

# **OECD Investment Policy Reviews**

**Caribbean Rim**

NETHERLANDS ANTILLES



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## **ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

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**Examens de l'OCDE des politiques de l'investissement**  
ANTILLES NÉERLANDAISES

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## *Foreword*

The Caribbean Rim Investment Initiative (CRII) is an effort promoted by the OECD to develop a co-operative approach between countries of Central America and the Caribbean and other international organisations with a view to enhancing investment opportunities in the region. The CRII is a concrete and tangible exercise to support Caribbean Rim countries in their efforts to improve their investment climate, attract increasing flows of investment --both foreign and domestic-- and maximize the benefits that such flows may have in their economies.

The origins of the CRII can be traced back to two workshops held in the Dominican Republic in April 2000 and in Curaçao in April 2001, where government officials from Caribbean Basin countries, private sector participants, and representatives of the OECD and other international organisations exchanged views on how these economies could improve their investment climate.

Several reasons justify the focus on the countries of the Caribbean Basin. In addition to constituting a distinct geographic area, this region comprises more than half of the countries of the Americas and practically all of the smallest economies existing in the Hemisphere. Despite some common elements, the region does present a high degree of heterogeneity. It includes countries with just a few thousand inhabitants and others with cities of several million, societies with relatively high human development achievements while others endure the worst living conditions on the continent, some are strong democracies, others still have weak political institutions. The fact that the Caribbean Basin represents such a mosaic of economic, political and social diversity explains in part why this region has been less studied than other regions in Latin America. However, this reality also points to the need to promote initiatives specifically tailored to address the complex realities of these countries.

To date, studies providing an overall factual assessment of investment conditions existing in each CRII country have been completed for Costa Rica, the Dominican Republic, and Jamaica, and were published in 2004.

The current report on the Netherlands Antilles benefited from a peer review which took place at the CRII meeting held in St. Maarten on 29-30 March 2004. This report has served as a basis for developing an investment policy reform agenda which could qualify for support by bilateral and international organisations.

In publishing this report on the Netherlands Antilles, we would like to express our gratitude to our donors (The Kingdom of the Netherlands, and the United Kingdom) and to Mr. Errol Cova, Deputy Prime Minister of Economics of the Netherlands Antilles for his leadership in the CRII. Special thanks are also due to Mr. Don Martina, CRII national coordinator for the Netherlands Antilles, Mr. Gilbert Justiana, and to several organisations of the Netherlands Antilles, in particular, the Central Bureau of Statistics, the Central Bank, and the Chamber of Commerce. We are also grateful to the two main contributors to this report, Maiko Miyake and Maryse Robert, and to other international organisations that provided technical advice such as the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), the CARICOM Secretariat, the Organisation of American States (OAS), and the Multilateral Investment Guarantee Agency (MIGA). We also appreciate the effective organization and coordination of CRII meetings provided by Luz Beaty from the Directorate for Financial and Fiscal Affairs.

The report is published under the responsibility of the Secretary-General of the OECD.

A handwritten signature in black ink, appearing to read 'R. Geiger', with a stylized flourish at the end.

Rainer Geiger  
Deputy Director  
Directorate for Financial and Enterprise Affairs

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## *Preface*

As Minister of Economic and Labor Affairs of the Netherlands Antilles it gives me great pleasure to accept the request of the OECD Directorate of Financial and Enterprise Affairs to write this foreword for the Business Environment Report (BER) of the Netherlands Antilles. The completion of this report could not have been possible without the excellent cooperation between the OECD staff and the National Coordinating Group on the Caribbean Investment Initiative for the Netherlands Antilles under the chairmanship of former prime-minister Mr. D. Martina.

Our first contact with the OECD related to a study to attract foreign direct investments dates back to 2000 and it was during the plenary meeting in San Jose, Costa Rica in September 2002 that our country successfully appealed to the OECD secretariat to include the Netherlands Antilles as an object of country study within the Caribbean Rim Investment Initiative group. At that time in Costa Rica the OECD already started this study in Jamaica, Santo Domingo and Costa Rica and we became the fourth country to be included in the Caribbean Rim Investment Initiative.

The successful completion of the BER for the Netherlands Antilles and the official presentation of this report in Antigua and Barbuda on March 30, 2005 represents an important mile-stone in the reform of the economic policy program for our country. Not only did the report indicate the challenges that we are confronting but it also spelled out a specific framework with various areas of policy reforms that all the islands of the Netherlands Antilles should pursue to promote and attract new direct investments and foster structural economic growth on the islands. In this respect it is understood that a larger share of the domestic savings should be directed towards stimulation of productive investments on the islands. These domestic savings will have to be complemented by direct foreign investments and therefore this investigation by the OECD has focused the attention of the authorities on the strengths and weaknesses of our country in attracting foreign direct investments. In the end the recommendations included in this report will have to guide us in the policy areas in designing new strategies in the process of savings-investments and economic growth.

In the meantime, the islands of Curaçao and St. Maarten of the Netherlands Antilles have worked - within the framework of the OECD - on a first draft of the Investment Policy Reform Agenda in which the major areas of policy change will have to be discussed and agreed upon between the social partners and government in order to guarantee a swift implementation of the recommendations. It is the firm commitment of this government and myself as the Minister of Economic and Labor Affairs to continue with the guidance of the OECD on the implementation of the reform agenda for the Netherlands Antilles. This booklet is the result of hard and continued work by all national and island committee members together with the OECD staff. We have learned as a country much during the process of designing this investment policy reform program and therefore invite other islands in the Caribbean region to undertake the same process through joint efforts and mutual cooperation in order to improve the investment conditions in their respective countries and the region to the benefit of their people.

A handwritten signature in black ink, appearing to read 'E. Cova', is centered on the page. The signature is written in a cursive style with a large, sweeping initial 'E'.

Mr. Errol A. Cova.  
Minister of Economic and Labor Affairs

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## *Executive Summary*

The Netherlands Antilles is a federation-like country comprising five Caribbean islands. Curaçao and Bonaire lie 60-80 km off the coast of Venezuela, whereas St. Maarten, St. Eustatius and Saba are located 160 miles east of Puerto Rico. The country is part of the Kingdom of the Netherlands and has achieved full autonomy in internal affairs since 1954.<sup>1</sup> The Netherlands Antilles conducts foreign affairs primarily through the Dutch Government but in recent years the country has strengthened its relations with the Caribbean Community (CARICOM) and became an associate member of the Association of Caribbean States (ACS) in 1998.

The population of the Netherlands Antilles was estimated at 180,592 in 2004, of which approximately 74 per cent live in Curaçao, the largest of the five islands. Curaçao (444 sq km) is home to Willemstad, the capital of the Netherlands Antilles, whose beautifully preserved 17th and 18th century Dutch buildings have been declared World Heritage Sites by UNESCO. Curaçao's volcanic origin is evident in the mountainous area in the western section of the island. Oil-processing is the dominant industry in Curaçao. The transport sector, which plays a key role in Caribbean oil trans-shipment, financial services, and tourism are the other pillars of the economy. In recent years, tourism has made a major contribution to the economy of the island. Neighbouring Bonaire (288 sq km) is famous for its diving sites and one of the most pristine coral reefs on earth. Bonaire is home to approximately 10,185 people. In addition to tourism, the island has a major salt plant. Its capital is Kralendijk.

St. Maarten has the distinction of being the smallest land mass in the world to be shared by two sovereign governments. The Dutch side of the island with a population of 33,119 occupies the southern 16 square miles of this 37-square-mile island, while the French side (Saint Martin) is located in the northern half. Philipsburg, the capital of the Dutch side, is a duty-free port known for its deals on jewelry, electronics, china, crystal, liquor and linen.

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<sup>1</sup> Aruba, which was originally part of the Netherlands Antilles, secured its autonomy from the Netherlands Antilles on 1 January 1986 but remains part of the Kingdom of the Netherlands.

Services, and in particular tourism, are the driving force of the economy on the island, known for its exceptional white beaches and clear water.

St. Eustatius, affectionately called Statia, is five miles long and two miles wide, and covers a total of 11.8 square miles. The island, whose capital is Oranjestad, has a population of approximately 2,498 and is located 38 miles south of St. Maarten. Statia can boast to a very rich past. During the latter part of the 18th century, Statia was a major trading centre in the Caribbean and a supplier of arms and ammunition to the rebellious British Colonies in North America. In fact, Statia became the first foreign nation to recognise the newly United States of America in 1776. Oil trans-shipment, ecotourism, and education services (such as the University of St. Eustatius which offers a medical doctor programme since 1999) are the main industries on the island. Located 17 miles northeast of Statia is Saba, the smallest of the islands of the Netherlands Antilles with a population of 1,146 in 2004. Dubbed the “Unspoiled Queen,” Saba is five square miles of rocks and boulders etched out of an extinct volcano. Its name is said to come from the Carib Indian word “siba,” for rock. Saba’s main industry is tourism. Saba is also home to the Saba University School of Medicine, which began in 1992 and has had a new campus since 2001.

After experiencing soaring levels of external and domestic debt in the first half of the 1990s and the double-dip recession that followed, the economy of the Netherlands Antilles began to show signs of recovery in recent years due in large part to tourism inflows and steady growth in the duty-free zones. In 2001, in contrast to neighbouring economies, the Antillean economy grew by 1.3 per cent, whereas in 2002 the growth of the gross domestic product (GDP) was more modest at 0.3 per cent. Real GDP growth totaled 1.4 per cent in 2003.

The macroeconomic priorities of the Antillean Government are two-fold: poverty reduction and the reduction of the outstanding debt. The fiscal deficit remains a significant challenge in the near future as it reached 5 per cent of GDP in 2003.<sup>2</sup> Unemployment, which had fallen in recent years partly because of the high level of emigration, reached 15 per cent in 2003. In order to tackle these problems, private-sector led growth is essential.

External factors such as the major hurricanes which devastated the infrastructure of St. Maarten in 1995 and 1999 and the terrorist attacks in the United States on 11 September 2001 affected the tourist industry. The recent political crisis in nearby Venezuela also impacted the economy of the Netherlands Antilles negatively. The temporary closure in 2003 and strikes

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<sup>2</sup> See Economic Commission for Latin America and the Caribbean (2004). *Economic Survey of the Caribbean*. September 2004, p. 7.  
<http://www.eclac.cl/publicaciones/PortOfSpain/1/LCCARL021/L0021-Part1.pdf>

at the Venezuelan-managed oil refinery on the island of Curaçao and the adverse effects of the Venezuelan exchange controls on bilateral trade are factors that have had a dampening effect on the Antillean economy.

Oil refinery, international financial services, trans-shipment, and tourism are the four pillars of the Antillean economy. Foreign investment has been an integral part of their development for years. One of the oldest and most significant investments in the country remains the Royal Dutch Shell refinery built on the island of Curaçao in 1915. The refinery was passed to the government in the mid-1980s after it experienced financial difficulties. It was then leased by the government to the Venezuelan state oil producer, *Petróleos de Venezuela (PDVSA)*. The first lease agreement was for a period of five years and was extended by another five years. In 1995 the agreement was extended for an additional period of 20 years. The long-term viability of both the oil refinery operation in Curaçao and the trans-shipment and storage services in Bonaire are therefore linked to the political situation in Venezuela.

International financial services also have a long history in the Netherlands Antilles, dating back to the late 1930s, when many Dutch companies moved their domiciles to the Netherlands Antilles in the fear of war. When the Second World War ended, the government created a policy environment (such as the provision of tax concessions and bilateral tax agreements with the United States and the Netherlands) aimed at ensuring that these companies would stay in the Netherlands Antilles. Many companies did remain. By the mid-1960s, the Netherlands Antilles, particularly Curaçao, had become a well-known international financial centre.

