

## **ENVIRONMENTAL PROTECTION VERSUS ECONOMIC DEVELOPMENT: THE CASE OF PUNTA CANA**

“It’s just too fast,” said Kelly Robinson, Director of Environmental and Social Affairs for Grupo Punta Cana in the Dominican Republic. “They are just moving too fast. The government, the community, and the developers have no idea what the construction of this new resort could do to the environment or the economy.”

“My greatest concern is salt water intrusion into the fresh water aquifers,” said Theodore (Ted) Kheel, a major shareholder in Grupo Punta Cana (GPC) in referring to the development of neighboring Cap Cana. If the Cap Cana marina and Grand Canals are built, it is highly likely that the fresh water aquifers, for which Punta Cana Resort and Club, Club Med, and the future Cap Cana will rely on fresh water, will be contaminated by seawater. It is possible that thirty years and hundreds of millions of dollars in investment by Grupo Punta Cana could be substantially impaired by this salt-water intrusion, not to mention the barrier reef and all of the wildlife ecosystems that have existed around Punta Cana for centuries.

Starting with 15,000 acres of jungle, American Ted Kheel and Dominican Frank Rainieri literally founded the entire resort destination of Punta Cana on the eastern shore of the Dominican Republic. With the encouragement of several Dominican governments over three decades, Messrs. Kheel and Rainieri, under the development company, Grupo Punta Cana (GPC) were able to develop an entire tourist economy from scratch, helping employ tens of thousands of poor Dominicans and introduce a whole new form of service based economy to the country. In 1969 there were no roads in the Punta Cana area. As of October 2002 there are 18,300 hotel rooms spread over 30 resorts from Juanillo to Bavaro.

Punta Cana was developed around the idea that resort development should not compromise the environment in a way that would negatively impact the ability of future generations to meet their own needs. This concept, called Sustainable Development, forced the developers to consider the potential benefit of economic development against the potential cost to the environment at each stage of the project. After spending thirty years building a project with a balance between the environment and economic growth, GPC is now finding economic determinism in a developing country is an unstoppable force. Armed with millions of investment dollars, high level political contacts, and the promise of 50,000 new jobs over 10 years, Cap Cana, owned by Grupo del Caribe, recently unveiled plans to build a Cancun-style destination immediately to the south of Punta Cana. The multi-billion dollar destination will sit on 30,000 acres and include: five miles of oceanfront property, three Jack Nicklaus Signature Golf Courses, the Caribbean's largest marina catering to super yachts, 14 luxury hotels, estate residences, yacht clubs, beach clubs, health spas and casinos.<sup>1</sup> This development not only has the potential to disturb the carefully protected Punta Cana environment, but hurt the value of GPC as a corporation.

*“It’s possible you can be loved to death by too many tourists going to a destination, where you are just too successful.” – Fergus Tyler MacLaren, International Ecotourism Society*

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<sup>1</sup> Cap Cana Press Release dated November 27, 2001: DETAILS OF THREE BILLION DOLLAR CARIBBEAN RESORT UNVEILED

### **The Importance of Tourism Globally**

In recent decades, the tourism industry, which includes activities such as transportation, accommodation, recreation, and catering, has become a sector of great economic importance<sup>2</sup>. With total global output of \$3.4 trillion (as measured in US dollars), the tourism industry accounted for approximately 10% of global GDP at December 31, 2001.<sup>3</sup>

While tourism is important to developed countries, it is even more important to lesser developed countries and developing countries. The reason is that tourism, especially tourism related to local culture or a particular environmental setting, can have a strong positive effect on job growth for that area. For that reason, tourism has been the economic growth engine of choice for many poor nations. According to the World Tourism Organization (WTO),

“Of the 100 or so poorest countries, tourism is significant in almost half of the low-income countries and virtually all of the lower-middle income countries. Tourism is a principal export (features in the top 5) for 83% of developing countries and the principal export for one third of developing countries. 80% of the world’s poor, those living on less than 1US\$ per day, live in 12 countries. In 11 of these countries, tourism is significant of growing, using significant to mean over 2% of GDP or 5% of exports.”<sup>4</sup>

The WTO forecasts that international tourism will grow at the rate of 4% per annum, and by the year 2010 international arrivals will exceed 970 million with receipts in the range of US \$1.5 trillion. Total worldwide receipts for calendar 2000 were \$689.8 billion. According to the WTO, the receipts from international tourism represent over 8% of global exports of goods and almost 35% of the global exports of services in 1997. Tourism ranks as one of the top sources of employment, employing 11.3 million people worldwide in the hotel industry alone.<sup>5</sup>

### **The Economic and Social Importance of Tourism**

Tourism is an integrated web of activities that impact natural, fabricated, cultural, and socio-economic environments. In a “de-novo,” “greenfield,” or rapid growth scenario, tourism can be characterized as an industry that consumes the resources that draw tourists to the destination. One of the most obvious conflicts occurs in the initial development of infrastructure to support tourism development. Tourism, or the anticipation of tourism, creates demand for water supply, electric power, sewage, and solid waste disposal, drainage and telecommunications. In order to draw tourists to the area, natural and human built attractions and activities are created along with lodging and other services to accommodate them. Access to an area usually involves the expansion of transportation services, which increases travel both within the local community and with the outside world.

