at the Dr. A.C. Wathey Cruise & Cargo Facility. The moorings had a direct investment of US\$3 million and will further enhance safety at the facility. This will also prepare the island for the mega-class cruise vessels that are coming into service. These preparations will enable the port to accommodate vessels with over 5000 passengers & crew and weighing over 150,000 gross tons.

In 2006, Easy Cruise announced that it would be home porting out of St. Maarten, offering a new cruise experience to thousands in the Caribbean region. The European low-budget cruise company, signed an agreement with the St. Maarten Ports Authority N.V. and the St. Maarten Harbour Holding Company N.V. to use the Dr. A.C. Wathey Cruise & Cargo Facility for home porting. In December 2006, Easy Cruise began its service out of St. Maarten and will continue through 2007. The Easy Cruise vessels are relatively small, with a maximum capacity of 500 passengers. Their target market comprises the less extravagant traveler, who is more focused on enjoying the destination itself and not so much the cruise.

### *New Tender Jetty<sup>27</sup>*

In 2006 a new tender jetty was placed to reduce the waiting time to board water taxis leaving the Dr. A.C. Wathey Cruise & Cargo Facility. The new facility consists of:

- ❑ 4 meters wide by 40 meters long
- ❑ 9 meters bridge section
- ❑ Five finger piers
- ❑ 24 meters covered section
- ❑ Depth of 6 meters has been dredged to allow vessels of 5 meters deep to dock

The new tender jetty is currently the largest of its kind in the Caribbean and will be able to accommodate several tours leaving from the Dr. A.C. Wathey pier at the same time. The old tender jetty will be used for the Port Authority vessels including the port authority pilot vessels.

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<sup>27</sup> 2006, Information folder from the DR. A.C. Wathey Cruise & Cargo Facility

### *Harbour outlook 2007*

The cruise vessels docking at the Dr. A.C. Wathey Cruise and Cargo facility are increasing in size, catering to almost twice the number of passengers in one ship. This has already caused a drop in the actual number of visiting vessels in 2006, and is expected to continue to decrease in the near future. However, the number of visiting passengers is expected to stay the same or even increase slightly.

### *Cruise lines*

In 2007, passengers will be able to begin their Freedom Class Royal Caribbean (RCCL) cruise in St. Maarten. This is one of the first steps taken to becoming a homeport. The RCCL, Freedom of the seas cruise ship is currently the world's largest, most innovative and modern cruise ship carrying a maximum of 4370 passengers.

St. Maarten's economy will undoubtedly benefit from the new home porting arrangements, especially from the additional departure taxes at the airport and the increase in stay over visitors waiting to board a vessel.

### *Captain Hodge Wharf<sup>28</sup>*

The Captain Hodge wharf has the same concept as the tender jetty. Water taxis will be able to take cruise passengers from Dr. A.C. Wathey Cruise & Cargo Facility to the center of Philipsburg where they can enjoy shopping. This project was partially funded by the St. Maarten Ports Authority (SMPA) as an important addition to the experience of cruise passengers arriving at the Harbour. The small pier was officially opened at the end of 2006, for the start of the new tourist season.

The new facility has a visitor information center as well as the Soualiga Patrol Unit (SPU). This is a government sponsored security patrol that supervises the high concentration of visitors in the Philipsburg area. A Souvenir outlet and a manufacturer of local beverages are also part of the pier. Also scheduled for 2007 is the launching of a Starbucks franchise.

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<sup>28</sup> 2006, Information folder from the DR. A.C. Wathey Cruise & Cargo Facility

### 3.8.3 Harbour Buy Back Funds

The Harbour project of the St. Maarten Harbour Holding Company (SMHHC) was financed for 30% by NPMNA (Nederlandse Participatie Maatschappij Nederlandse Antillen), which in actual fact is the Dutch Government. The Island territory of St. Maarten financed the remaining 70% of the Harbour Project. The Harbour currently is paying back its loan to the NPMNA.

At the end 2005 the Ministry of Interior and Kingdom Relations and the island territory St. Maarten agreed to reinvest the 'ports money' in the island territory. The port money has been released by sale of shares in and debt remission of the port of St. Maarten. NPMNA has made the agreement with SMHHC to pay back the loan in the form of social development funding. The Harbour buy back funds came into existence, because of this agreement. 20% of the projects have been executed in 2006; the other 80% will be executed in 2007. The Harbour buy back funds are meant for financing of various social/product development programs and for the upgrading of infrastructure at the Harbour on St. Maarten.