The international financial sector has suffered in recent years but will certainly benefit from the New Fiscal Framework (NFF or "*Nieuw Fiscaal Raamwerk*") of the Netherlands Antilles, which, on 1 January 2002, became retroactively effective as per 1 January 2001. The Netherlands Antilles' new tax regime offers a wide variety of tax-attractive instruments to foster foreign investment. In order to meet a variety of challenges the international services industry is facing, the Netherlands Antilles has modernised its tax legislation in line with the recommendations of the Organisation for Economic Co-operation and Development (OECD). The Antillean international financial services sector will also benefit from a special tax arrangement between the Netherlands, the Netherlands Antilles and Aruba, the so-called Tax Arrangement for the Kingdom, TAK ("*Belastingregeling voor het*

*Koninkrijk*”), and from the Tax Information Exchange Agreement signed between the Netherlands Antilles and the United States on 17 April 2002.<sup>3</sup>

The strategic location of the Netherlands Antilles in the Caribbean is very helpful to the trans-shipment industry, which has recently been facing stronger competition from neighbouring countries and has had to weather the impact of the turmoil in Venezuela. In St. Eustatius, Statia Terminal N.V., which began operating in 1982, has been owned by Kaneb Companies of the United States since 2002. St. Maarten is also positioning itself as a hub for the container freight industry. DHL Worldwide Express maintains its Caribbean hub in St. Maarten.

The tourism industry, which, as mentioned above, was severely affected by two major hurricanes in St. Maarten in the 1990s and the terrorist attacks on the United States in September 2001, is recovering. In 2003 the number of stay-over visitors, representing the main source of foreign exchange earnings, reached its highest level since 1998 at 730,000, of which 58 per cent went to St. Maarten and 30 per cent to Curaçao. Although St. Maarten was hit by hurricanes almost annually between 1995 and 1999, sometimes twice a year, the economy of the island grew in 1999, while other islands did not register growth during the same year. St. Maarten’s economy is almost entirely based on tourism. Other sectors are directly influenced by the performance of this industry. In fact, 95 per cent of all economic activities is dependent on tourism, albeit the Island Government of St. Maarten has taken a number of initiatives to diversify the economy. Moreover, existing incentives to the hotel industry are contributing to renewed and sustained growth as well. There are currently several hotel and timeshare projects in construction in St. Maarten, a firm proof of the interest and confidence of foreign investors in the island. The small island of Saba also relies heavily on tourism. It benefited from a significant increase in FDI in the tourism sector with the arrival in 1994 of the Willard Hotel of Washington, DC.

Based on Balance-of-Payments (BOP) statistics, foreign direct investment (FDI) inflows into the Netherlands Antilles reached a total of US\$95.1 million in 2000 and US\$127.2 million in 2001, 95 per cent of which were in the services sector. The surge in FDI in 2001 is partly the result of the privatisation programme introduced by the government in 2000, and which has so far resulted in the sale of three state-owned enterprises. US and Dutch investors, who have traditionally played a pivotal role in the economic history of the Netherlands Antilles and continue to do so, accounted for 90 per cent of all FDI in 2000 and captured 98 per cent of the total in 2001. The United States and the Netherlands are by far the largest

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<sup>3</sup> The text of the agreement is available at:  
<http://www.treas.gov/press/releases/netherlands.pdf>.

foreign investors in the country. Over the years, the Netherlands Antilles has also attracted investment from neighbouring islands, such as Anguilla, St. Thomas, Antigua and Barbuda, French Saint Martin, St. Croix, and Trinidad and Tobago. For instance, in 2001, Trinidad-based RBTT bought ABN AMRO's onshore banking activities in Curaçao and all its banking activities in Bonaire and St. Maarten. In 2002, when Canada's CIBC and Barclays combined their Caribbean operations to create a new entity, FirstCaribbean International Bank, based in Barbados, the operations of the former domestic branch office of Barclays PLC in St. Maarten became a branch office of FirstCaribbean International Bank (Cayman) Limited, a subsidiary of FirstCaribbean International Bank. In 2003, ING Group completed the sale of its insurance unit FATUM in the Netherlands Antilles to Guardian Holdings of Trinidad and Tobago.

In formulating its economic development strategy, the Government of the Netherlands Antilles has elected to retain ownership of various infrastructure assets, while letting the private sector manage and operate these assets. Such private participation in infrastructure is expected to play a critical role in revitalising the Antillean economy. In 2001, Aquallectra, the state-owned provider of electricity and water, formed a partnership with US-based Mirant Corporation to improve the efficiency of its operations. In May 2003, Canada Post International Ltd. (CPIL), the postal consulting arm of Canada Post, assumed full responsibility for postal operations in the Netherlands Antilles through its subsidiary, Nieuwe Post Nederlandse Antillen. Postal and banking services will be provided during a 20-year concession period to the five Antillean islands.

In August 2003, Curaçao Airport Partners, a consortium led by Alterra Partners, took over the operations of Curaçao International Airport. Alterra is owned 50 per cent by the US leading infrastructure developer, Bechtel Enterprises, and 50 per cent by Singapore Changi Airport Enterprise, a wholly owned subsidiary of the Civil Aviation Authority of Singapore. The consortium also includes Trabajos Industriales y Mecanos, a Venezuelan company, which, through its subsidiaries, affiliates and associated companies, has more than 25 years of experience in civil, mechanical and electrical engineering projects as well as property development in Venezuela and the Caribbean. The third partner is Janssen de Jong Caribbean, a Dutch-owned firm with more than 50 years of experience in infrastructure and civil construction projects in the Netherlands and the Caribbean.

Given that concessions are the mode of privatisation chosen by the Government of the Netherlands Antilles, the level of foreign direct investment, as indicated in the Balance of Payments statistics, is less likely to increase in the near future. However, the country is benefiting in many other ways from the privatisation of numerous services through concessions.

In response to the recommendations by the International Monetary Fund (IMF) and other international organisations, the Netherlands Antilles has undertaken a number of reforms aimed at improving the investment climate in the five islands. These include the introduction of new labour legislation, a new fiscal framework, and anti-money laundering legislation. These are significant achievements towards the creation of a more competitive economy but several challenges still remain.

The business survey conducted for this report indicates that labour market issues are still considered to be one of the biggest obstacles to doing business in the Netherlands Antilles. Although the investment regime of the Netherlands Antilles is very open and fiscal incentives are in place to attract investment in a number of sectors (such as tourism, real estate and manufacturing, in addition to the new fiscal incentive scheme aimed at promoting e-commerce), the business survey reveals that improving administrative procedures to start a business would facilitate business operations in the country considerably. This would make the Netherlands Antilles more attractive to foreign investors. Streamlining administrative procedures has been among the key recommendations made in every study conducted on the Antillean economy in recent years.

Given their multilingual work force (Dutch and English, as well as Spanish in Curaçao) and their proximity to North and South America and their link with the European Union through the Kingdom of the Netherlands, the five Caribbean islands which form the Netherlands Antilles offer numerous opportunities to investors. Taking into account the challenges identified by the business survey and the priorities of the Government of the Netherlands Antilles in terms of its on-going economic reforms, within the next two years a number of concrete measures could be implemented by the government, with the support of the Kingdom of the Netherlands and international organisations to improve the investment climate in the country. These measures should include:

- a) To continue the current privatisation programme, particularly with respect to the concessions agreements in infrastructure services, as these services are vital for the efficient operation of any economy and play a major role in the competitiveness of all other sectors, including manufacturing and agriculture.
- b) To further simplify the tax system, building on the efforts of the Commission on Fiscal Reform.
- c) To upgrade the skills of the workforce, as there appears to be a gap between the government's and investors' perceptions on the competitiveness of human capital in the Netherlands Antilles. As already

acknowledged by each Island Government, improvement is absolutely necessary on this matter. To be able to compete with other Caribbean islands and neighbours, each island must put in place procedures and programmes that will enhance the workforce's competitiveness. For this purpose, the islands should undertake a full review of skills needed for the future and skills presently available so as to measure and address the gap with skill training and upgrading.

- d) To complete at each level of government the draft competition law and submit it to Parliament as soon as possible.
- e) To streamline administrative procedures (which was planned for the 2002 economic reform programme), with a view to eliminating unnecessary bureaucracy and facilitating work permit procedures and business visas.
- f) To improve information dissemination mechanisms among the Central and Island Governments in order to provide more quality and consistency with respect to the information provided to investors.
- g) To have each island design an investment promotion strategy building on their own successful cases. Such strategy development will require:
  - A sectoral analysis: to acquire an in-depth understanding of the competitive landscape of the specific sector(s) in which the island is interested
  - A case study of “showcases:” to articulate “lessons learned” and repeat the success
  - Benchmarking: to understand how the island can compete in that (those) particular sector(s).
- h) To monitor progress in implementing the reform agenda.
- i) To set time bound targets for reform in accordance with the above recommendations and to agree to organise a meeting in one year's time to review progress.



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## *Part I*

### Investment Trends

#### 1.1. FDI Trends

##### *1.1.1. History of FDI in the Netherlands Antilles<sup>1</sup>*

Foreign direct investment (FDI) has played an important role in the history of the Netherlands Antilles. One of the oldest and most significant foreign investments in the country to date is the Royal Dutch Shell refinery built in 1915. The impact of the refinery on the social and economic structure of the island of Curaçao was such that at one point, the company employed approximately a quarter of the population on the island. Given the significance of the Shell operation in its early days, the introduction of automated systems and subsequent lay-offs throughout the 1970s and 1980s had a major impact on the local economy. The refinery was sold to the Government of Curaçao for US\$1 in 1985 and soon after, leased to Venezuela's state-owned oil company, Petroleos de Venezuela (PDVSA). The first lease agreement, which was for a period of five years, was extended by another five years. In 1995 the agreement was extended for a period of 25 years.

Like the refinery business, international financial services also have a long history in the Netherlands Antilles, dating back to the late 1930s, when many Dutch companies moved their domiciles to the Netherlands Antilles in the fear of war. When the Second World War ended, the government created a policy environment (such as the provision of tax concessions and bilateral tax agreements with the United States and the Netherlands) aimed at ensuring that these companies would stay in the Netherlands Antilles. Many companies did remain. By the mid-1960s, the Netherlands Antilles, particularly Curaçao, had become a well-known international financial centre.

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<sup>1</sup> Since the Netherlands Antilles is a part of the Kingdom of Netherlands, a Dutch investment on the islands is technically a domestic investment. However, the Central Bank statistics treats Dutch investment as a part of foreign investment.

### Box 1: Availability of FDI Statistics in the Netherlands Antilles

Only recently has the Government of the Netherlands Antilles begun to collect statistics on foreign direct investment, based on the balance of payments (BOP). The Central Bank of the Netherlands Antilles is in charge of collecting and publishing FDI statistics. The statistics have been available since 2000, as a result of the technical assistance the Netherlands Antilles received from the International Monetary Fund (IMF) in 1996 and 1997, to set up a new BOP data collection system. In the absence of historical data, the analysis of the FDI trends in the Netherlands Antilles involves a number of case studies and qualitative information.

The Central Bank's statistics show a negative net balance with respect to FDI. This is the result of PDVSA's liability claim on its subsidiary, Isla Refinery. The practice is in line with the principle outlined in the IMF Balance of Payments Manual 5, which suggests that intra-company loans (in this case liability on the part of Isla Refinery) be included in the statistics on FDI. However, this does not imply disinvestments by PDVSA or any other foreign direct investors. Therefore, for the BER, the figures are based on FDI inflows, without taking into account intra-company financial transactions between a company and a subsidiary.

The third sector that has historically attracted foreign investment is tourism. Avila Hotel in Curaçao is a good example. The property where the hotel is located was purchased by a Dutch individual in 1940. It opened as a hotel in 1949. In the following 10 years, renovations and additions were made to the property, including the construction of a beach in 1959. Since 1977 the hotel has been owned and operated by a Norwegian family. Besides Avila Hotel, several hotels were built by foreign – mostly Dutch and American – investors in the last few decades (Table I-1).

