

MATI ANNUAL REPORT 2011

REPORT OF THE EXECUTIVE BOARD, 2011

1. Our work in 2011 has been driven the need to increase value to stakeholders, both in membership in MATI and to the Maldivian economy at large.

2. The work we undertook in 2011 resulted in savings of millions of dollars to individual tourism operators and to the industry. Savings must, in reality, be viewed as earnings.

3. At a time when membership organizations across the world, face a confidence crisis, MATI's challenges in projecting ourselves as delivering monetary value to our members cannot be easy. It has not been easy.

4. Our detractors and critics are many, both within the organization and elsewhere who look askance at us and see only what they want to see.

In twenty eleven (2011) MATI achieved its long held goals of longer leases of resort islands and a final solution to the recost lease rents. Resorts now pay a fixed Land Rent, based on the size of the island.

In addition to more security of investments and an increase in investor confidence, the revision of the Tourism Act has also provided foreign investors in tourism a more level playing field.

(The details of the revised Act are provided in Annex 1)

(Several Resorts have now been given 50 year leases.)

But the progress we made did not come easily.

5. In uncertain times, such as the present, when the nation is undergoing major transformation and, especially the restructuring of the national economy, MATI's role has been delicate and vital.

6. Way back in 1997, MATI set itself a 5-point Agenda and targets of endeavor. These have now been achieved.

We need now to re-establish goals for the organization in a changed and politically-charged national environment of free speech, free assembly and a free media without bounds or control.

These are gifts that must be accompanied by the acceptance and imbibing of the responsibilities and maturity of conduct that such freedoms deserve.

7. The challenge in meeting and managing new crises, almost on a daily basis has, required from MATI firm resolve and dexterity, working with the government and parliament and, sometimes, in total opposition to the stand taken by policy makers on economic and financial measures.

8. The government, by and large, has been motivated by the need to meet ever escalating costs of providing public services. The tourism industry, the main contributor to government revenue, is faced with the task of meeting its CSR obligations while, concurrently, trying to stay afloat as the economies in its major generating markets sink deeper into a recession, one from which they never recovered in 2009.

9. There has been talk of a double dip recession but recent analysis would seem to indicate that another global recession could be averted; instead of which just slower recovery is predicted.

10. The restructuring of the Maldives economy has brought in a regime of heavy taxation, the results and ramifications of which are yet to be seen.

11. For the process of restructuring to be effective, imposition of taxes must go in tandem with some form of relief to taxpayers; through enactment of the necessary laws and regulation. This is easier said than done, given the state and quality of debate in parliament at present.

12. Awards and Honors

Twenty eleven was a year in which the lifetime work, achievements and contribution to the nation by leading industry personalities received much accolade and honours of recognition by the state. MATI chairman M.U Maniku was conferred the honour of a National Service Medal on 26 July 2011.

Earlier M.U. Maniku and Hussain Afeef were awarded the title of State Dignitary for their contribution to the nation.

Vice chairman Mr. Qasim Ibrahim had the outstanding achievement of having his own domestic Airport at Maamigili and his airline Villa Air come into operation in this year.

MATI is proud of its association with these captains of industry and their invaluable work.

13. In August this year, President Mohamed Nasheed conveyed his gratitude to the (MATI) and welcomed industry support to the state's fiscal and economic reform Agenda.

The President said he believes that the fact that MATI agreed to support the government in its economic reform programmes, after deliberations between MATI and the government, is a sign that MATI views positively the measures taken by the government to improve the state of the Maldivian economy and increase the state's income.

President Nasheed also noted that MATI plays a significant role in the growth of the business sector, through the tourism industry and assured the industry that the government would extend its full support in MATI's work towards improving the Maldivian economy and developing the tourism industry in the Maldives.

14. In the year ending this December, MATI has had to play a difficult role, on the one hand to contribute to national development and progress, and on the other, to ensure that our businesses remain profitable.

15. To claim, with some satisfaction, that we discharged our duty to members and to the nation, is not far off the march.

16. Future Directions

In September 2011 the Government announced its policy to lease more resorts with the condition that the proponent completes the construction of a social infrastructure project in an inhabited island. For now the priority projects are construction of water and sewerage networks. The government has now signed Agreement with some developers.