For example, if an investor group elected to develop an uninhabited island off the coast of Florida for the purpose of drawing tourists to luxurious hotel surroundings and a tropical climate, the investors would first need to build travel access. An airport or boat launch would need to be developed along with roads to reach the future tourist destinations. Heavy machinery would need

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<sup>2</sup> The following definition of tourism was officially adopted by the United Nations Statistical Commission in 1993: “Tourism comprises the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business, and other purposes.” The intergovernmental World Tourism Organization (WTO/OMT) and the private sector World Travel & Tourism Council (WTTC) consider travel and tourism to be the largest economic classification

<sup>3</sup> International Monetary Fund website: The World Economic Outlook (WEO) Database April 2002

<sup>4</sup> Joint report from World Travel and Tourism Council, International Federation of Tour Operations, International Hotel and Restaurant Association, and International Council of Cruise Lines titled Industry as a Partner for Sustainable Development, published 2002 by United Nations Environment Program

<sup>5</sup> Joint report referenced in footnote 4

to be imported to the island along with skilled labor and materials to erect the planned development. After completion of the project, the new hotels will require professional staff, and those staff members will need places to live. The staff will also need places to buy groceries, dump garbage, send their children to school, worship, play organized sports, enjoy cultural activities, perform personal banking functions, and congregate as a community. When the engine of development has been sufficiently primed by the investors, the economy will begin to grow on its own through the trading of goods and services and the “multiplier effect.”<sup>6</sup>

Tourism can also have important social implications on an economy or culture. The mere presence of tourists can change the values and attitudes of the indigenous people. The introduction of new wealth into the economy can also change traditional social arrangements, geographic mobility, morality and patterns of behavior, consumption behavior, and can also increase uncertainty and stress.

### **The Environmental Importance of Tourism**

The environmental implications of tourism are equally important. First, and most obviously, tourist activities can have adverse impacts on the environment. Some negative environmental effects include the production of wastes and pollution and the consumption of natural resources, including biological, water, and land resources. This is particularly problematic since, there is an obvious link between tourism and the environment; some kinds of tourism depend on a clean and unspoiled environment. Many tourists wish to travel to particularly untouched areas that are ecologically sensitive and natural sites of outstanding value.<sup>7</sup>

Experts have identified roughly two kinds of effects on the environment. First, are consumption and overuse of natural resources and an increase in waste and pollution. For example, development and construction related to tourism may also increase air and noise pollution. Tourism-generated environmental harms are now felt in many developing countries that lack the technological or financial capacity to handle tourists' resource consumption and waste generation.

The second type of impact results from the social and economic consequences of the introduction of tourists upon local and indigenous communities. For example, the development of the tourism industry in an area can provoke a movement of jobseekers to the area. The introduction of these jobseekers may bring corresponding social degradation, including crime, disease, or prostitution. In an economic sense, communities heavily dependent on the tourism industry are extremely vulnerable to changes in tourist patterns and preferences. Additionally, demand for goods and services at a local level are increased by tourism demands, and the prices of such goods and services may be higher and less accessible for local customers.

Despite its negative impacts, tourism contributes to regional and local sustainable development, as well as to the conservation of the environment, since the tourism industry is a source of high income, generated in part because of the attraction to natural sites. Tourists have an

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<sup>6</sup> Multiplier is an economic concept that attempts to quantify the effect that the addition of one dollar would have to demand and production in an economy. It is supposed that an increase income will lead to an increase in consumption, which will lead to an increase in demand, which will lead to an increase in production and then income.

<sup>7</sup> Ecotourism or nature tourism is a concept that first emerged in North America around 1985 as an elite form of tourism that brings naturalists the chance to enjoy intact and fragile areas in remote regions of the world. Ecotourism is based on observations of, and experiences in, the natural world. Ecotourism focuses on remote and protected areas mainly in the southern countries with rich biodiversity, unspoiled areas and populations that preserve their traditional ways of life. The most comprehensive definition of ecotourism is "tourism in areas virtually undisturbed by human beings. It must contribute to nature conservation and the well-being of local populations."

important economic effect on the areas they visit; the most tangible benefits are realized through direct expenditures on goods and services. Additionally, tourists have an indirect economic influence on host communities by both creating job opportunities in the tourism industry and stimulating other job and business opportunities in related sectors. In addition, tourism promotes the development of infrastructures and facilities that equally benefit tourists and local populations (restaurants, retail shops, car rental, etc.).

Tourism can also contribute directly to the preservation of the environment: "Where nature is the foundation of tourist activities there is an incentive to conserve it."<sup>8</sup> A portion of tourism income could be devoted to the conservation and sustainable use of natural resources by introducing entrance fees to protected areas and fees for activities such as fishing, bird-watching, scuba-diving, or hunting. Hence, tourism can offer many interesting opportunities to conserve the environment.

For all these reasons, tourism is a relevant component of international and national development policies. Consequently, developing nations have a considerable stake in the tourism industry, and in a number of these countries, tourism is one of the main sources of income.