**Table I-1 Hotels Bought, Built and Operated by Foreign Investors in Curaçao**

Hotel	Nationality	Period	Rooms
Avila Beach Hotel	Norway	1949-1985	100
Van der Valk Plaza Hotel & Casino	Netherlands	1989	254
Sunset Waters Beach Resort & Casino	US	2001	35
Super Club Breezes Curaçao	US/Argentina	1995	341
Floris Suite Hotel and Piscadera Bay Resort	Netherlands	2002	105 and 100 respectively
Hilton Curaçao Hotel & Casino	US/Argentina	2002	197
Hotel Seru Coral	Netherlands	1991	152
Marriott Beach Resort & Casino	US	1999	248
Hotel Kura Hulanda	Netherlands/ US	1992	65
Chogogo Resort	Netherlands	1997	144
Papagayo Resort	Netherlands	1999	150
Livingstone Resort	Netherlands	1999	160

Source: Curaçao Tourism Development Bureau.

**Table I-2: Hotels Operated by Foreign Investors in St. Maarten**

Hotels	Nationality	# of Rooms
Atrium Resort	American	89
Belair Beach Hotel	American	68
Divi Little Bay Beach Resort	American	227
Flamingo Beach Resort	Mexican	216
Great Bay Beach Hotel	Italian	285
Holland House beach Hotel	Dutch	54
Horizon View Hotel	Indian	30
La Vista Hotel	Dutch	50
La Terrace	Italian	76
L'Esperance Hotel	Antillean	22
Maho Beach Hotel & Casino	Italian	537
Oyster Bay Beach Resort	American	178
Passangrahan Royal Inn	American	28
Pelican Resort & Casino	American	342
Port de Plaisance Hotel & Casino	Turkish	88
Princess Heights	American	15
Royal Islander Club/La Plage	Italian	141
Royal Palm Beach Club	American	140
Sea Breeze Hotel	Antillean	30
Sea Palace Hotel	American	32
Seaview Hotel	Antillean	45
Summit Resort Hotel	American	32
Tamarind Hotel	Dutch	55
The Caravanserai Hotel	Indian	66
The Towers at Mullet Bay	American	81

Source: Department of Economic Policy and Research.

Name	Nationality	Villas/Condos
Beachside Villas	American	7
Cupecoy Beach Club	American	62
Ocean Club (20 are villas)	American	45
Saphire Beach Club	French	180

Source: Department of Economic Policy and Research.

On the island of Bonaire, Akzo (headquartered in the Netherlands) began operating a salt plant in 1963. In 1997, the plant was sold to Cargill, a US conglomerate. Another significant foreign interest in Bonaire is the terminal facility for trans-shipment and storage, operated by PDVSA, which was originally built in 1975 at the cost of US\$35 million.

For the Windward Islands, the arrival of foreign investment is a more recent phenomenon. In St. Eustatius, Statia Terminal N.V., which began operating in 1982, has been owned by a US company since 1984.<sup>2</sup> A significant foreign investment on the island of Saba is the Willard Hotel of Washington DC, which was established in 1994. The island also became the home of a medical school – Saba University School of Medicine – in 1986 with the involvement of American doctors. The St. Eustatius Medical School was established in 1999 and is currently offering three medical doctor programmes to 183 students. On the island of St. Maarten, the development of Little Bay Resort in 1950 triggered the island's development. Today, the resort is known as Divi Little Bay Resort, and owned by Divi Resorts of the United States. Apart from the tourism sector, the regional hub operation of DHL Worldwide Express is an important foreign investment in St. Maarten.

### ***1.1.2. Recent Trends***

Based on BOP statistics, FDI inflows into the Netherlands Antilles reached a total of US\$95.1 million in 2000 and US\$127.2 million in 2001, 95 per cent of which were in the services sector. The surge in FDI in 2001 is partly the result of the privatisation programme introduced by the government in 2000. Three projects – World Trade Center, Integrated Utility Holdings (Build Own Operate project at the oil refinery) and Curaçao Airport – accounted for US\$250 million in investment in Curaçao in 2001.

US and Dutch investors, who have traditionally played a pivotal role in the economic history of the Netherlands Antilles and continue to do so, accounted for 90 per cent of all FDI in 2000 and captured 98 per cent of the total in 2001. The United States and the Netherlands are by far the largest foreign investors in the country (Table I-3). One of the key challenges for the future is how to attract investment from other countries.

Over the years, the Netherlands Antilles has also attracted investment from neighbouring islands, such as Anguilla, St. Thomas, Antigua and Barbuda, French Saint Martin, St. Croix, and Trinidad and Tobago. For instance, in 2001, Trinidad-based RBTT bought ABN AMRO's onshore banking activities in Curaçao and all its banking activities in Bonaire and St. Maarten. In 2002, when

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<sup>2</sup> In 1984, CBI Industries acquired the terminal, which was taken over by Kaneb Companies in 2002.

Canada's CIBC and Barclays combined their Caribbean operations to create a new entity, FirstCaribbean International Bank, based in Barbados, the operations of the former domestic branch office of Barclays PLC in St. Maarten became a branch office of FirstCaribbean International Bank (Cayman) Limited, a subsidiary of FirstCaribbean International Bank. In 2003, ING Group completed the sale of its insurance unit FATUM in the Netherlands Antilles to Guardian Holdings of Trinidad and Tobago.

**Table I-3: Geographical Distribution of FDI in the Netherlands Antilles**

	2000		2001	
	Value (US\$)	Share (%)	Value (US\$)	Share (%)
US	44.2	46.5	67.5	53.1
Netherlands	39.5	41.5	57.4	45.1
UK	5.5	5.9	1.9	1.5
Ireland	5.3	5.6	0.1	0.1
The Caribbean	0.6	0.6	--	--
Switzerland	--	--	0.3	0.2
Total	95.1	100	127.2	100

Source: Central Bank of the Netherlands Antilles.

**Table I-4: Sectoral Distribution of FDI in the Netherlands Antilles**

	2000		2001	
	Value (US\$)	Share (%)	Value (US\$)	Share (%)
Agriculture	1.2	1.3	0.2	0.2
Manufacture	2.9	3.0	5.4	4.2
Services	62.4	65.6	113.8	89.5
Commerce	28.6	30.1	7.8	6.1
Total	95.1	100	127.2	100

Source: Central Bank of the Netherlands Antilles.

In terms of sectoral distribution, the services sector (services and commerce/retail together) accounted for over 95 per cent of FDI in 2001 followed by manufacturing with a 4 per cent share (Table I-4).

The sudden FDI increase in the utilities sector in 2001 is attributed to the acquisition of 25.5 per cent of Curaçao Utility Company by US-based Mirant, as discussed in the following section.

## 1.2. Other Forms of Foreign Interests in the Netherlands Antilles

In formulating its economic development strategy, the Government of the Netherlands Antilles has elected to retain ownership of various infrastructure assets, while letting the private sector manage and operate

these assets. Such private participation in infrastructure is expected to play a critical role in revitalising the Antillean economy.

In August 2003, Curaçao Airport Partners, a consortium led by Alterra Partners, took over the operations of Curaçao International Airport. Alterra is owned 50 per cent by the US leading infrastructure developer, Bechtel Enterprises, and 50 per cent by Singapore Changi Airport Enterprise, a wholly owned subsidiary of the Civil Aviation Authority of Singapore. The consortium also includes Trabajos Industriales y Mecanos, a private Venezuelan company and Janssen de Jong Caribbean, a Dutch-owned firm with more than 50 years of experience in infrastructure and civil construction projects in the Netherlands and the Caribbean. The Alterra Consortium is in charge of designing and building a new terminal, upgrading the service level, and operating the terminal, as well as transferring technical and operational know-how to the Curaçao Airport team. The project is estimated to take three years and require an investment of approximately US\$35 million. Through this investment, and based on Alterra's business plan, 350 additional jobs will be created. The project currently employs 150 people.

In May 2003, Canada Post International Ltd. (CPIL), the postal consulting arm of Canada Post, assumed full responsibility for postal operations in the Netherlands Antilles through its subsidiary, Nieuwe Post Nederlandse Antillen (NPNA). Postal and banking services will be provided during a 20-year concession period to the five Antillean islands. Once profitable, NPNA will pay dividends to its shareholder, the Government of the Netherlands Antilles. For the first five years, it was agreed that CPIL will re-invest all profits in its operations.

In 2001, Aqualectra, a state-owned provider of electricity and water, formed a partnership with US-based Mirant Corporation to improve the efficiency of its operations. The consortium of US-based Mirant and Mitsubishi entered into a 30-year Build-Own-Operate agreement with the Government of the Netherlands Antilles. The deal included the acquisition by Mirant of 100 per cent preferred convertible stock in Curaçao Utilities Company (CUC) for the sum of US\$40 million. Mirant also entered into a formal partnership with Aqualectra to provide technical know-how to Isla Refinery, which is run by Venezuela's state oil firm PDVSA, including fuel analysis, formulation of fuel hedging strategy, and preparation of proposals for the establishment of a regulatory board, through its wholly owned subsidiary, Curaçao Utility Operating Company (CUO). In addition, Mirant has invested in the construction of additional facilities at Isla Refinery – US\$24 million in 2001 and US\$16 million in 2002. The CUO has 65 employees. With the participation of Mirant in management, Aqualectra break-evened in 2001 and posted a moderate profit in 2002, which is a considerable turnaround from its earlier days.

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## *Part II*

### Investment Environment

This chapter provides an overview of the investment climate in the Netherlands Antilles. Most of the facts and figures were submitted by the CRII contact point in the Netherlands Antilles, namely the Central Bureau of Statistics, the Central Bank of the Netherlands Antilles, and the Chamber of Commerce in the form of responses to the initial questionnaire sent by the OECD.

#### **2.1. Country Profile**

##### ***2.1.1. Geography***

The Netherlands Antilles is a federation-like country comprising five Caribbean islands. Curaçao and Bonaire lie 60-80 km off the coast of Venezuela, whereas St. Maarten, St. Eustatius and Saba are located 160 miles east of Puerto Rico. The country is part of the Kingdom of the Netherlands and has achieved full autonomy in internal affairs since 1954. The Netherlands Antilles conducts foreign affairs primarily through the Dutch Government<sup>1</sup> but has in recent years strengthened its relations with the Caribbean Community (CARICOM) and the Association of Caribbean States (ACS), as an associate member since 1998.

The population of the Netherlands Antilles was estimated at 180,592 in 2004, of which approximately 74 per cent live in Curaçao, the largest of the five islands. Curaçao (444 sq km) is home to Willemstad, the capital of the Netherlands Antilles, whose beautifully preserved 17th and 18th century Dutch buildings have been declared World Heritage Sites by UNESCO. Curaçao's volcanic origin is evident in the mountainous area in the western section of the island. Oil-processing is the dominant industry in Curaçao. The transport sector, which plays a key role in Caribbean oil trans-shipment, is also a major pillar of the economy. In recent years, tourism and financial services have also made a major contribution to the economy of the island. Neighbouring Bonaire (288 sq km) is famous for its diving sites and one of

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<sup>1</sup> Other affairs conducted by the Dutch Government are among others, the judicial system, defense, and development aid.

the most pristine coral reefs on earth. Bonaire is home to approximately 10,185 people. In addition to tourism, the island has a major salt plant. Its capital is Kralendijk.

St. Maarten has the distinction of being the smallest land mass in the world to be shared by two sovereign governments. The Dutch side of the island with a population of 33,119 occupies the southern 16 square miles of this 37-square-mile island, while the French side (Saint Martin) is located in the northern half. Philipsburg, the capital of the Dutch side, is a duty-free port known for its deals on jewelry, electronics, china, crystal, liquor and linen. Services, and in particular tourism, are the driving force of the economy on the island, known for its exceptional white beaches and clear water.

St. Eustatius, affectionately called Statia, is five miles long and two miles wide, and covers a total of 11.8 square miles. The island, whose capital is Oranjestad, has a population of approximately 2,498 and is located 38 miles south of St. Maarten. Statia can boast to a very rich past. During the latter part of the 18th century, Statia was a major trading centre in the Caribbean and a supplier of arms and ammunition to the rebellious British Colonies in North America. In fact, Statia became the first foreign nation to recognize the newly United States of America in 1776. Oil trans-shipment, ecotourism, and education services (such as the University of St. Eustatius which offers a medical doctor programme since 1999) are the main industries on the island. Located 17 miles northeast of Statia is Saba, the smallest of the islands of the Netherlands Antilles with a population of 1,146 in 2004. Dubbed the “Unspoiled Queen,” Saba is five square miles of rocks and boulders etched out of an extinct volcano. Its name is said to come from the Carib Indian word siba, for rock. Saba’s main industry is tourism. Saba is also home to the Saba University School of Medicine, which began in 1992 and has had a new campus since 2001.