The released resources are intended for projects in the following areas:

- Social housing construction
- Port-related projects (infrastructure)
- Golf breaker
- Poverty reduction
- Good governance
- Youth and Children
- Environment
- Public health

#### Festival Village

In 2006, the construction of the St. Maarten Festival Village was started. The St. Maarten Ports Authority N.V. and the St. Maarten Harbour Holding Company N.V. have played a supporting role in the construction of the year round festival village in Philipsburg. The new facility will be completed with permanent vending boots, modern washroom facilities and a brand new sound stage.<sup>29</sup> Once the project is completed it will be used as the year round entertainment venue for St. Maarten performers. The former Carnival village will be renamed the Festival Village and is scheduled for completion in April of 2007.

USONA manages the harbour buy back funds, the table below shows how the money from the Harbour Buy back funds will be spent. Monies will go towards the development of Hope Estate, infrastructural upgrades in and around Philipsburg, parenting programs, sanitation improvements, rehabilitation centres and after school programs and the purchasing of medical equipment for the St. Maarten Medical Center.

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<sup>29</sup> 2006, Information folder from the DR. A.C. Wathey Cruise & Cargo Facility

Planned project budget HBB		budget estimate	financed	2006	2007	2008
Harbour Buy Funds		2006-2008	by			
<b>1. Social housing development</b>						
1c	hope estate		OF/SXM	200,000	5,000,000	2,000,000
<b>2. Harbor related infrastructural projects</b>						
2a	improving capacity of Nisbeth Road		OF/SXM			
2b	improving back street-cannegierterstreet	3,600,000	OF/SXM	600,000	2,500,000	500,000
2c	suppression traffic busy points		OF/SXM			
<b>3. Golfbreaker</b>						
3a	Golfbreaker haven greatbay	2,500,000	SMHHC	500,000	2,000,000	
<b>4. Social purposes, environment en good governance</b>						
<b>poverty alleviation</b>						
4a	parenting assistance	100,000	OF/SXM	25,000	75,000	
4b	sanitation individual housing/home and repair	800,000	OF/SXM	100,000	500,000	200,000
4c	improve roads/ drainage emergency homes	1,370,000	OF/SXM	370,000	1,000,000	
<b>good governance</b>						
4d	electronical government	800,000	OF/SXM	150,000	650,000	
<b>youth and children</b>						
4e	rehabilitation	1,600,000	OF/SXM	250,000	1,000,000	350,000
4f	after school program	200,000	OF/SXM	100,000	100,000	
4g	security schools	300,000	OF/SXM	75,000	225,000	
4h	school belvedere	200,000	OF/SXM	25,000	175,000	
4i	multifunctioneel youth and recreational centre	1,000,000	OF/SXM	250,000	750,000	
<b>Environment</b>						
4j	building of belvedere community center	2,000,000	OF/SXM	250,000	1,750,000	
4k	neighbourhood improvement (top layer roads) belvedere	1,000,000	OF/SXM	200,000	800,000	
4l	removal of old iron and wreckage	1,000,000	OF/SXM	150,000	600,000	250,000
<b>Health</b>						
4m	buying of medical equipment	2,100,000	OF/SXM	200,000	1,900,000	
4n	medium care unit and ICU	2,200,000	OF/SXM	200,000	2,000,000	
<b>Totals</b>		<b>20,770,000</b>		<b>3,645,000</b>	<b>21,025,000</b>	<b>3,300,000</b>

HBB= Harbor Buy Back Funds  
OF/SXM= USONA (NL), Island territory SXM  
SMHHC= St. Maarten Harbor Holding Company

### 3.9 Utilities Sector

#### 3.9.1 Developments 2006

GEBE N.V is the government-owned utility company responsible for the production and distribution of electricity and water on St. Maarten. During the year 2006, a new managing director Mr. William Brooks was appointed to run the daily operations of the company, after the retirement of Mr. Julius Lambert, who had a long tenure of 25 years with the company.

When reviewing the developments within the utilities sector in 2006, an expansion of approximately 5 % is noted in electricity sales volumes while water sales volumes were up by about 3% over the previous year.

The chart below depicts the developments in electricity sales volumes over the past 4 years.