The government is to commission mid-market tourism projects which will enable a more value-money price for a resort room. These projects will offer a slight variation from the one-island one-resort concept in that they will offer a wider variety of recreational activities, shops and restaurants in the one zone. There will be three projects in all which are designed to provide hotels and guests houses and bungalows, each creating a total of 1500 beds per project. Each integrated project will be in the vicinity of the airports so visitors can arrive via charter flights and low-cost airlines. Rooms in these projects are designed to be three four star and shall provide comfortable accommodation. Every project will be an excellent

location and will offer visitors the same seas, reefs, beaches and lagoons and the marine protected area for diving which Maldives is famous for.

Apart from the integrated tourism development projects, yachting and marina facilities will be planned encouraging more yacht owners and boat-enthusiasts to come to the Maldives. Further, a floating golf course and a floating convention centre has been now commissioned to Dutch Docklands of Holland. Apart from attracting golf enthusiasts and encouraging them to dive, Dutch Docklands will offer the opportunity to own a home in the ocean. Residential bungalow sales in the Maldives is expected to rise and become very popular in the next few years.

The government has now opened the window for all able parties to present tourism development project for approval to the National Planning Council. Parties can apply to develop any island in any part of Maldives. All successful applicants have to commit to a CSR component on an island indicated by the government , so the benefits from development go directly to the people. There are many exciting project being tabled, among them major reclamation project to create new islands to develop resorts with access to shopping arcades, hotels, restaurants and wellness centers. Some new product features proposed by other parties include medical tourism, eco tourism and exclusive club-type facilities

17. On the road to recovery

In 2010, world tourism recovered more strongly than expected from the shock it suffered in late 2008 and 2009 caused by the global financial crisis and economic recession.

Worldwide, international tourist arrivals in 2010 reached 940 million, an increase of 6.6% over the previous year.

The vast majority of destinations reported positive and often double-digit increases, sufficient to offset losses or bring them close to this target. Recovery came at different speeds - much faster in most emerging economies (+8%) and slower in most advanced ones (+5%).

In terms of receipts, China (+15%) also moved up the ranking to fourth position, overtaking Italy (+1%) Furthermore, among the ranking by receipts, Hong Kong (China) entered the top ten at nine, moving up from the 12th position. China has also shown by far the fastest growth with regard to expenditure on international tourism (US\$ 55 billion) in the last decade, multiplying expenditure four times since 2000.

International arrivals in South Asia increased by 11%, with particularly strong performances from Sri Lanka (+46%) and Maldives (+21%), and a comparatively more moderate result for the major destination India (+8%). In Oceania (+6%), growth in arrivals was just below the world average with leading and more mature destinations Australia (+5%) and New Zealand (+3%) showing growth after a flat 2009.

Some Important Issues

Tax Bills

Submitted to the government concerns over raising taxes and import duties as the Government plans to increase the current T-GST rate from 3.5% to 6% from 2012 and to 10% from 2013. Our recommendation is to keep the present rate at 3.5% until end 2012 and then increase to a maximum of 7% as from 1st January 2013. We are also proposing to change the implementation date to no earlier than 1st January 2012 or even later.

Corporate Profit Tax Bill, Personal Income Tax bill and Tax Administration Act Amendment Bill have been submitted to the Parliament by the Government and under Committee discussions.

MMA Act

MATI's position on the MMA requirement to make local transactions in Rufiyaa is that those who are able to make payments in foreign currency should be able to do so. Submissions have been made to the President expressing the serious

consequences that the economy and the tourism industry will be faced with if the Foreign Exchange Regulations were to be implemented as it is.

Import/Export Law

Submitted to the President to reconsider provisions of Import/Export Law.

Resort Security

Made submission to the President regarding the Regulation on Strikes requesting to expedite the formulation of the Regulation. MATI is also working with the National Security Advisory Committee (NSAC) regarding the formulation of a training programme for resort security staff.

Tourism Act

Submitted to the People's Majlis amendment to the Tourism Law 2/99 proposing that security procedures police introduce to the resorts must be in consultation with the industry and that instead of supervision it should be period compliance checks to see whether the procedures are in place and adhered to.

Employment

Submissions were made to the President regarding employment issues on the tourism sector and letters sent to Members of Parliament requesting to submit MATI's suggestions to revise to the Employment Act 2/2008. Lobbied with the Government and revised the quota of foreign employment at resorts upto 55% of the total staff from the previous 50%.