### ***2.1.2. System of Government***

The Netherlands Antilles is part of the Kingdom of the Netherlands, with full autonomy in internal affairs. The Queen of the Netherlands is the Head of State and is represented in the Netherlands Antilles by the Governor General. The Central Government consists of three bodies – a Governor General, the Council of Ministers, and a 22-member parliament, known as Staten. The Governor General and the Council of Ministers, headed by the prime minister, form the executive branch of the government. The Central Government deals with tax, communications, public health, education, banking, law and order, company registration and economic control. All other matters are within the competence of the Island Governments but the

Central Government retains the power to overrule the decisions of the Island Governments should they go against the public interest.

The Island Governments also consist of three bodies – a Governor appointed by the Queen of the Kingdom of the Netherlands, an Island Council (Curacao has 21 members, while other islands have fewer members), and an Executive Council. The Island Council has both legislative and executive powers except when island constitution explicitly accords executive powers to the Executive Council. There is currently a discussion in the Netherlands Antilles on the relationship between each of the five islands and the Kingdom of the Netherlands.

## 2.2. Economic Environment

### 2.2.1. Macroeconomics

After more than a decade of relatively strong economic growth, the Netherlands Antilles experienced a major decline in the mid-1990s. Between 1995 and 1999, St. Maarten was hit by hurricanes almost every year, which contributed to the economic slowdown of the country. In fact, the economic performance of hotel and restaurant businesses declined by 22.5 per cent from 1995 to 1996, and further declined by 6 per cent in 1997.<sup>2</sup> By 1999, St. Maarten renewed with growth due an increase in tourist arrivals, while other islands continued to suffer.

While natural disasters have affected negatively the economy of the Netherlands Antilles, the underlying problem remains the country's persisting fiscal deficit running at an average of 3 per cent of GDP during the last decade. As a result, government resources to invest in infrastructure and education, and foster growth, have been quite limited. The IMF recommended a fiscal adjustment programme in 1997, which expired in 1998.<sup>3</sup> In 1999, the IMF once again stressed the need for an adjustment programme. The Government of the Netherlands Antilles and the IMF agreed on an economic policy reform agenda in 2000. Meanwhile, the Government of the Netherlands Antilles received an injection of US\$61 million from the Netherlands through the IMF and also reached an agreement with the Netherlands on a moratorium on interest payments for 2000 and 2001.

The fiscal deficit is not expected to improve much in the near future – in 2003, for example, the budget deficit accounted for 5 per cent of GDP.

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<sup>2</sup> IMF (2003). "Kingdom of the Netherlands-Netherlands Antilles: Selected Issues and Statistical Appendix."

<sup>3</sup> IMF Public Information Notice 99/60.

Moreover, according to the most recent data available (2003), the country's total debt as a percentage of GDP has been increasing in recent years from 76 per cent in 2001 to 91 per cent in 2003. The unemployment rate was also on the rise during the latter part of the 1990s. Between 1996 and 1998, approximately 3000 jobs were lost in the private sector. At its peak in 1998-1999, the situation became alarming, as the unemployment was rising in the presence of a massive emigration of nearly one per cent of the workforce. As most of the emigration was to the Netherlands, both the Dutch and Antillean Governments made curbing the emigration, especially for people aged 17-30, a priority.

Following the IMF's suggestion to reduce the number of civil servants, about 2000 jobs were eliminated in the public sector between 1999 and 2000.<sup>4</sup> The current level of unemployment is at the higher end of the spectrum within the region and job creation represents a significant challenge for the Antillean Government.

**Table II-1: Main Economic Indicators**

Year	Unemployment Rate (% of labour force)	Debt to GDP (%)	General Government Balance (% of GDP)
1995	13.5	66	-3.9
1996	14.4	64	-3.5
1997	15.0	65	-1.2
1998	15.9	71	-1.9
1999	14.3	75	-1.2
2000	13.1	75	-2.2
2001	14.5	76	0.1
2002	14.6	82	-4.6
2003	15.3	91	-5.0

Source: Central Bank of the Netherlands Antilles, IMF.

In 2001, in contrast to neighbouring economies, the Antillean economy grew by 1.3 per cent, whereas in 2002 growth was more modest at 0.3 per cent. Real GDP growth totaled 1.4 per cent in 2003. As the country includes a group of islands with considerably different characteristics, the economic performance among islands varied greatly. In the period 2001-2003, the economy of Curaçao and the overall Windward Islands of Saba, St. Eustatius, and St. Maarten grew, while Bonaire had some difficult years, but rebounded in 2003. The growth was attributed to the strong performance of the Curaçao services sectors, including retail, hotels and restaurants, and transport and storage. Bonaire's hotel and restaurant sectors also recorded an impressive growth, but it was offset by a decline in other areas. The oil

<sup>4</sup> IMF Public Information Notice 01/46.

refinery of Curaçao was temporarily closed in December 2003 because of the general strike in Venezuela in which PDVSA workers participated. Due to the strike, the refinery could not export its refined products, but did not have a major impact on government revenues. Since income for the government from the refinery consists of a fixed amount, the government did not lose any direct income during the strike, albeit the state-owned CPA did suffer some losses of income due to the decline in the oil vessels traffic. Other sectors affected by the strike include free zones and the construction sector. The refinery has returned to normal and production has resumed.

The exchange rate has been pegged to the US dollar since 1971, which has led to low inflation and bolstered the credibility of the Central Bank.

The IMF and the Antillean authorities agreed that further capital account liberalisation should wait until substantial progress in fiscal consolidation is made.<sup>5</sup> In response to the need to curtail liquidity expansion, the authority also raised reserve requirements. Recently, the IMF commended the improvement in the Antillean banking system, particularly the declining share of non-performing loans and sufficient provisioning by banks.

## 2.3. Economy

### 2.3.1. Economic Structure

The contribution of the government sector has consistently represented 30 per cent of GDP during the last decade. This high percentage can be explained by the dual structure of the government (see 2.1.2.) and also by the fact that the government still controls several state-owned enterprises (SOEs). Nineteen major SOEs account for over 8 per cent of GDP (12 per cent of GDP for Curacao).<sup>6</sup> All these SOEs are unprofitable with the exception of United Telecommunication Services (UTS), the telecommunication provider, and Curoil, the gasoline distribution company. In the late 1990s, as mentioned above, the government eliminated 2000 jobs in the public sector with a view to reducing expenditures. Improvement in the level of government expenditures has yet to be fully visible due to large severance payments.

In 2000, as a part of the agreement with the IMF, the Governments of Curaçao and the Netherlands Antilles launched a privatisation programme which includes the sale of 19 SOEs. In November 2000, the *Stichting Implementatie Privatisering* (STIP) was established as an agency to

<sup>5</sup> IMF Article IV Consultation 2003.

<sup>6</sup> "The Government Owned Companies and the Economy," speech by Stanley M. Betrian, 17 December 2003.

implement the privatisation programme. As a part of this process, all the shares of these targeted enterprises were to be transferred to STIP.

The plan to privatise UTS has long been delayed due to the lack of clear legislation and the establishment of a regulatory board. The national airline, Air ALM, was declared bankrupt in 2002, while it was preparing for privatisation. Its routes were taken over by Dutch Caribbean Airlines (DCA), which also declared bankruptcy in October 2004.

### 2.3.2. Sectors

Lacking in arable land and water, the Netherlands Antilles is not well-endowed for agricultural activities, which explains why this sector accounts for one per cent of GDP. On the manufacturing front, there are 26 companies producing 34 different products enjoying strong protection. Twenty-four of these manufacturing companies are located in Curaçao, whereas the remaining two are established in Bonaire.

**Table II-2: Gross Domestic Product 2003 by Sector (in percentage)**

Agriculture	0.7
Manufacturing	5.0
Public utilities	3.7
Construction	3.8
Commerce	13.7
Transport, storage, communications	7.7
Finance & other business services	30.8
Government	13.9

Source: Central Bureau of Statistics (CBS).

As discussed in the previous chapter, oil refinery, tourism, and financial services have a long history in the Netherlands Antilles. Today, rental and refining fees account for 5 per cent of GDP (8 per cent of GDP for Curacao), and in Curaçao alone provides 995 permanent direct jobs and 700 indirect jobs, whereas the international financial services sector employs 2500 people. In addition to oil processing, oil trans-shipment has increased in importance. St. Eustatius has a long tradition as a trans-shipment and storage centre for trade between Europe and North America. Bonaire has also been offering a dock to transfer oil from large to small tankers since 1975. Being the largest natural port in the region, Curaçao has developed a reliable harbour operation for trans-shipment and dry-dock. All these islands are increasingly facing tough competition from neighbouring countries, such as Trinidad and Tobago.

The prosperity of the financial sector (see Chapter 1) came to halt with the repeal of the tax agreement on withholding taxes with the United States in the

1980s, which caused the collapse of a number of previously highly profitable international financial activities in Curaçao. Between 1986 and 1999, tax revenue from international financial centres declined by two-thirds.

The development of the tourism industry began in Curaçao as a favourite shopping destination for upper class Venezuelans spurred by the country's oil boom. In recent years, St. Maarten has taken over Curaçao as the largest tourist destination in the Netherlands Antilles. Tourism is a central pillar of the economy of the country, and it is especially so for the island of St. Maarten, which relies almost exclusively on tourism, with an estimated 95 per cent of all economic activities depending on this industry. The tourism industry performed reasonably well in the early 1990s, with an average annual growth of 3 per cent. However, it struggled after several hurricanes devastated the island of St. Maarten in the late 1990s.

The country has been experiencing an important change with respect to the type of tourists visiting the islands. In St. Maarten, which attracts the largest number of tourists in the Netherlands Antilles, the number of cruise tourists has increased significantly in recent years while the number of overnight visitors has steadily declined. In Curaçao, cruise tourism also outgrew the number of overnight visitors in the mid-1990s, although the growth in cruise tourism was not as pronounced as in St. Maarten. Tourists heading for Bonaire still seem to prefer overnight stay. The qualitative shift from overnight tourists to cruise visitors implies that less money is being spent by tourists in the country.

The change in the KLM route from Curaçao to Bonaire in 2002 and the increase of other flights contributed to the growth in the tourism sector in Bonaire. With its internationally renowned dive sites and focus on eco-tourism, Bonaire experienced positive developments in recent years with the hotel occupancy rate for long-term stay visitors reaching 100 per cent.

## 2.4. Trade

### 2.4.1. General

The weighted average external tariff of Curaçao and Bonaire is at present approximately 40 per cent higher than the corresponding level in neighbouring CARICOM countries. In addition, the external trade regime of these islands is highly complex.<sup>7</sup> The World Bank has recommended that apart from tariff rate reductions, a major simplification of the trade regime

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<sup>7</sup> World Bank (2000). "Netherlands Antilles: Elements of a Strategy for Economic Recovery and Sustainable Growth."

be implemented. The authorities' trade reform programme aimed at the full elimination of trade protection by 2005.

In 2003, taxes on international trade amounted to 2.5 per cent of GDP. They comprised import tariffs and economic levies, the latter specifically aimed at protecting domestic producers. Tariffs range from zero on basic goods to 63 per cent on tobacco, and have not been modified lately, with the exception of duties on computers and computer parts, which were reduced to zero in 2003. Since 2001, economic levies are being progressively dismantled with their full elimination targeted for 2005. The levy on cars was abolished in 2003. Other economic levies were reduced by three-quarters of their 2000 level in 2003.<sup>8</sup>

At first glance, the economy of the Netherlands Antilles seems far more export-oriented than that of most neighbouring economies when measured by the exports to GDP ratio, which reached 87 per cent in 2001 and has traditionally been above 70 per cent. However, a closer examination reveals that oil trans-shipment accounts for a significant share of this ratio. When the oil trans-shipment is excluded, the ratio is more modest at 18 per cent.