### The Dominican Republic and Tourism

The Dominican Republic is located in the Caribbean on the eastern two-thirds of the island of Hispaniola, between the Caribbean Sea and the North Atlantic Ocean (see Exhibit 1). Haiti occupies the other one-third of the island to the west. Total land area equals 48,730 square km, or slightly more than twice the size of New Hampshire. Punta Cana is located on the far eastern edge of the island. The history of the Dominican Republic, in terms of politics, economics, and culture, can best be termed as turbulent and the direct result of years of foreign influence and occupation. President Rafael Meja brought the 280-year legacy of unsettled, mostly non-representative, rule to an end in 1996 when free and open elections ushered in his new government.

**Exhibit One: Location of the Dominican Republic and Punta Cana**



The island of Hispaniola was originally home to the Taino Indians, and their gold, prior to the landing of Christopher Columbus in 1492. At first an important trading post, the prestige of the country's capital, Santo Domingo, began to decline in the first part of the sixteenth century with the conquest of Mexico by Hernán Cortés in 1521 and the discovery there, and later in Peru, of great

<sup>8</sup> Joint report referenced in footnote 4

wealth in gold and silver. The stagnation that prevailed in Santo Domingo for the next 250 years was interrupted on several occasions by armed engagements, as the French and the English attempted to weaken Spain's economic and political dominance in the New World. French buccaneers settled on the northwest coast of the island in the mid-seventeenth century. Their territory, Saint-Domingue (now known as Haiti) became a hotbed of trade and commerce for France.

The use of slavery sharply divided the island. African slaves were allowed to buy their freedom, and marry natives, in Santo Domingo. However both practices were strictly forbidden in Saint-Domingue. With the slave population vastly exceeding the French and native populations, the African slaves rebelled in August of 1791. By 1796, the former French slaves, and a newly cooperative French monarchy, took control of the entire island. Haiti was established as an independent nation occupying the entire island in January of 1804. Many years later, the Dominicans mounted a rebellion and on February 27, 1844 the rebels pushed the Haitians out of Santo Domingo and back to the pre-rebellion borders.

Repeated political turmoil, economic boom and bust, and social unrest marked the decades between 1843 and 1915. The political leaders of the new Dominican Republic even sought protection by foreign countries. The United States was repeatedly approached to annex the Dominican state as was Britain but both declined. In 1861 Spain agreed to annex the Dominican Republic, but after years of unrest the annexation was dissolved in 1865, and years of civil promptly followed. The continued violence and instability prompted the administration of President William H. Taft to dispatch a commission, and a 750-member force of United States Marines, to Santo Domingo on September 24, 1912, to mediate among the warring factions. The United States maintained a presence in the Dominican Republic for another 20 years, but various dictatorships and government overthrows continued to mar the country until the mid-1900's. In 1966 the country settled on a formal constitution, and full free elections were implemented by the mid-1990s.

Today, the Dominican Republic demonstrates the economic importance of tourism, which has been a central driver in the economic improvement of the country. From 1970 through 1999, the Gross Domestic Product (GDP) of the Dominican Republic increased at a compounded annual growth rate (CAGR) of 4.87%. In 1970, production from agriculture was 15.67% of GDP, production from tourism was 0.43%, and construction was 4.89%. Over the 30-year period from 1970 to 1999, GDP contribution from agriculture grew at a CAGR of 1.24%, contribution from tourism grew at a CAGR of 14.73%, and contribution from construction (much of which was related to tourism) grew at a CAGR of 8.46%<sup>9</sup>.

A stabilization and structural reform program, initiated in the early 1990's, helped to triple the average annual real GDP growth rate from 2.25% a year in the first half of the decade to 7.75% a year in the second half. Growth was supported by rising investment, including substantial foreign direct investment in electricity, telecommunications, and tourism sectors.<sup>10</sup> Exhibit 2 below underscores the dramatic financial improvement of the Dominican Republic:

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<sup>9</sup> Source for all data in this paragraph is Banco Central De La Republica Dominicana Departamento de Cuentas Nacionales y Estadísticas Economicas "Producto Interno Bruto Por Sectores de Origen 1970-1999

<sup>10</sup> International Monetary Fund; June 26, 2002 "IMF Concludes 2002 Article IV Consultation with the Dominican Republic" Public Information Notice No. 02/66.

**Exhibit 2: Dominican Republic Economic Measures**

<b>Dominican Republic shows improvement</b>				
	<b>1981-85</b>	<b>1986-90</b>	<b>1991-95</b>	<b>1996-2000</b>
<b>(annual percent changes, averages)</b>				
Real GDP	1.9	2.9	4.2	7.7
Real GDP per Capita	-1.3	0.9	2.5	5.4
Consumer Prices (during the period)	18.0	39.5	7.9	6.9
<b>(percent of GDP, averages)</b>				
Inflation tax	1.7	4.3	0.9	0.8
Foreign Direct Investment	0.6	1.6	2.2	3.1
External debt (end of period)	64.7	72.2	33.0	18.6

Source: IMF Survey Volume 30, Number 21, November 12, 2001: [www.imf.org/imfsurvey](http://www.imf.org/imfsurvey)

The elected government of President Mejias has made tourism a top priority for the entire Dominican Republic, but most particularly the eastern part of the island where the population is sparse and very poor. The statements of the Dominican Republic's Minister of Tourism underscore the importance of tourism:

*"The role of the economy in today's societies is a fundamental one, since economic determinism is an unstoppable force. Nothing can deprive human freedom like total absence of financial means. Therefore, for our country to realize its basic aims it has to achieve economic development, i.e. rise in production and employment. Otherwise a vast segment of the human population will be left without the means for living, will be condemned to starvation and homelessness."*

**Sustainable Development**

During the last 25 years the world has become aware of the environmental problems that are caused by aggressive economic development. Air pollution from energy production, transportation, consumption of natural resources, and production of waste is reducing air quality in many areas, and causing acid rain, global warming and ozone depletion. Governments began to realize that the practices of economic development were degrading the environment for future generations.