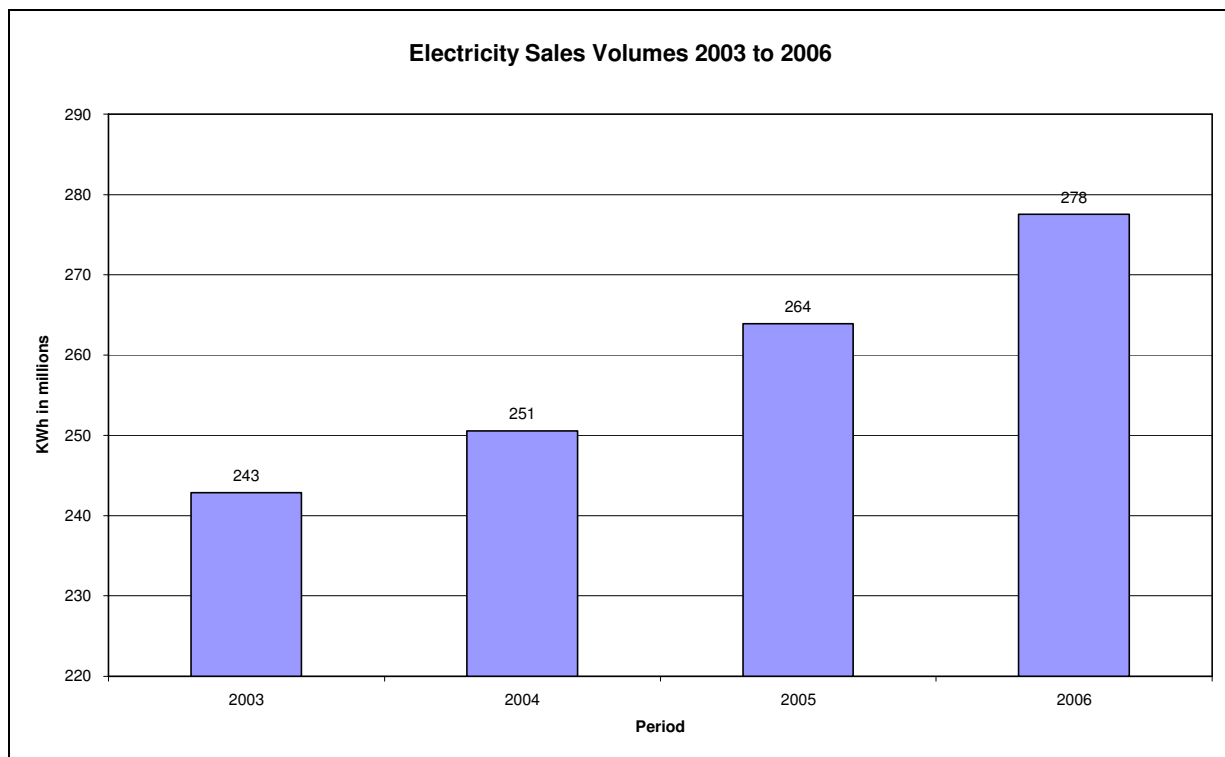


Figure 10.

A further breakdown per category show individual growth as follows:

	2006	2005	% Change
<b>Domestic Electricity sales:</b>	88,836,268	84,924,504	4.6%
<b>Commercial Electricity sales:</b>	150,147,444	142,887,519	5.1%
<b>Large Consumer Electricity sales:</b>	38,578,510	36,092,410	6.8%
<b>Total Sales Volumes:</b>	<b>277,562,222</b>	<b>197,950,184</b>	<b>5.1%</b>

The table above shows that the large consumer electricity sales saw the biggest increase of 6.8% in 2006 compared to 2005. The reason for this being that more large consumers opted to consume from GEBE instead of using their own generators due to the volatility of fuel prices throughout the year.

*Water Sales Volumes:*

Compared to 2005, overall water sales volumes increased by 3.6% in 2006. While compared to this period in 2004 it shows an increase of 11.4%.