**Table II-3: Exports to GDP (in percentage)**

	Exports to GDP
Argentina	27.7
Panamá	29.0
Dominican Republic (01)	23.9
El Salvador (01)	28.9
Mexico	27.2
Costa Rica (01)	42.1
Jamaica (01)	41.5
Brazil	15.8
Colombia (01)	19.4
The NA (01)	87.0*/18.0**

\* With oil transshipment

\*\* Without oil transshipment

The United States and Venezuela are the most important trading partners of the Netherlands Antilles, both with respect to exports and imports. In 2003, the United States accounted for 21.3 per cent of all exports and 13.6 per cent of imports, whereas Venezuela rank first in terms of imports at 64.8 per cent and second with respect to exports at 16 per cent. The Bahamas (7.6 per cent) and Singapore (5.2 per cent) were the third and fourth export market for the Netherlands Antilles, whereas the Netherlands (7.8 per cent) and Japan (1.1 per cent) were the third and fourth main source of imports.

<sup>8</sup> IMF Article IV Consultation 2003.

The oil refinery accounts for the bulk of the Antillean exports at 99 per cent of total exports of goods in 2001.<sup>9</sup> Aircraft maintenance comes second and aircraft parts rank third. All these exports are out of Curaçao. Bonaire has a much smaller exporting capability with a total of US\$3.1 million in total exports of goods in 2001, of which cheese ranks first.<sup>10</sup> For both Curaçao and Bonaire, the United States represents the most important export market, followed by Venezuela.

**Table II-4: Main Trading Partners (% of Total Value)**

Exports	1997	1998	1999	2000	2001
US	32.9	22.6	27.2	35.9	24.9
Venezuela	2.6	3.6	3.6	8.7	15.3
Guatemala	7.1	10.4	11.1	9.4	9.7
Singapore	0.4	1.3	0.1	2.8	5.8
France	2.4	4.2	3.6	5.4	1.3
<b>Imports</b>					
Venezuela	37.4	33.8	28.4	59.3	56.5
US	5.4	5.0	17.2	25.8	10.9
Mexico	10.5	7.4	6.9	20.7	11.6
Gabon	0.0	0.0	4.2	6.6	2.5
Italy	6.3	4.7	4.7	5.8	2.3

Source: Economist Intelligence Unit.

The Netherlands Antilles benefits from a number of preferential trade arrangements with the European Community within the Council Decision of the Association of the Overseas Countries and Territories (OCTs). The Netherlands Antilles also benefits from the unilateral preferential tariff treatment granted by the United States to 24 “beneficiary countries” qualifying under the 1983 Caribbean Basin Initiative (CBI) and under the 1990 Caribbean Basin Economic Recovery Expansion Act (CBI II), which was given new impetus with the Caribbean Basin Trade Partnership Act (CBTPA), effective since October 2000.

An important provision of the CBI II is the permanent extension of the duty free treatment of most goods produced in a CBI country upon entering the US market if the product fulfills the following criteria:

It is imported directly from Curaçao into US customs territory.

<sup>9</sup> The refinery is being used by PDVSA as a company to process crude oil but not to market the refined products. Marketing of the refined products is being done by another Venezuelan state-owned company called Maraven, which is not established in Curaçao.

<sup>10</sup> The data is only available for Curaçao and Bonaire.

It meets the 35 per cent local value added requirement – only direct processing costs in one or more CBI countries are considered to be value added. US origin materials may be counted towards 15 per cent of the 35 per cent.

It conforms to the substantial transformation requirement, i.e. the final product should be new and different from the foreign materials used in its manufacture.

If components used in the processing in Curaçao are of 100 per cent US origin, then requirements 2 and 3 will be omitted (for items other than textiles, oil and oil products).

Under the new Trade and Development Act passed in January 2000, apparel articles now can enter the US market free of duty without quantitative restrictions. Duty/quota-free treatment is also available for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns are used in forming the fabric. New duty/quota free treatment will also be available for apparel made in the CBI from fabrics determined to be in “short supply” in the United States, and for designated “hand-loomed, handmade, or folklore” articles.

In addition to these apparel preferences, the CBTPA provides NAFTA (North American Free Trade Agreement)-equivalent tariff treatment for certain items previously excluded from duty-free treatment under CBI (e.g., footwear, canned tuna, petroleum products, watches and watch parts).

The Netherlands Antilles, as part of the Kingdom of the Netherlands, is a member of the World Trade Organisation (WTO). A new schedule of import duties was submitted in 2003 and is still under consideration.

#### **2.4.2. Free Economic Zones**

The economic zone law was enacted in 2000. The law targets companies that are engaged in international trade and its supporting activities, such as the following: storage, assembling, processing, packaging of goods, maintenance and repairs in the economic zone of goods pertaining to companies doing business outside of the Netherlands Antilles, maintenance and repair of machinery and other equipment located abroad using goods stored in the economic zone and electronic commerce. Under the law, regardless of nationality, a legal entity with capital shares and which is admitted to the economic zone area can obtain the following benefits:

- 2 per cent tax on the profit derived from exports until 2025;
- Exemption for turnover and excise taxes, import duties in the case of import, trans-shipment or export;

- Employees who lived outside the Netherlands Antilles for more than five years can qualify for an expatriate status. In addition, certain tax-free benefits may be granted to the employees of companies located in the economic zone.

There are seven economic zones in Curaçao and two in Bonaire. Currently approximately 150 companies with a total of over 800 employees operate on the island of Curaçao alone, the majority of which are trading companies that distribute products from the United States, Europe and Asia to the Caribbean and Latin America. Clothing, textile products, cosmetics, shoes and other consumer goods are the items most frequently sold through the zones, albeit there is a growing business in higher value products, such as pharmaceuticals and industrial products. Besides trading companies, there are also distribution companies offering services to third parties, such as warehousing, distribution, invoicing, etc.

The Government of the Netherlands Antilles has also been actively seeking e-commerce investment. In 1996, the government approved offshore gaming activities. Since then, about 30 gaming licenses have been issued.

## **2.5. Infrastructure**

### **2.5.1. Air Transport**

As the Netherlands Antilles is a cluster of five islands, it heavily relies on air connections. Each of the islands has one airport and all together the Netherlands Antilles is served by 13 airlines. Curaçao Airport Partners NV (CAP) is now under a 30-year concession and is partnering with a group of local stakeholders in cargo business and harbour management to work on a cargo study to redirect more cargo through the airport. One of their consortium members is Canada Post International, which has been operating postal services in the country since 2003. Bonaire recently established Bonaire Port Authority N.V. to manage private concession of Bonaire International Airport, International Seaport, and Port Security Service. In July 2004, Princess Juliana International Airport (PJIAE) in St. Maarten entered into the second phase of the airport expansion project that was initiated in April 2000 and which will be completed in 2006. Phase II of the project which consists of a new airport terminal building and related works represents an investment of US\$87 million.

### **2.5.2. Ports**

Each of the five islands has its own port. In Curaçao, four ports are administered by the Curaçao Ports Authority (CPA) N.V. which is owned by

the Island Government of Curaçao. The CPA owns the infrastructure and most of the superstructure of the ports. Facilities are leased out to private operators. Willemstad Container Terminal and other cargo facilities in the Port of Willemstad are managed through a concession agreement by the Curaçao Port Services Inc. (CPS) N.V. The quality of CPA and CPS management has long been recognized, as demonstrated by the award received by the Port of Willemstad from the Caribbean Shipping Association for “Most Dependable Caribbean Port” three times in the last five years. In January 1998 CPS became the first in the Caribbean to receive the ISO 9002 Certificate Summa Cum Laude, for its entire administrative and operational activities.

In January 2001, the Port of St. Maarten, The Dr. A.C. Wathey Cargo and Cruise Facility, opened. With its new pier St. Maarten can accommodate four ships simultaneously, that is two mega ships and at least two or three smaller ships. The cruise facility accommodates over a million passengers every year. In addition to the cruise facility, St. Maarten has almost doubled its cargo facilities, which offer a container storage capacity of 30,000 square meters. The berthing facility has also been expanded.

### **2.5.3. Communications**

Infrastructure for communication in the Netherlands Antilles has always been above average in the region, thanks to the influence of the Netherlands. The teledensity in the country is among the highest in the Caribbean, while the phone rate per minute is considered to be reasonable. At US\$0.13 per minute to the United States, Curaçao’s rate is particularly competitive.

On the island of St. Maarten, SMITCOMS N.V., a subsidiary company of the government owned landline provider Telem, has recently begun the installation of a new undersea fibre cable. This fibre cable will link St. Maarten to the U.S. mainland via Puerto Rico, and in the process provide the much needed extra bandwidth to St. Maarten’s entrepreneurs.

There are approximately 25 internet providers in the Netherlands Antilles, a majority of which are based in Curaçao. Leasing internet lines is still expensive by regional standards – only Guyana has more expensive internet lease-lines.<sup>11</sup>

In November 2001 the Central Government on behalf of Post Netherlands Antilles entered into a strategic alliance with Canada Post International. Since May 2003, Canada Post International’s subsidiary, Nieuwe Post Nederlandse Antillen N.V., is operating the postal service in the country.

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<sup>11</sup> CeCP Regional Survey on Leased Line and Utilities Tariffs.

#### **2.5.4. *Electricity and Water***

In Curaçao, the company responsible for the production and distribution of water and electricity is Aqualectra, which used to be two separate entities, Aqualectra Production and Aqualectra Distribution. These two entities were merged in 1996 following the conclusion of the lease agreement between the Island Territory of Curaçao and the Venezuelan refinery PDVSA. The agreement included the construction of a utility plant based on the Build-Own-Operate concept. A portion of the electricity generated at the plant was distributed through the national grid. Starting in early 2001, the operation continues under the name of Aqualectra.

Electricity is priced between US\$0.14 and US\$0.20 per kwh while water averages between US\$6.98 and US\$7.49, depending on the type of industry. The electricity rate is on par with the average in the region. As for water, the second most expensive territory is the Cayman Islands at half the Antillean price.<sup>12</sup> There are some differences in rates among the islands – rates tend to be the highest in Curaçao, followed by Bonaire; the exception being the water tariffs for hotels in St. Maarten which are higher than those of Curaçao and Bonaire.

In September 2001, Atlanta-based Mirant became a strategic partner of Aqualectra. Aqualectra expects improvement in the efficiency and quality of water and electricity supply by having access to Mirant's technical knowledge in this field.

In Bonaire and the Windward Islands, state-owned enterprises, namely WEB (Bonaire) and GEBE (Windward Islands), operate Antillean production and distribution of electricity and water. Both of these enterprises are slated for privatisation in the medium term, however, no concrete plan has been formulated so far.

## **2.6. Human Capital**

### **2.6.1. *Education***

The Netherlands Antilles has one of highest literacy rates in the region at 96.4 per cent in 2001 and can count on a multilingual population. The country has two universities. One is private and has 100 students, whereas the other is subsidized by the Central Government and counts 700 students. Law and various social science courses are taught at these universities. In addition to the two universities, there are several higher education institutes. Curaçao is home to two public institutions for higher education, a teachers

<sup>12</sup> Ibid.

college and a paramedical school. The former offers associate and BA degree and has about 200 students. On the Island of St. Maarten, the University of St. Martin (USM), founded in 1998, offers a variety of degree and non degree programmes. The degree programmes range from Associate of Arts to Master of Arts in Education and Business Administration. At present, approximately 250 full-time students are enrolled.

Each year between 300 and 400 students with secondary school diploma leave for the Netherlands or the United States to continue their studies at a university or at higher vocational institutes. Approximately 20 per cent return to the country after finishing their studies.

### **2.6.2. Labour Market**

The labour market has long been described as lacking in flexibility (i.e. rigid rules on hiring and firing)<sup>13</sup> and in being costly (mandatory benefits, high overtime etc.). In order to address this problem, the “Ordinance Flexibilisation of the Labour” legislation was introduced on August 1, 2000. The essence of the labour reform is the following:

- Elimination of prior approval to dismiss employees<sup>14</sup>
- Introduction of synchronized minimum wages across islands
- Establishment of a Labour Court.