The 1987 World Commission on Environment and Development (commonly called the Brundtland Commission) began popularizing the goal of sustainable development. Published by an international group of politicians, civil servants and experts on the environment and development, the Brundtland report, also known as *Our Common Future*, provided a key statement on sustainable development, defining it as:

*"development that meets the needs of the present without compromising the ability of future generations to meet their own needs."*

In 1987 the "Brundtland Report" recognized that the economic development taking place should not compromise the development needs of future generations. This concept of sustainable development aimed to encourage people to reflect on the harm economic development was having on both the environment and on society.

The report highlighted three fundamental components to sustainable development: environmental protection, economic growth and social equity. The authors stressed that the environment should be conserved and the resource base enhanced, by gradually changing the ways

in which nations develop and use technologies. The authors agreed that developing nations should be allowed to meet their basic needs of employment, food, energy, water and sanitation. However they suggested that this development be conducted in a sustainable manner. The belief was that economic growth should be revived and developing nations should be allowed a growth of equal quality to the developed nations, but that the environment should be protected at the same time.

This concept was advanced following the Earth Summit in 1992 with the emergence of Agenda 21, which encouraged the formulation of locally-based and sector specific strategies for transferring sustainable development into practice. The contents of Agenda 21, which comprises forty chapters, were divided into four sections. These include: social and economic development (Chapters 1-8); natural resources, fragile ecosystems and related human activities, byproducts of industrial production (Chapters 9-22); major groups (Chapters 23-32); and means of implementation (Chapters 33-40). Although Agenda 21 does not have any chapter specifically devoted to tourism, many of the recommendations included in Chapter 30, Business and Industry, are relevant to tourism activities.

Agenda 21 followed the principles of sustainable development and the goal of ensuring a better “quality of life for everyone both now and in the future.” Agenda 21 focused on an economic, social and environmental agenda, and developed solutions to problems through encouraging better, more efficient practices. Its authors realized that sustainable development was achievable, without sacrificing the quality of lives. However, sustainable development could only be achieved if nations learned to think more sustainably and adopt more sustainable behavior.

GPC investor Ted Kheel was an early proponent of sustainable development and a vigorous supporter. In addition to founding *Earthtimes* magazine in 1991, Mr. Kheel was also instrumental in establishing the Earth Pledge Foundation ([www.worldpledge.org](http://www.worldpledge.org)) and is an active sponsor of environmental seminars and conferences around the world. His fingerprints, and the principals of sustainable development, can be seen all across Punta Cana.

### **Background on Punta Cana**

Punta Cana, on the Eastern Shore exemplifies the rapid growth of tourism in the Dominican Republic. In 1969, Ted Kheel, an American lawyer and a group of investors that included veteran hotel operator Frank Rainieri, purchased 15,000 acres of mostly undeveloped jungle between Bavaro and Juanillo. Before the arrival of Mr. Kheel and Mr. Rainieri, the local economy revolved around sugarcane plantations, cattle ranches, and fishing. However the chief source of income for the villagers was burning the hardwood trees in the jungle for charcoal. There were few roads, no running water, no indoor plumbing, no electricity, and no organized system of education.

Frank Rainieri remembered the first time he visited the area and how difficult it was to reach the area, which was only accessible by sea, air, or on mule back. “When our helicopter landed,” said Mr. Rainieri, “a family ran away, scared by that big flying bird.” Mr. Kheel added, “The property was originally named ‘Capa en Guano’ which roughly translated means ‘bird droppings.’” “Shortly after buying the property, we changed the name to ‘Punta Cana,’” said Mr. Kheel, “with Punta meaning ‘point’ and ‘cana’ representing the leaf on a local species of palm tree. When we purchased the land, there were local villagers living there. These villagers were technically squatters, and the Dominican Republic had very specific laws about compensating these villagers for any improvements they might have made to the property. Our first challenge was to convince the local families to abandon charcoal production and then begin to provide alternative employment and housing.”

Mr. Kheel went on to say. “Part of our plan was to resettle these scattered families on one 4,000 acre portion of the original 15,000 acres, give them clean title to the land, and build a village of new homes with running water and indoor plumbing. While there was some resistance from some families, the majority of the families accepted the offer. Other families agreed over time” (see Exhibit 3)

**Exhibit 3: Before and After Resettlement in Punta Cana**



**Resettlement:** The photo on the left is that of Juanillo resident who has not yet moved. The photo on the right is a new home built by GPC for a former “squatter.”

The partnership of Mr. Kheel, who acted as the financial manager, and Mr. Rainieri, the Dominican hotel operator who acted as Chief Executive Officer marked the beginning of a venture, which 33 years later has become the fastest growing tourist destination in the Caribbean. On October 23, 1971, after enormous effort and millions of dollars in investment, the legal entity known today as Grupo Punta Cana (GPC) opened its first hotel. The hotel, known as the Punta Cana Club, had 10 two-room bungalows, a clubhouse, 8 houses for employees, a rustic landing strip, and a small generator to supply the project with electricity.