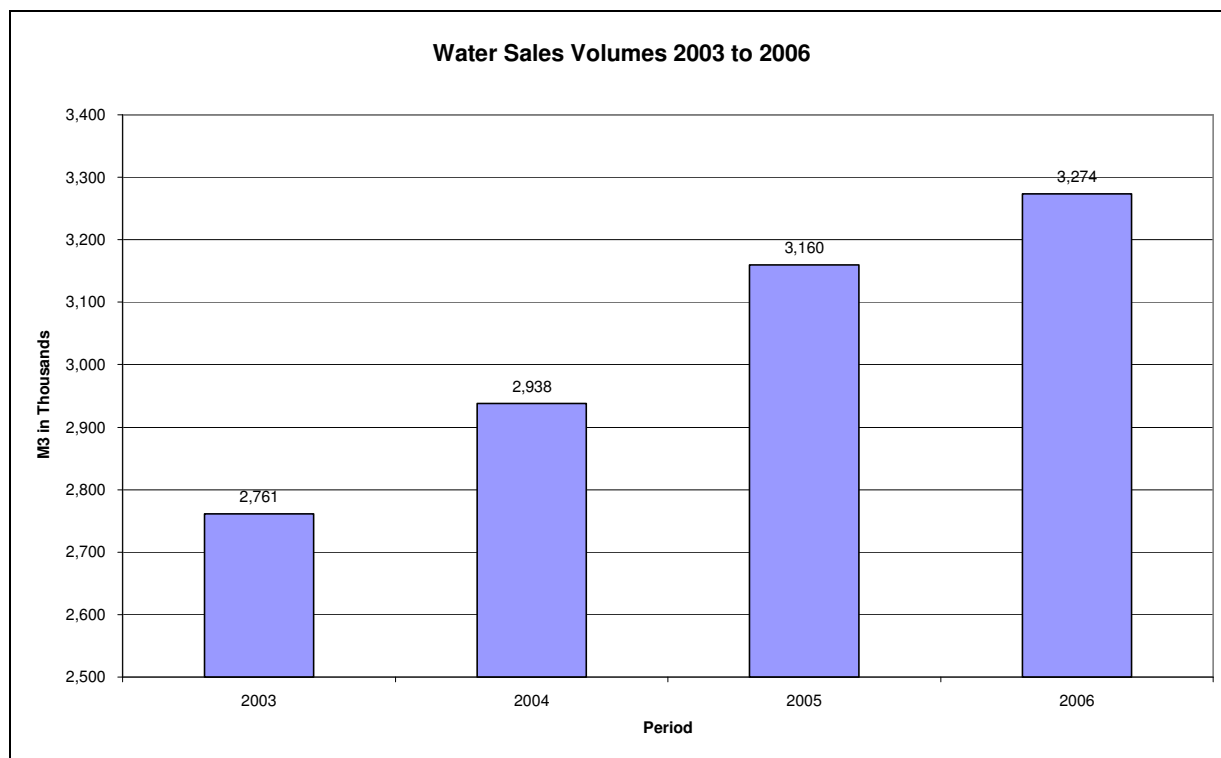


Figure 11.

Developments per category show that domestic water sales had the greatest increase in 2006 compared to 2005.

	<b>2006</b>	<b>2005</b>	<b>% Change</b>
<b>Domestic water sales:</b>	2,048,282	1,972,119	3.86%
<b>Commercial water sales:</b>	757,403	729,525	3.82%
<b>Large consumer water sales:</b>	468,256	458,015	2.24%
<b>Total water sales volumes:</b>	<b>3,273,941</b>	<b>3,159,659</b>	<b>3.62%</b>

3.5.2 Outlook for 2007

In 2007, GEBE is expecting growth of between 4 to 5 % for electricity and water. This is partly connected to the opening of the new hotel “West Inn”, which will be a new big customer in 2007. Growth in the construction and tourism sectors present additional growth potential for the company throughout the year.

## General Conclusion

Developments in the external economic environment throughout 2006, show that the global economy continued to expand at a healthy pace. This was despite a slowdown of the growth momentum in some major economies such as the United States. In 2006, the U.S. saw a cooling housing market and thus a slowing in the construction sector, however overall, the economic performance during the year was balanced out to some extent by favourable employment & income conditions as well as a lift in private consumer spending and business investments. Economic growth in the Eurozone remained positive in 2006, with the main impulses being robust growth in domestic demand and exports. According to the European Commission, the EU as a whole is expected to create 7 million new jobs between 2006 - 2008.

The outlook for 2007 in other regions across the world such as Asia, Latin America and the Caribbean are also favourable; though growth is expected to slow slightly in select areas. The risks of external shocks and disasters remain a significant factor for uninterrupted growth particularly in the smaller economies. Developments in the world oil market are also expected to influence overall price developments worldwide.

In lieu of, the anticipated sustained global economic growth, and increases in international tourist arrivals; St. Maarten is hopeful that it will maintain its current growth pattern. This is of paramount importance given its efforts to successfully realise Country status and sustain itself over the short and long term.

In 2005, the economy of St. Maarten expanded with a real growth rate of 4.8% compared to 4.5% in 2004. This was stimulated by growth in the construction, trade and financial-intermediation industries. Although no official GDP data has been released for 2006; key economic indicators suggest that this performance has been consolidated throughout the year. Particularly due to the completion of a number of major private and public sector projects. The island, as well as the region also benefited from a very quiet hurricane season in 2006 relative to 2005.