The legislation met with strong resistance from labour unions and other groups. As a result, the actual abolition of the dismissal law was introduced only on the island of Curaçao, and the Labour Court has not been instituted so far. More recently, the dismissal law was reintroduced in 2003, without the consensus of the social partners.

Antillean severance pay schemes are fairly generous in the case where employment is terminated:

- From the first year up to the tenth year of service one week’s wages per year of employment
- From the eleventh year up to the twentieth full year of service one and a quarter times the week’s wages per year
- For the following years twice the week’s wages per year.

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<sup>13</sup> Before dismissing employees, a company needs to submit a set of documents to the Directorate of Labour Affairs in order to justify the action. The process takes approximately six weeks.

<sup>14</sup> Business services, computer and related activities, education, health and social work.

As of March 2003, the minimum wage was an average US\$3.10 with variance by job category and location. This rate is substantially higher than the wage offered by other developing countries.<sup>15</sup>

In addition to wages, employers need to provide the following benefits:

- 0.5 per cent premium for a general insurance extraordinary sickness
- 0.5-5 per cent premium for a disability insurance which depends on the risk involved for the employee
- 8.3 per cent premium for an illness coverage for employees with a maximum income of US\$24,705
- 5.5 per cent general old age pension
- 0.5 per cent premium for a widow and orphan pension.

Furthermore, employers are obliged to provide annual paid vacation calculated in the following manner: three times the number of work days per week. This is to say if a person works 4 days a week, he or she is entitled to a minimum of 12 paid holidays. If an employee works six days per week, he/she does not need to have more than 15 days of vacation.

The Government of Curaçao conducted a study on the labour market in 2003. The results of this study show that the main reason for the current structural unemployment is not so much the absence of jobs, but that the supply is an inadequate to meet the demand. Members of the local workforce who have very little education prefer the informal or illegal sectors to a job with a low status in the regular sector.

The government aims to reduce unemployment by improving the business climate and by promoting entrepreneurship and active employment policy. The Department of Employment and Income helps the unemployed find work by providing them with training. Examples of projects and courses implemented by the Department of Employment and Income include:

- Motivational courses: courses on social values and work attitude
- General courses: courses that aim at preparing the unemployed for more specialized courses
- Alphabetization: courses to teach participants how to read and write

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<sup>15</sup> Trinidad and Tobago: US\$1.10, Barbados: US\$1.87 (the Government of the Netherlands Antilles 2004), Malaysia: US\$1.59, Nigeria: US\$0.81, Thailand: US\$0.46, and China: US\$0.25 (World Bank 2003).

- Budget course: course to teach the unemployed how to make the best financial choices
- Alphahulp: the unemployed will be trained to become domestic servant helping elderly disabled people.

Also worth noting is that in January 2004, the Government of the Island Territory of Curaçao announced the establishment of a Social Fund to Fight Poverty. Apart from that, there is no indication of a clear policy framework to promote the linkages between local small and medium-sized enterprises and foreign investment projects.

## **2.7. Business Integrity**

### **2.7.1. Competition Law**

The introduction of a competition law is currently under consideration.

### **2.7.2. Anti-Corruption**

The Antillean legislation contains specific sanctions for bribery and corruption. Specific sanctions are spelled out in the Penal Code of the country. The legislation not only penalizes civil servants for accepting bribes (called “misconduct”), but also non-civil servants for bribing them (as “crimes against a public authority”). There is also a draft law currently being discussed in Parliament to amend Article 86 of the Penal Code, which deals with the definition of civil servant. The draft law proposes to widen the definition to include administrators, ministers, state-secretaries and commissioners, as well as members of the Island Council and Parliament. The law also encompasses employees of public utilities and government-owned companies.

### **2.7.3. Anti-Money Laundering**

There are several recent laws aimed at imposing higher standards of integrity for businesses.

- National Ordinance on the Supervision of Fiduciary Businesses: the supervision of fiduciary companies (conducting management, trust and administrative activities) has also been added to keep up with the standards and integrity of the international financial services industry.
- National Ordinance Identification when rendering Financial Services: pursuant to this law, any (legal) person who renders financial services

by virtue of his/her profession or in the ordinary course of his/her business is obliged to establish the identity of his customer.

- National Ordinance Reporting of Unusual Transactions: pursuant to this law, any (legal) person who renders financial services by virtue of his/her profession or in the ordinary course of his business is obliged to inform a Reporting Centre of any unusual transaction which is contemplated or has taken place.
- National Ordinance Penalization of Money Laundering: this National Ordinance not only penalizes a person who has been found guilty of intentionally laundering money, but also penalizes a person who intentionally gains benefits from proceeds derived from crime.

## 2.8. Investment Regime

The Netherlands Antilles is very open to foreign investment, albeit the country does not have a foreign investment law as such<sup>16</sup> and, in reality, investors face a number of barriers to entry. For example, in the absence of clear guidelines permits are granted based on discretion.<sup>17</sup> Moreover, the registration process is extremely time consuming – the registration of a sole proprietorship takes one to three months. In case of a limited liability company, it could take up to a year with laborious procedures and numerous requests for permits. Applications for the establishment of limited liability companies are made to the Island Executive Council. In addition to registration, one needs to obtain a business license and (if applicable) special licenses. If the operation is in foreign currency, a foreign exchange license is also required.

Investment promotion activities are handled at the island level. In Curaçao the task is divided between Curaçao Industrial and International Trade Development Co., N.V. (Curinde) and Curaçao Tourism Development Bureau (CTDB). Curinde is an SOE mandated to attract investment and promote trade. In addition, Curinde also manages free economic zones. Similarly, one of the mandates of CTDB is to attract investment. However, in reality, Curinde is focused on the management of free economic zones and CTDB on tourism development, which means that investment promotion is not really a priority for either organisation. In Bonaire, the Department of Economic and Labour Affairs is in charge of promoting investment. In St. Maarten, the Department of Economic Policy and Research manages a website, [investinsxm.com](http://investinsxm.com), aimed at promoting and

<sup>16</sup> The Government of the Netherlands offers special incentives for Dutch private enterprises willing to invest in the Netherlands Antilles.

<sup>17</sup> FIAS 2001.

attracting investment. In all of these islands, the local chamber of commerce and industry also actively disseminates information on business opportunities and other related issues.

The settlement of domestic disputes takes place under the Administrative Court Act, which is a law of the Netherlands Antilles. For international investment disputes, the Netherlands Antilles falls under the jurisdiction of the Netherlands. There are three venues where administrative disputes can be brought: the Court of First Instance, the Joint Court of Arbitration for Aruba and the Netherlands Antilles, and the Higher Council. Normally, the procedures can take between 45 and 60 days, and additional 10 days is granted in order to provide further documentations. However, in case where the Higher Council is involved, it may take years.

## 2.9. Fiscal Framework

In response to the IMF recommendations, the Netherlands Antilles has introduced a new fiscal framework, which aims at repealing the tax regime for offshore companies so that the Netherlands Antilles will no longer be characterized as a tax haven, and at concluding favourable tax arrangements with the Netherlands and other countries so that investing in the Netherlands Antilles becomes more attractive for companies. The main elements of the new fiscal framework are as follows:<sup>18</sup>

Transitional rule: The new fiscal framework bill provides for a transitional rule granting the advantages of the present regime to existing companies which on the date prior to the date of entry into force of the new fiscal framework benefited from the offshore regime for a maximum period of, generally, up to and including the year 2019.

### 1. Profit Tax Ordinance

- Introduction of the concept of an Exempt Company, i.e., a company that is exempt from both corporate income tax and the new dividend withholding tax
- Extension of the scope of the participation exemption in order to include capital gains on qualifying participation as well as proceeds from participation in companies abroad
- Extension of the period for loss carry-forward
- Introduction of merger provision
- Introduction of fiscal unity treatment (consolidated tax group)

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<sup>18</sup> Central Ordinance on the New Fiscal Framework.

- Introduction of a flat rate for corporate income tax purposes.

## 2. Income Tax Ordinance

- Introduction of deemed income provisions
- Amendment of the substantial interest provisions
- Dividend withholding tax ordinance
- Introduction of dividend withholding tax.

Current corporate tax is levied at 35 per cent, which is within the international average range (35-40 per cent). The Netherlands Antilles has obtained the Qualified Intermediary status from the US Internal Revenue Service, which means that a qualified intermediary is exempted from 30 per cent withholding tax on payments made to a foreign entity.

In the past, the Netherlands Antilles had treaties with a number of countries including the United States and the United Kingdom. Most of these treaties have lapsed, and the only remaining double taxation treaty as such is with Norway. One of the key motivations behind the introduction of the new fiscal framework is to be able to negotiate double taxation treaties. It is worth pointing out that on 17 April 2002, the Netherlands Antilles and the United States signed a Tax Information Exchange Agreement. The United States has signed several such agreements with financial centres in the last few years. In addition to the Netherlands Antilles, other centres include Antigua and Barbuda, Aruba, The Bahamas, The British Virgin Islands, the Cayman Islands, Guernsey, Isle de Man, and Jersey.

In order to attract investment in certain sectors, the Netherlands Antilles provides clearly stated incentive schemes in four sectors – hotel, manufacturing, land development and e-commerce (see Table II-5). In addition, tax incentives are also available for “selected” business entities. Since the fifth category is not sector-specific, in reality, fiscal incentives are available to businesses operating in any sector. This provides ample room for the government to operate at its discretion.

Table II-5 summarizes the incentives provided for each sector.

The Government of Bonaire offers space for the construction of universities, medical facilities, and healthcare institutions with room for expansion. Exemptions of taxes can be applied for a certain number of years with a flexible approach on granting residence permits to students as well as working permits to staff. The island offers facilities for medical congresses, hotels and restaurants, and daily airline connections with the United States.

Table II-5: Fiscal Incentives for Sectoral Promotion

	Hotel	Manufacturing	Land development	E-commerce	Others
<b>Criteria</b>	Limited liability company	Limited liability company in non-oil sector	Limited liability company	First need to be admitted to the economic zone area	
<b>Minimum investment requirement</b>	US\$550,000 (if renovation, US\$165,000)	US\$137,500	US\$1,100,000 excluding the value of the land		US\$137,500
<b>Other requirement</b>		Create at least 5 permanent jobs	Investment needs to be made within 5 years of the date of the Central Decision		Create at least 5 permanent jobs to persons born in the country
<b>Corporate tax</b>	2% for a maximum of 11 years	2% for a maximum of 11 years, but at the latest by 2009		2% until December 2025	2% for a period of 11 years
<b>Other tax</b>			2% on the profit obtained on the sale of land for a maximum of 15 years	Exemption of turnover and excise taxes	
<b>Exemptions of import duties</b>	On materials and goods required for construction and initial refurbishing of the hotel's premises (in case of renovation, exemption is for two years)	On materials and goods required for construction and initial equipment of the industry's premises, as well as packaging material, machinery, raw materials, semi-manufactured articles and accessory means necessary for the industrial process	On materials and goods intended for the laying out of roads, on construction of real estate and on the laying out or construction of locations for amusement purposes	Exempted	On materials and on goods required for construction and initial capital equipment (includes expansions) of the business' premises. In addition, exemption from import duties for a period of 10 years at the most on raw materials and semi-manufactured articles, as far as these components are processed by the company.
<b>Exemption of land tax</b>	On hotel's premise for 10 years after becoming taxable	On the industry's premise for a maximum 11 years after becoming taxable, but no later than 2009	As long as the plots of land, which are being developed, are not let out		On the business' premises for 10 years after becoming taxable

	Hotel	Manufacturing	Land development	E-commerce	Others
<b>Exemption of occupancy tax</b>	On the use of the hotel's land for 1 year after the start-up of the hotel	On the use of the industry's land for a maximum of 11 years, but no later than 2009	Due to the use of the company's plots		On the use of the business' land premises, after becoming taxable
<b>Exemption from personal income tax</b>	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	Employees who lived outside the Netherlands Antilles for more than 5 years can qualify for an expatriate status	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained
<b>Foreign exchange license fees</b>				Upon request, the Central Bank will grant an exemption from the payment of foreign exchange license, fee charges for merchandise transactions	

## 2.10. Achievements So Far and Further Action

A number of studies on the Antillean economy have been conducted by international organisations in recent years. Their conclusions are largely consistent. There is a need for fiscal reform, privatisation, introduction of competition law, improving the labour market, strengthening the financial market, and simplifying administrative procedures. The Government of the Netherlands Antilles has initiated a number of reforms in response to these recommendations, such as strengthening the financial market by enacting anti-money laundering legislations and, privatising state-owned enterprises as described above. To further improve the country's international reputation, the Netherlands Antilles has made a commitment to the OECD to improve transparency and to establish effective exchange of information for tax purposes. It has agreed to ensure access to beneficial ownership information and bank and accounting information and to exchange such information with foreign tax authorities under tax information exchange agreements. In furtherance of that commitment, the Netherlands Antilles

signed a tax information exchange agreement with the United States in April 2002 (not yet in force). The adoption of the Anti-Money Laundering laws referred to in section 2.7.3 above has also contributed to improving fiscal transparency in the Netherlands Antilles.