Mr. Kheel and Mr. Rainieri found that the lack of an airport and a strong marketing organization left him with several empty rooms. In fact, Mr. Kheel, his family, and friends were the most frequent visitors. “From an environmental point of view it was a wonderful success, from an economic point of view it was a disaster,” said Mr. Kheel.

Recognizing that they needed a brand name to draw visitors, Grupo Punta Cana sought a large hotel chain to be an additional attraction to tourists. In the mid 1970’s, Club Mediterranee purchased a choice parcel of waterfront property from GPC with the stipulation that GPC provide electricity, water, and financing for the construction of the future Club Med hotel. In 1979, on the site of Mr. Kheel and Mr. Rainieri’s original hotel, Club Med became the first of the big hotels to be completed (see Exhibit 4 for location).



***Exhibit 4: The eastern shore of the Dominican Republic as seen from the air.*** Punta Cana and Cap Cana share a common border approximately of approximately three miles near the Punta Cana Marina. The area north of Club Med is Bavaro.

Both GPC and Club-Med recognized that the small airport was only adequate to service small charter planes and could not support the large planes necessary to bring enough tourists to make Club-Med profitable. In 1984, a 5000-foot airport, renamed Punta Cana International Airport, was built on land contributed by GPC, with Club Med financing and investment. Although the airport was earning money by 1985 the length of the runway was inadequate to accommodate non-stop flights from Europe and North America. Said Mr. Kheel, “Large aircraft could not take off or land at our airport when they were fully loaded. Planes used to fly out of our airport to Puerto Plata to add passengers before returning to North America or Europe.”

In subsequent years the runway was extended to 7200 feet with a loan from the Overseas Private Investment Corporation (OPIC), a US public corporation that finances American investments in developing countries. The runway has since been extended to 10,200 feet out of cash flow coming from increased traffic, and GPC has repurchased the share it sold to Club-Med. During its inaugural year of 1984, just 2,976 international passengers deplaned in Punta Cana. In 2001, the number of passengers was nearly one million. During the summer months more than 100 international weekly flights land in Punta Cana from all over the world, while more than 150 arrive weekly during the winter months.<sup>11</sup>

Concurrently with the expansion of the airport, GPC also expanded the infrastructure of the local area. A 10 – megawatt power plant was built, fresh water supply systems were installed, and

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<sup>11</sup> Source: PuntaCana.com. Among the major carriers servicing Punta Cana International Airport from all over the world are American Airlines, TWA, Martin Air, Lan Chile, Air Portugal, Aserca, Aero Postal, Aces, Air Europe, Corsair, Condor and LTU. Numerous charter flights also service Punta Cana, including Apple Vacations, UPS, Air Tours, Miami Air, Air Liberte, Canada 3000, ATA, Sky Service, Champion Air, Royal, Ryan International, Transmeridian, North American, Sun World, Northwest, Air Trans, Air France; and US Air; among others.

sewage systems were introduced. Since GPC sought to be environmentally responsible, the owners also installed a water treatment plant, which would allow them to recycle used water from the hotels for eventual use in watering the golf course and plants around the grounds.

### The Punta Cana Destination

Today, the name “Punta Cana” is used to refer to the entire geography of the tourist area on the east coast of the country. (See Exhibit 5 below) Legally, however, only the original 15,000-acre tropical resort area is named Punta Cana. Today this encompasses the airport, power plant, PCRC, Corrales de Punta Cana, a piece of undeveloped property sold to Sandals resorts, Club Med, all of the Punta Cana village. The area to the north of PCRC, known locally as Bavaro, has been “branded” Punta Cana by the northern hotels as they sought to capitalize on the Punta Cana name. Nearly all travel literature refers to the Bavaro area as “Punta Cana” or the “Punta Cana Region.” Many of the hotels in and north of Bavaro are owned by large international hotel companies and therefore supported by large marketing organizations.



*Exhibit 5: The Punta Cana Destination as viewed by a travel agent.* Punta Cana Resort and Club is the southern most resort, however all of the resorts to the north in the area locally known as Bavaro, are referred to as Punta Cana in international marketing materials.

With the exception of Punta Cana Resort and Club, all of the hotels are “all inclusive” meaning that one price is paid per individual per day for all lodging, meals, and most entertainment. These hotels range in price, luxury, and entertainment, but nearly all are marketed to middle class consumers in North America and Europe. As of September 2002, all inclusive hotel rates in the Bavaro/Punta Cana region ranged from \$40 per night to \$220 per night.

Hotel growth was explosive in the latter half of the 1990’s. According to Kelly Robinson, Director of Environmental and Social Affairs for GPC, there were 3,000 hotel rooms in the Bavaro/Punta Cana region in 1995 with PCRC representing the largest. As of October 2002, there are 18,300 hotel rooms in the region with PCRC being one of the smallest. The increase in

competition has lead to compression of hotel prices and difficulty in differentiating one resort from the next.