Stay-over tourism arrivals remained flat in 2006 compared to the year before. Challenges within the domestic airline industry throughout the year, added to a wavering consumer confidence in the U.S. which have influenced the concentration of passenger volumes during the year. Cruise arrivals saw a dip of around 4 percent, which was consistent with the trend of lower bookings to the Caribbean region as a whole. Nonetheless, growth is expected to resume in 2007 in both tourism sectors, in light of the increased capacity of the new airport facilities, the introduction of low cost carriers such as Spirit Air in April 2007, as well as ongoing infrastructural improvements at the harbour.

On a sector level, both agriculture and fishery remain quite small sectors on the island. In 2007, more attention will be placed by the island government on introducing programs in specific areas within the agricultural sector, as well as the development of secondary niche industries.

Based on recommendations from the Economic Diversification Study that was completed in 2006; the island government is actively investigating the feasibility of diversifying the economy, complementary to the tourism industry, in order to cushion the economy from shocks. The island government welcomes and is geared towards boosting investments within specific industries with its focus on creating jobs and career opportunities for the local labour market.

Emphasis is being placed on hydro-farming and agro-processing, as the land constraints will not be a factor to prevent the development of this industry. Development of niche sectors within the marine industry is on the agenda. Sint Maarten currently has established itself within the yachting sector and expansions and improvements of the Simpson Bay Marina, Harbour and additional berths are economic assets.

Over the past two years, the construction sector has been one of the island's main economic drivers after tourism. Underscored by numerous multi-million dollar developments in the private and public sectors.

One of the biggest projects for 2006 was undoubtedly the completion of the new terminal building of the Princess Juliana International Airport. Another major project which opened its doors late in 2006 was the Dawn Beach (Westin) Residences, work will continue on this project through 2007. Other major resort and luxury condominium projects include Cupecoy Resort and Aquarius.

The fish market in Simpsonbay, the new Government Administration building on Pond Island, which will greatly improve government services; the beautification and upgrade of Backstreet which host one of the main shopping and business districts, the festival village which will be the primary venue for entertainment and social engagements., the Soualiga roundabout which will alleviate traffic congestion, and further expansion of the A.C. Wathey Cruise & Cargo facilities, all form part of major public level developments that will be completed throughout 2007. These projects will greatly enhance the public infrastructure of the island, and improve the level of service of the island government of Sint Maarten.

Currently demand remains high for homes, condominiums and other commercial buildings. There has been a shift from the more traditional hotel developments, to large investments in condominium projects. Insiders within this industry have reported that the growth momentum is expected to continue for the next 4-5 years, before construction activities begin to cool.

Growth within the commercial banking sector solidifies the positive economic performance of the island through 2006. According to local bank industry experts, most banks experienced growth of at least 10% and above compared to the year before.

While consumer spending reportedly increased in 2006, the impact of steep land and real estate prices were also quite evident. The commercial building boom, which is largely geared towards non-resident buyers, has boosted an upward spiral in real estate prices causing many residents to be priced out of the market.

Nonetheless, the small business sector is expected to expand due to governmental stimulus programs. Credit demand and cash spending however, are likely to level off, as prices continue to be pushed upwards in light of the ongoing economic growth. The overall outlook for this industry in 2007 is optimistic.

The retail and wholesale sector (i.e. trade) is steadily growing in St. Maarten. According to preliminary National Account figures, the added value in the trade sector increased by 6.6 percent between 2004 and 2005. Trade makes up about 20 percent of St. Maarten's total GDP.

Although the retail & wholesale industry has shown positive growth in recent years, the industry is not considered as a highly viable one on its own. Sustained tourism growth, but also economic diversification will be crucial factors in the outlook of this industry in the coming years. Further stimulation of new small businesses, will continue to be encouraged by the island government, private sector and financial institutions who are willing to provide loans, and programs to aspiring business people.

The economy of Sint Maarten is poised for strong continued economic and social growth in the wake of major public and private infrastructure enhancements. The pending *status aparte* currently scheduled for December 15, 2008 when Sint Maarten becomes a country within the Netherlands, will allow for greater self-determination. Additionally, Sint Maarten will begin the slate debt free, with significant economic and social inputs. The tourism sector is concretely entrenched and expanding, economic diversification programs are on the drawing board, and the small business sector is growing. The outlook for Sint Maarten is bright, complemented by its white sandy beaches, crystal warm blue waters, its friendly people and a progressive economy.

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