And more improvement is under way. In 2003, the Central Government created the Commission *Belastingherziening Nederlandse Antillen* to conduct an assessment of the current tax system. The Commission recommended the introduction of a new tax system and the improvement of the tax collection system. The new tax system would reduce direct taxes (taxes on income and profits) and broaden the existing base of the sales tax. It is aimed at stimulating consumer spending and investment by increasing disposable income. The second recommendation of the Commission is to address an increasing need to fight tax evasion. A more effective and efficient collection system is seen as a critical component in the implementation of fiscal reform, since it is the key solution to ensure budget neutrality in the face of the reduction in indirect taxes.

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## *Part III*

### Investors' Perceptions

This chapter discusses the results of a survey of investors in the Netherlands Antilles. The data was compiled by the Central Bureau of Statistics of the Netherlands Antilles (see Annex I for a description of the survey methodology). Comparing the facts with investors' perceptions provides a unique opportunity for policy makers to assess their current strategy to attract, retain and increase foreign investment.

#### **3.1. Economy**

This section briefly examines how investors see the current business environment in the Netherlands Antilles. The business community does not have strong confidence in the domestic economy, as demonstrated in the low percentage of companies that rate economic stability low highly. This finding is not surprising given the recent economic difficulties faced by the country. The survey also shows that the business community has not suffered from inflation or exchange rate problems while operating in the country (Table III-1).<sup>1</sup> In addition, the business community is reasonably comfortable with the overall political stability. St. Maarten received the lowest score – the highest percentage of respondents indicating discomfort with political instability. It may be partially due to the uncertainty resulting from the discussions in St. Maarten with respect to leaving the federation.

When analysing the survey results by sector in which companies operate, very little variance is found among the different sectors, except for the issue of economic stability. In assessing the confidence in the country's economic stability, the survey indicates that the tourism sector is the least optimistic, followed by manufacturing. Services firms were not –in general– as critical of the Antillean economic stability as others.

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<sup>1</sup> Exception is the response in Saba on foreign exchange, where risk is perceived higher.

**Table III-1: Business Survey Result – Macroeconomic Environment\***

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Economic stability	Low	36.5	35.7	57.7	50.0	20.0
	Moderate	52.9	45.7	30.8	40.0	60.0
	High	11.8	17.8	11.5	0.0	0.0
Inflation	Low	32.4	37.3	23.0	20.0	20.0
	Moderate	42.6	43.4	38.5	50.0	40.0
	High	14.7	16.3	30.8	20.0	40.0
Exchange rate	Low	35.3	41.9	42.3	80.0	20.0
	Moderate	39.7	31.0	23.1	10.0	0.0
	High	16.2	20.2	26.9	10.0	60.0
Political stability	Low	22.1	21.7	30.8	20.0	0.0
	Moderate	36.8	31.8	19.2	20.0	20.0
	High	39.8	45.0	49.0	50.0	80.0
Openness to foreign investment	Low	25.0	34.1	26.9	30.0	60.0
	Moderate	33.8	27.1	23.1	10.0	40.0
	High	26.4	33.4	46.1	50.0	0.0

\*Response to the question “what is your perception of the island regarding the following factors.”

Source: Central Bureau of Statistics (CBS).

In order to assess the difference of opinions by share of ownership categories, firms were clustered into three groups: foreign ownership of 0 to 10 per cent exclusive, 10 to 49 per cent exclusive, and 50 to 100 per cent. This led to interesting findings. Firms with 50 per cent or more foreign ownership indicated that they feel more positive about the political stability of the country than companies with minority foreign investors. On foreign exchange, domestic companies are positive, but firms with foreign interest are less so. This finding is not surprising when considering their needs for foreign exchange transactions.

### 3.2. Infrastructure

Based on the survey, the business community considers the level of infrastructure and infrastructure development of good quality. Opinions are similar across sectors and islands, except for water services in St. Eustatius, which received a very low rating. There was no significant variance in opinions among different sectors or structure of ownership. The questionnaire did not differentiate quality of service and value of service (which would take into account the cost). As a result, the cost of services was not analysed in the survey. It would have been useful to assess investors' perceptions with respect to the cost of infrastructure, as research seems to suggest that it is prohibitively high.

**Table III-2: Business Survey – Investors' Perceptions on Infrastructure**

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Energy	Good	79.5	79.9	80.8	80.0	100.0
	Poor	20.6	20.2	19.2	20.0	0.0
Water	Good	82.4	91.5	84.6	10.0	60.0
	Poor	11.7	7.8	15.3	70.0	40.0
Postal services	Good	86.7	77.6	76.8	100.0	0.0
	Poor	13.2	21.7	26.9	0.0	100.0
Telecommunication	Good	83.8	90.5	77.0	80.0	100.0
	Poor	16.2	8.5	19.2	20.0	0.0

\*Response to rate quality of public services

Source: Central Bureau of Statistics (CBS).

### 3.3. Human Capital

Investors' opinions on the local labour situation are quite revealing. Despite the high literacy rate and the availability of institutions for higher education and language training, a majority of firms in all five islands rated the availability of well-trained workers to be low (Bonaire 70.6 per cent, Curaçao 50.4 per cent, St. Maarten 62.6 per cent, St. Eustatius 70 per cent and Saba 100 per cent, see Table III-3). The first question, one might ask given this result, is “what are ‘well-trained’ workers in the view of interviewed companies, and is their understanding widely shared by the government agencies in charge of labour issues?”

With the exception of St. Eustatius, a majority of respondents opine that the cost of labour is high (Bonaire 41.1 per cent, Curaçao 56.6 per cent, St. Maarten 57.7 per cent, St. Eustatius 10 per cent and Saba 100 per cent). The trend is very similar across sectors. In fact, in every sector more than 50 per cent of the respondents indicate that the cost of labour is expensive, whereas there are about 10 per cent of respondents who believe that the cost of labour is not high. Given the description above – laborious dismissal process, higher-than-regional average minimum wage, mandatory benefits package, such a finding is not surprising. With the recent change in labour regulation, the situation might improve.

With respect to the availability of well-trained workers, opinions vary by sector. Firms in the tourism sector are the most concerned about the lack of skilled labour. Manufacturing and services firms have similar views. An overwhelming majority of the respondents did not rate the availability of skilled labour as high. Interestingly, the trend is reversed for the productivity of workers. Firms rate the productivity of workers in manufacturing and services higher than firms in the tourism sector. It is worth noting though that a majority did not seem to have a strong opinion (choosing “moderate”),

and that the survey also reveals that the business community does not have a high opinion of the productivity level of workers in the country.

The survey suggests that in order for the Netherlands Antilles to become competitive, the country must give some thoughts to improving its labour force and the functioning of the labour market.

**Table III-3: Business Survey – Investors' Perceptions on the Labour Market\***

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Cost of labor force	Low	13.3	8.6	3.8	30.0	0.0
	Moderate	45.6	33.3	30.8	50.0	0.0
	High	41.1	56.6	57.7	10.0	100.0
Availability of well-trained workers	Low	70.6	50.4	61.6	70.0	100.0
	Moderate	20.6	33.3	19.2	20.0	0.0
	High	8.8	15.5	19.2	10.0	0.0
Degree of productivity of workers	Low	29.4	34.2	38.5	20.0	0.0
	Moderate	45.6	43.4	46.2	60.0	40.0
	High	25.0	21.7	14.3	20.0	60.0

\*Response to the question "please indicate what is your perception of the island regarding the following factors."

Source: Central Bureau of Statistics (CBS).

### 3.4. Business Integrity

The survey reveals that there seems to be room for improvement in terms of business integrity. It is particularly noteworthy that a high percentage of firms responded that corruption is an obstacle for doing business in the Netherlands Antilles. However, when companies were asked whether they needed to pay "an additional fee" to conduct business, the overwhelming majority responded "never." This seemingly contradicting result may be explained by the way the question was asked, as it did not clarify what kind of corruption takes place in the Netherlands Antilles. It might be useful to further analyse this issue and at the same time revisit the "implementation mechanism" of the new anti-corruption legislation. Concern was also expressed by investors in Curaçao and Bonaire on anti-competitive practices, mostly in the area of public procurement.

Corruption is seen to be highly problematic in St. Eustatius and St. Maarten, whereas more businesses in Bonaire and Curaçao are concerned with anti-competitive practices.

**Table III-4: Business Survey – Investors' Perceptions on Business Integrity\***

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Judicial System	Obstacle	54.4	36.5	50	70	0
	Not obstacle	42.6	53.5	38.5	20	20
Corruption	Obstacle	57.4	57.5	73.1	70	20
	Not obstacle	39.7	32.6	11.5	30	0
Anti competitive practices, monopolies	Obstacle	72.1	62.8	50	50	0
	Not obstacle	25	27.1	38.5	50	20

\*Response to the question "please indicate on a scale from 1-4 (1 being a major obstacle) how the island compares to other countries in the region."

Source: Central Bureau of Statistics (CBS).

### 3.5. Administrative Barriers

The opinions of the business community with respect to the investment climate help identify a number of areas for improvement. First of all, there is still skepticism among business people on the commitment of the government to implement pro-business policies. The skepticism is higher in St. Maarten, St. Eustatius and Saba. St. Eustatius is particularly concerned about the legal framework, whereas all the islands with the exception of Curaçao scored low on incentive schemes.

**Table III-5: Business Survey -- Investors' Perceptions on the Institutional Framework\***

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Commitment of government to pro business policies	Low	32.4	39.6	42.3	60.0	60.0
	Moderate	35.3	35.7	30.8	20.0	40.0
	High	23.5	18.6	19.2	10.0	0.0
Legal framework for business and investment	Low	27.9	22.5	26.9	60.0	0.0
	Moderate	41.2	36.4	23.1	30.0	60.0
	High	25.0	37.2	42.3	10.0	40.0
Incentives	Low	64.7	37.2	57.7	60.0	80.0
	Moderate	20.6	31.0	19.2	30.0	0.0
	High	2.9	15.6	19.2	10.0	20.0
Openness to foreign investment	Low	25.0	34.1	26.9	30.0	60.0
	Moderate	33.8	27.1	23.1	10.0	40.0
	High	26.4	33.4	46.1	50.0	0.0

\*Response to the question "what is your perception of the island regarding the following factors."

Source: Central Bureau of Statistics (CBS).

The survey reveals that there are a number of administrative barriers. In particular, start-up requirements, obtaining permits for non-nationals and migration regulations are seen to be the source of frustration for the business community (high proportion of companies responding that there are many problems). Across the islands, obtaining work permits for non-nationals is considered to be a serious problem. This is in line with the survey results on the labour market, where businesses felt that there is a shortage of qualified labour. Obtaining land title, which is a problem in many countries, is not so problematic in the case of the Netherlands Antilles (over 40 per cent of

companies responded that there is no problem). With respect to island-specific characteristics, it is worth emphasizing that in Saba, labour is the only issue the business community raised as a problem. Businesses in St. Maarten frequently expressed more frustration than others, whereas their counterparts in St. Eustatius seem to have no problem.