The typical visitor to the Bavaro/Punta Cana Region differs slightly from the typical visitor to the Dominican Republic overall. According to data from the Dominican Republic's Central Bank's Division of Tourism, the Dominican Republic welcomed 2,777,803 visitors into the five major international airports in 2001. The largest concentration of visitors came from Europe at 39.9% followed by North America at 34.7%. By country, the largest concentration of visitors came from the United States with 23.98%, followed by Germany with 12%, Canada with 10.2%, and France with 6.98%. Punta Cana International Airport was the second largest receiver of foreign guests with 822,446 arrivals. The largest concentration of visitors to Punta Cana came from Europe at 51.1% followed by North America at 34.14%. By country, the largest concentration of visitors to Punta Cana came from the United States with 20.24%, followed by Germany with 20.19%, Canada with 13.74%, and France with 10.82%.<sup>12</sup>

For all arrivals into the Dominican Republic, men represented 51.25% of 2,777,803 visitors while women represented 48.75%. Visitor's aged 21-35 represented 34.03% of the total while visitor's aged 36-49 represented 29.67%. For all arrivals into Punta Cana, men represented 48.66% of the total 822,446 visitors while women represented 51.34%. Visitor's aged 21-35 represented 37.98% of the total while visitor's aged 36-49 represented 28.14%.<sup>13</sup>

### **Punta Cana Resort and Club**

Today the Punta Cana Resort and Club (PCRC) is a 432-room luxury resort distributed into oceanfront and tree-shaded villas. After years as a pioneer of "all-inclusive" tourism in the Dominican Republic, PCRC abandoned all-inclusive pricing and moved to a standard "menu" system in an attempt to differentiate itself from its competitors. The resort includes a marina with capacity for 40 boats; an 18 hole P.B. Dye designed golf course, 3 pools, 7 restaurants, and conference facilities that can accommodate up to 150 people. Also included in PCRC is a community of private residences known as Corrales de Punta Cana. These beach front golf villas are called home by famous Dominicans Oscar de la Renta and Julio Iglesias, as well as the internationally know ballet dance and actor Mikhail Baryshnikov. All of these men are mentioned in PCRC's marketing materials.

PCRC was designed with environmentally protective policies in mind, and as such is considered a "low density" resort. At maximum occupancy, there are 525 square meters of land per guest, thereby minimizing the load on the ecosystem. A Dominican architect, Oscar Imbert, blended tropical Dominican, Spanish and Awark Indian designs that seek to reflect the past and the present. Many of the Grupo Punta Cana buildings are made with native coral, wood and cana leaves and are designed to take advantage of cross ventilation and natural lighting. In some cases, low-lying villas were built around existing coconut trees.

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<sup>12</sup> Source for all data in this paragraph is Banco Central De La Republica Dominicana Departamento de Cuentas Nacionales y Estadísticas Economicas Division de Estadísticas Turísticas "Llegada Mensual de Pasajeros, Via Aera, Por Nacionalidad," 2001

<sup>13</sup> Source for all data in this paragraph is Banco Central De La Republica Dominicana Departamento de Cuentas Nacionales y Estadísticas Economicas Division de Estadísticas Turísticas "Llegada de Pasajeros Via Aerea, Por Sexo, Alojamiento, Grupo de edad, Motivo de Viaje Y Documento, Segun Nacionalidad Aeropuerto Internacional" 2001 <http://www.bancentral.gov.do/estaeco.html#turismo>

Since the east coast is dry, with average annual temperatures between 75°F and 88°F as well as low annual rainfall of less than 30 inches per year, GPC has implemented a policy requiring the use of mostly native plants. A team of gardeners is responsible for the replanting of endemic plants and trees that are harvested from areas of planned construction. These trees that are not harvested are shredded and used for mulch in the gardens. The golf course is watered with recycled water generated from a system of lagoons that collections used water from PCRC operations.

Today, GPC is a family of businesses which includes the following:

- Punta Cana Resort and Club: the resort
- Electric Corporation Punta Cana: a 10-megawatt power plant
- Punta Cana International Airport
- Punta Cana Foundation: primary school and community outreach
- Punta Cana Ecological Foundation: 2,000 area reserve, including nurseries and the Punta Cana / Cornell Biodiversity Laboratory
- Punta Cana Construction

Since most of the 1,000 GPC employees live in Punta Cana, GPC created the Punta Cana Foundation for the purpose of creating educational facilities and fostering community outreach. The once, two room school house was expanded in 2001 into a 14 classroom school campus with a computer laboratory, chemistry and biology laboratories, athletic fields, and a library. The Punta Cana Foundation employs a staff of professional administrators and teachers who offer pre-kindergarten through 12<sup>th</sup> grade instruction.<sup>14</sup>

The school, Centro Educativo Punta Cana (CEPCA) now receives 200 full time students drawing children of staff and others in the local community. Inscription fees for the school are based upon the economic earnings of the family and range from RD\$75 (US\$4.00) for a family making RD\$750,000 (US\$10,000) to RD\$2,000.00 (US\$110.00) for a family making RD\$750,000 (US\$10,000). Inscription fees are considerably higher for those families without ties to Punta Cana, for example the child of a Bavaro Resort hotel manager living north of Punta Cana.

For those who do not meet the requirements for attending CEPCA, the Punta Cana Foundation has committed to the construction of a new public school for the neighboring community of Veron (between Punta Cana and Bavaro). The facility is expected to be complete in 2003 and will replace the existing school, which currently has no plumbing, electricity, running water, or playground. In addition the school will be considerably larger, allowing students to attend classes for eight hours each day. Currently students attend class for four hours a day in two shifts.

In 1994 PCRC founded the Punta Cana Ecological Foundation as a not for profit community and environmental organization,. The Punta Cana Ecological Foundation was endowed with 1,000 acres of land to create a Nature Reserve for enjoyment and research. Today, the Punta Cana Ecological Foundation is home to the Punta Cana/ Cornell Biodiversity Center, Indian Eyes Ecological Park, a petting zoo and a series of Nature Trails.

On March 17, 2001, with Dominican President Mejias on hand for the grand opening, PCRC also became the home of the Punta Cana/ Cornell Biodiversity Laboratory. Within the 5,000 square-foot laboratory, students and faculty from Cornell University and universities in the

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<sup>14</sup> While the school provides education through grade 12, a grade 12 class has not graduated yet. The first students into the program just progressed to 11<sup>th</sup> grade in the fall of 2002.

Dominican Republic identify, isolate and perform research on Caribbean island plants, animals, marine and microbial organisms that may offer promise as the foundations for new medicines. Part of their scientific method includes ethno-medicine research, which involves the collection of information from citizens in rural villages who for generations have used natural compounds as "home remedies" and the scientific study of those compounds to determine their make-up. Each semester, approximately 16 students and 6 professors are conducting research at the laboratory. The lab also offers distance-learning programs using interactive video and computer communication via satellite and the Internet among students and instructors around the world.

GPC's commitment to environmental responsibility reaches beyond the land and into the sea, primarily to the eight-kilometer coral reef running parallel to PCRC. Beyond the fact that the reef is primarily responsible for PCRC's clean white sand beaches and clear water, the reef is also a resource for the community. Local fishermen depend on their ability to access and fish the reef, and sell the fish to the Punta Cana and Bavaro hotels. GPC has vigorously lobbied the Dominican government in the capital of Santo Domingo to establish, and more importantly enforce, guidelines for fishing the reef. Government decrees have been issued, but enforcement has been nearly nonexistent (the Dominican Navy headquarters in Punta Cana does not have a boat) leaving GPC in the difficult situation of restricting fishermen from accessing the beaches to launch their boats.

In 2002, GPC collaborated with the Dominican Navy to sink a 220-foot cargo ship to create an artificial reef to protect the existing reef, create a habitat for marine life and protect the beach from sea surges. However, even with all of the protective measures installed in the past, the reef may soon be under pressure from a new source, that of a new resort and canal being developed immediately to the south of the PCRC marina.

### **Background on Cap Cana**

*"A small group of wealthy businessmen today unveiled plans to build a Cancun-style destination in the Caribbean Island of the Dominican Republic. Grupo del Caribe, one of the Caribbean's largest development groups, today unveiled plans to develop what will be the Caribbean's premier destination, Cap Cana, in the Dominican Republic. The multi-billion dollar destination will sit on 30,000 acres and include: five miles of oceanfront property, three Jack Nicklaus Signature Golf Courses, the Caribbean's largest marina catering to super yachts, 14 luxury hotels, estate residences, yacht clubs, beach clubs, health spas and casinos, and on the easternmost point of the Dominican Republic, next to Punta Cana."*<sup>15</sup>

In mid November 2001, a team of developers broke ground on a 30,000-acre resort site neighboring PCRC to the south. The resort, called Cap Cana, is projected to be the largest resort in the Caribbean with 12 hotels on the 47 square mile property containing 5.3 miles of oceanfront property. According to developer and Cap Cana president Ricardo Hazoury, Cap Cana is being created with the vision of setting the new standard in the Caribbean. Hazoury's ambition is to elevate the status of the Dominican Republic from an all-inclusive tourism focus to a premium year-round destination for discerning travelers from around the world. Hazoury also plans to create more than 50,000 new jobs with the development of this milestone project for the Caribbean.<sup>16</sup>

The centerpiece of Cap Cana will be the Grand Canal, which will be almost 200 feet wide, two miles long and 13 feet deep. At the present time, there is small fishing village and no salt water past the coastline. The canal, as depicted in Exhibit 6 below, will be dug by heavy

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<sup>15</sup> November 27, 2001, Dominican Republic – Cap Cana Press Release

<sup>16</sup> November 27, 2001 Press Release from Cap Cana, available at CapCana.com.

machinery over a two-year period. It is anticipated that the canal will accommodate more than 1,000 vessels, and an animated village of boutiques, restaurants and five-star hotels will surround the marina. It will be the only full-service marina with 150-foot-plus slips within the 250 miles between Turks & Caicos and Puerto Rico.

The pedestrian resort will offer miles of biking and cart paths, and a Vaporetto shuttle system will link large parking lots to Cap Cana's harbors, canals, beach clubs and luxury hotels. Cap Cana will offer the Caribbean's largest possible range of sporting activities, cultural animations, shopping opportunities, casinos and water parks. Strict architectural and design guidelines will ensure that Cap Cana is the most appealing attraction for island visitors.

**Exhibit 6: Current and Proposed Marina Site**



*Views of the Marina:* The area that the developers have designated for the Grand Canals as it looks today, and as proposed.