**Table III-6: Business Survey -- Investors' Perceptions on Administrative Barriers\***

		Bonaire	Curacao	St. Maarten	St. Eustatius	Saba
Start up Requirement	none	20.6	30.2	38.5	20	40
	some	58.9	48	30.7	70	40
	many	20.6	17.8	30.8	0	20
Business Registration	none	36.8	55	34.6	30	40
	some	58.8	40.4	50	60	60
	many	4.4	3.1	15.4	0	0
Foreign Commerce Regulations	none	45.6	31	42.3	20	40
	some	45.6	50.4	38.4	60	20
	many	7.4	10.1	7.7	0	0
Municipal Permits	none	33.8	40.3	30.8	10	100
	some	48.6	36.5	46.1	60	0
	many	17.6	14	15.4	0	0
Work Permits for Non Nationals	none	23.5	16.3	15.4	10	25
	some	39.7	53.5	50	80	25
	many	32.4	23.3	34.6	0	50
Migration Regulation	none	33.8	27.1	23.1	20	60
	some	47	48.1	46.2	70	0
	many	16.2	12.4	26.9	0	40
Environmental Regulation	none	41.2	44.2	34.6	20	60
	some	47	38	50	60	40
	many	10.3	8.5	11.5	0	0
Construction Permits	none	27.9	31	38.5	20	60
	some	64.7	48.9	34.6	70	40
	many	7.4	11.6	19.2	0	0
Land Title	none	45.6	47.3	42.3	20	100
	some	44.2	38.7	34.6	70	0
	many	4.4	9.3	15.4	0	0
Inspections	none	29.4	35.7	23.1	20	60
	some	61.8	52	57.7	70	40
	many	7.4	10.9	15.4	0	0

\*Response to the question "please indicate the degree of difficulties in the following areas."

Source: Central Bureau of Statistics (CBS).

In terms of sectors, firms in the tourism sector face substantially more difficulties with administrative barriers than manufacturing and other services companies at almost every step with respect to administrative procedures.

Firms often spend one to six months to obtain permits to begin operations. This represents a much longer period than the average period in the region (Latin America and the Caribbean), which is 74 days.<sup>2</sup> In Saba and St. Eustatius, 20 per cent of respondents indicated that obtaining permits can take up to three years, whereas in St. Maarten, 23 per cent of respondents noted that it takes over a year to obtain a permit. These long delays in obtaining permits are equivalent to a substantial loss of opportunities to capture investment on the part of the Island Government.

**Table III-7: Business Survey -- Time Required for Business Start-up**

	BON	CUR	SXM	EUX	SABA
< 1 week	10,3%	10,1%	11,5%	10,0%	0,0%
< 1 month	8,8%	16,3%	0,0%	10,0%	0,0%
1 - < 6 months	35,3%	24,0%	23,1%	30,0%	80,0%
6 - < 12 months	7,4%	7,0%	7,7%	0,0%	0,0%
1 - < 2 years	2,9%	0,8%	11,5%	10,0%	0,0%
2 - < 3 years	0,0%	0,0%	3,8%	0,0%	0,0%
> 3 years	2,9%	4,7%	7,7%	20,0%	20,0%
Don't know	32,4%	37,2%	34,6%	20,0%	0,0%

**Table III-8: Business Survey – Predictability of Changes in Policy**

	BON	CUR	SXM	EUX	SABA
The process to develop new rules, regulations or policies is such that businesses are well informed beforehand of the changes introduced. (Agree to strongly agree)	16,2%	25,6%	26,9%	80,0%	0,0%
In case of important changes in laws or policies affecting business performance, the government seriously considers the concerns expressed by my company or sector. (Agree to strongly agree)	14,7%	15,5%	23,0%	50,0%	20,0%

<sup>2</sup> World Bank Doing Business Database.

In addition to the actual procedures to operate a business, the business community feels that there is room for improvement with respect to the process to reach certain policy decisions. With the exception of St. Eustatius, businesses note that they are not informed of changes in rules prior to their implementation. In addition, businesses feel that their voices are not appropriately heard and reflected in policy formulation even when proposed changes affect their business performance.

### **3.6. Summary**

The survey articulated some areas for policy improvement. One of those areas is human resources. Investors pointed out further improvement in both education and labour policy is needed in order to make Netherlands Antilles more competitive.

The most revealing finding of the survey is that the country has done many “right” things as far as the introduction of policies, laws and regulations is concerned. However, when one asks whether these policies, laws and regulations are appropriately “implemented,” it becomes clear that there is room for improvement. A good example is the case of administrative barriers. Although the Antillean economy is very open on paper, there are many “glitches” when companies want to start a business. The business survey pointed out that there is ample room for improvement in procedures of business start-up and registration, municipal permits, construction permits and obtaining land titles. A number of registration processes for establishing business, as well as for obtaining certain licenses, should become automatic. The duplication of tasks between the different levels of government should also be examined in this light. Furthermore, the creation of an agency to serve potential investors as well as to provide aftercare services to existing investors would be useful.

Lastly, the survey also exposed the frustration of the business community for not being able to actively and effectively engage in a policy dialogue with policy makers. It goes without saying that an attractive investment climate cannot be achieved without knowing what investors are looking for.

## *Part IV*

### Conclusion: Future Agenda

#### **4.1. Assessing the Role of FDI**

Foreign investment has played a vital role in the development of the Netherlands Antilles. Historically, oil refinery, trans-shipment, financial services and tourism served as the driving force of the Antillean economy. These four sectors have benefited from foreign investment.

The most important and tangible benefit of FDI has been job creation. PDVSA alone employs over 1000 people today through the operation of Isla Refinery in Curaçao, although this represents a substantial decline from its employment peak. All the top international accounting firms are present in the Netherlands Antilles and employ an average of 100 people each. In addition to directly employing local workers, foreign investment provided some business development opportunities linked to the investment.

In addition to FDI in international and onshore financial services, and in tourism, the role of foreign investors in the development of efficient infrastructure services (airports, power distribution, postal services, etc.) has proved essential. Infrastructure services are vital to the efficient operation of any economy, and the Government of the Netherlands Antilles recognises that concession agreements can play a major role in fostering the competitiveness of these services, and in so doing, improving the competitiveness of other services, as well as manufacturing and agriculture. The government is also very mindful that without well-functioning infrastructure services, a country cannot aspire to be competitive on the global scene.

The Netherlands Antilles has already begun to diversify its economy from the traditional sectors, as seen in the establishment of medical schools, in which, again foreign investment is playing an important role. Going forward, the Central Government and each Island Government of the Netherlands Antilles will be asked to identify sector(s) which should be strategically promoted.

It is unlikely that the amount of FDI will increase dramatically in a sustainable manner in the near future. This is due to the fact that the

government has opted to promote concession agreements while maintaining the ownership of assets. These “strategic alliances” will not be considered as foreign investment, as the statistical definition of FDI indicates.<sup>1</sup> Although statistically the change is less visible, “strategic alliances” potentially yield great benefit for the country and the report does not call for a change of course. In addition to improving the efficiency of the management and operation of the enterprise, alliances can generate investment and additional revenue in the form of leasing and concession fees, an important factor to consider for small economies limited in ways to increase government revenue.

#### 4.2. Recommendations

Given their multilingual workforce (Dutch and English, as well as Spanish in Curaçao) and their proximity to North and South America and their link with the European Union through the Kingdom of the Netherlands, the five Caribbean islands which form the Netherlands Antilles offer numerous opportunities to investors. Taking into account the challenges identified by the business survey and the priorities of the Government of the Netherlands Antilles in terms of its on-going economic reforms, within the next two years a number of concrete measures could be implemented by the government, with the support of the Kingdom of the Netherlands and international organisations to improve the investment climate in the country. These measures should include:

1. To continue the current privatisation programme, particularly with respect to the concessions agreements in infrastructure services, as these services are vital for the efficient operation of any economy and play a major role in the competitiveness of all other sectors, including manufacturing and agriculture.
2. To further simplify the tax system, building on the efforts of the Commission on Fiscal Reform.
3. To upgrade the skills of the workforce, as there appears to be a gap between the government’s and investors’ perceptions on the competitiveness of human capital in the Netherlands Antilles. As already acknowledged by each Island Government, improvement is absolutely necessary on this matter. To be able to compete with other

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<sup>1</sup> According to the IMF/OECD definition of foreign direct investment, which is applied to the FDI statistics in the Netherlands Antilles, FDI is defined as a capital flow that represents 10 per cent or more of the ownership. Hence, “strategic alliance,” which binds parties in other ways than equity participation, such as by leasing or technical assistance agreement, would not be captured in FDI statistics.

Caribbean islands and neighbours, each island must put in place procedures and programmes that will enhance the workforce's competitiveness. For this purpose, the islands should undertake a full review of skills needed for the future and skills presently available so as to measure and address the gap with skill training and upgrading.

4. To complete at each level of government the draft competition law and submit it to Parliament as soon as possible.
5. To streamline administrative procedures (which was planned for the 2002 economic reform programme), with a view to eliminating unnecessary bureaucracy and facilitating work permit procedures and business visas.
6. To improve information dissemination mechanisms among the Central and Island Governments in order to provide more quality and consistency with respect to the information provided to investors.
7. To have each island design an investment promotion strategy building on their own successful cases. Such strategy development will require:
  - A sectoral analysis: to acquire an in-depth understanding of the competitive landscape of the specific sector(s) in which the island is interested
  - A case study of "showcases:" to articulate "lessons learned" and repeat the success
  - Benchmarking: to understand how the island can compete in that (those) particular sector(s).
8. To monitor progress in implementing the reform agenda.
9. To set time bound targets for reform in accordance with the above recommendations and to agree to organise a meeting in one year's time to review progress.



## Annex I

### Business Survey Methodology

The business survey was conducted by the Central Bureau of Statistics of the Netherlands Antilles.

The total population of businesses includes firms with at least 10 employees, which means there are 959 businesses in total in the survey: 80 in Bonaire, 624 in Curaçao, 237 in St. Maarten, 13 in St. Eustatius and 5 in Saba. Of all these firms 299 businesses were selected as a sample by stratified sampling: 54 in Bonaire, 129 in Curaçao, 26 in St. Maarten, 10 in St. Eustatius and 5 in Saba. In table 1A, the distribution of the participating businesses is shown by island and type of economic activity.

**Table 1 A. Participating businesses by island and kind of economic activity**

Economic Activities	Bonaire	Curacao	St. Maarten	St. Eustatius	Saba	NA
Agriculture, fishing and mining	1	5	0	0	0	6
% of foreign companies*	100%	20%	0%	0%	0%	33%
Manufacturing	2	8	0	0	0	10
% of foreign companies*	0%	38%	0%	0%	0%	30%
Electricity, gas and water	1	2	0	1	1	5
% of foreign companies*	0%	0%	0%	0%	0%	0%
Construction	9	11	1	3	1	25
% of foreign companies*	33%	36%	0%	33%	0%	32%
Wholesale and retail trade	14	34	8	0	1	57
% of foreign companies*	21%	12%	13%	0%	0%	14%
Hotels and restaurants	12	6	5	1	1	25
% of foreign companies*	50%	33%	60%	100%	0%	44%
Transport, storage and communications	4	7	4	1	0	16
% of foreign companies*	25%	29%	50%	0%	0%	31%
Financial intermediation	2	17	1	0	0	20
% of foreign companies*	50%	47%	100%	0%	0%	50%
Real estate, renting and business activities	7	16	5	1	0	29
% of foreign companies*	14%	0%	40%	100%	0%	14%
Education	1	3	0	1	1	6
% of foreign companies*	100%	33%	0%	0%	100%	50%
Health and social work	4	10	1	1	0	16
% of foreign companies*	25%	0%	0%	0%	0%	6%
Other community, social and personal service activities	11	10	1	1	0	23
% of foreign companies*	27%	20%	0%	100%	0%	26%
Total	68	129	26	10	5	238
% of foreign companies*	31%	21%	35%	40%	20%	26%

\* defined as a company with 10% or more foreign interest

The survey was carried out in face-to-face interviews using a questionnaire. Each interview lasted approximately 30 minutes.



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