In order to partially fund construction, the developers of Cap Cana offered select investors the opportunity to purchase property before the opening of the general sales office. Dubbed Founders Weekend, the developers, along with golf course designer Jack Nicklaus, hosted the group of 53 Founding Members from countries around the world including Canada, France, Spain, Puerto Rico, the United States and the Dominican Republic. Total sales volume for the weekend was \$63 million, with an average sales price of \$1.2 million. Cap Cana's Founding Members have purchased either a future \$800,000 golf ridge estate home site overlooking the Jack Nicklaus Signature Ocean Course, or a future \$1.6 million oceanfront estate home site on Cap Cana's pristine Caribbean beach. In addition, Founders other benefits including ownership of a luxurious condominium along Cap Cana's grand canal and marina, a 60- or 100-foot yacht slip and lifetime membership with full access to the resort's numerous private beach, golf, yacht and country clubs.<sup>17</sup>

The Hazoury family heads Grupo del Caribe, a Dominican conglomerate made up of construction, transportation and applied technology companies that credits itself with constructing 5,000 hotel rooms in the Caribbean in the past five years. The family also owns a private university and manages four of the nation's five main international airports.

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<sup>17</sup> May 6, 2002 Press Release from Cap Cana, available at CapCana.com.

Grupo del Caribe handpicked an elite team of industry-leading entrepreneurs to bring the Cap Cana vision to light, and alter the Caribbean's destiny. The project team includes world-renowned golf course designer Jack Nicklaus, leading international resort planner Pierre Schnebelen, acclaimed French architect Bernard Lamy, and IMI Resort Holdings, an international leader in marketing luxury resort real estate properties.

### **Cap Cana's Progress**

By October 2002, the Grupo del Caribe (GdC) developers had raised over \$60 million in a private advanced property sale, had moved the residents of the Juanillo area approximately 4 miles from the beach to New Juanillo, and had held a public ground breaking for the project with President Mejias in attendance (see Exhibit 7).

#### **Exhibit 7: The resettlement of Juanillo**



*The New Juanillo:* A billboard advertising construction plans and a photo of some newer homes.

Under Dominican Law, the first 60 meters of coastline are declared “public areas.” However there is no regulation to make landowners provide access to the beach, and once a visitor is on the beach, there is nowhere for them to go. The GdC development team has used this fact to its advantage as it begins construction. GdC has posted armed guards at each road accessing its 30,000 acres and has placed guards all along the beach. Unless a person is a member of the GdC team or an employee, they cannot gain access to view progress. Therefore, the GPC team is basically blind to GdC’s progress, or more importantly compliance with Dominican Law.

According to Dominican Law, any major development project must have an environmental permit issued by the Dominican Government before construction can begin. According to public information, the office of the Secretary of Natural Resources, Subsecretary of Environmental Systems, is responsible for issuing the permit to start construction. Prior to issuing the permit, the developer is required to conduct a regional study of the flora, fauna, aquifers, populations and geological systems. This regional study must indicate what is in the area and what could potentially be damaged by the development on a whole. GdC has completed this study and the Secretary accepted it in its entirety.

Following the approval of this study, GdC was required to submit an environmental impact assessment for each development; i.e. the marina, the hotels, residential areas. Each of these is evaluated independently and to date, none have been approved.

Dominican Law provides for a public viewing of all of the studies (regional and environmental) and the opportunity to submit formal objections or concerns. GPC has viewed all submitted documents and responded with a formal letter to the Secretary of the Environment indicating their concern with several areas including salt-water intrusion, coastal erosion, and sedimentation on the coral reef. To date, the Secretary and GdC have not responded. However, the marina and Grand Canal are being dug inland with a plan on connecting to the ocean when all of the internal digging is complete.

While GPC is nervous about the impact and speed of development, GPC has cooperated with GdC in some important areas. First, and for a fee, GPC has granted GdC permission to use its airport and roads for the transport of equipment and building materials. Second, and for a fee, GPC has allowed GdC to construct a new road from the airport across Punta Cana to Juanillo so that the PCRC is not subject to noisy roads crowded by heavy machines. Third, GPC has agreed to sell electricity from its power plant to GdC.

At least publicly, the GdC developers appear to have similar goals of sustainable development. According to the Cap Cana website, “preservation of the project's fauna is of utmost importance to Cap Cana. Special care has been taken to construct Cap Cana around the region's natural mangroves without destroying the beauty inherent in the land. Cap Cana's architecture blends with the area's environment. Due to the uniqueness of the environment, Cap Cana will create a 25 million square meter bird sanctuary and, independent of the sanctuary, extensive ecological trails that will be open to all of Cap Cana's guests. For those that desire more adventure in their time off, Cap Cana will offer several ecological trails. These trails will allow guests to observe nature while respecting the environmental beauty found at Cap Cana. The focal point of these trails will be an ecological hotel that will allow guests of Cap Cana to enjoy an experience unique to the region.”

However, GdC's rapid construction, armed guards, and lack of compliance with the procedures outlined by the Secretary of Natural Resource have made Cap Cana's neighbors nervous. The scope of the project will take eight to ten years to complete, and the financial cost will reach the billions of dollars. The financial wherewithal to complete the project is unknown by the community.

While the community believes that the Secretary of Tourism cannot give a permit to operate unless GdC has completed the requirements established by Secretary of Natural Resources, no one is sure. The uncertainty and the secrecy surrounding the project have left Cap Cana's neighbors feeling defensive.