Issues at the Airport

Submitted to the Government Organized the serious issues at the airport that will impact airline frequency and arrival figures, mainly to do with an increase in over 60% of ground handling charges, the serious issues in the airline operations sector in the Maldives and the use of airport jetties.

MATI Executive Board Meetings

Important issues discussed at the Meetings of the MATI Executive Board:

- Maldives promotional issues and MTPB budget
- The hike in Custom's duty, T-GST and strikes and violent crimes against resorts
- MMA regulation 2007
- IFC Cleaner Production Energy

- BPT Regulations
- TOP Resort Brochures
- Industrial Relations Bill and Workers Accommodation Regulation
- Resort Security
- Foreign Exchange Regulations.

IMPORTANT ISSUES AND THEIR CURRENT STATUS

Tax Bills

Meetings held and attended regarding Taxes

- Participated at several TGST info sessions held by MIRA.
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Letters and correspondences relating to taxes

- Letter sent to the Minister of Tourism regarding concerns over raising taxes and import duties as the Government plans to increase the current T-GST rate from 3.5% to 6% from 2012 and to 10% from 2013
- letter to His Excellency the President submission to consider tax implications

- letter sent to Commissioner General of Taxation on tax implications faced by industry
- President Mohamed Nasheed responded of MATI regarding the proposed tax bills to the Majlis.

“Having reviewed the comments submitted by MATI, the Government is pleased to note following:

1. It is important to use this opportunity to put in place a proper tax system that can be amended in future to reflect policy shifts to the government of the day.
2. Among the proposed bills is a fiscal responsibility bill that will mandate the government expenditure and debt to be maintained at a sustainable limit. The bill requires the Government to regularly report to the People’s Majlis, and make these reports available to the general public for scrutiny.
3. The Government is agreeable to reduce the proposed tax rate of tourism sector GST that is to become effective from January 2013 to 8 percent from current proposed rate of 10 percent.
4. The Government is agreeable to remove the proposed withholding tax burden.

5. The proposal on capital allowance is acceptable.
6. Proposals on pension payments and managerial remuneration are acceptable.
7. Proposals on the period of carrying forward of losses prior to the enactment of the act shall be extended up to five years.
8. Interest payment for loans borrowed from banks and other financial institutions can be deducted in full. Interest on loans from other non-financial institutions shall be deductible at up to 10 percent.
9. Charitable donations shall be deductible up to 15 percent of net profit.
10. Studies have shown that the proposed tax rates are lower than those in other island economies and thus will not have an overbearing effect.
11. The revenue impact on the proposed taxes will bring income up to a level where necessary expenditure can be met and lead to a balanced budget in 2015. Please see attached chart.
12. The Maldives Inland Revenue authority (MIRA) has demonstrated its capacity and is functioning effectively and will be able to manage the proposed full tax system once it is in place.

- Letter to His Excellency President Mohamed Nasheed regarding withholding tax
- Letter to the Commissioner General of Taxation seeking urgent clarification on whether GST exemption on fuel extends to aviation fuel (avgas).

Bills which has been made as regulations and currently being practiced

T-GST

T-GST is currently charged at the rate of 3.5 percent on the value of all goods and services supplied by tourist resorts, tourist hotels, guest houses, picnic islands and tourist vessels and, on certain other services supplied by places providing services to Tourists in the Maldives

1. T-GST to increase from 3.5% to 6% as from 1st January 2012 and to 10% as from 1st January 2013.
2. These proposals will make Maldives an even more expensive destination.
3. Our recommendation is to keep the present rate at 3.5% until end 2012 and then increase to a maximum of 7% as from 1st January 2013.
4. T-GST was introduced with the aim of replacing the Bed Tax and reducing the Import Duty.

GST

Goods and Services Tax (GST) is a 3.5% tax charged on the value of goods and services supplied in the Maldives from 2 October 2011 onwards.

1. Proposing to change the implementation date to no earlier than 1st January 2012 or even later.
2. If what is needed is a GST system to the whole economy then it should be a VAT system and not GST
3. Introduction of a GST would increase prices
4. Careful study of the effects of GST on the economy should be done
5. For the tourism industry – Costs of local purchases will go up by the GST amount or more.
6. The two taxes (T-GST and GST) should merge into one GST

BPT

BPT is a tax charged, under the Business profit Tax Act (Act Number 5/2011), on the profits of all businesses carried out in Maldives

Companies, Partnerships and other Persons	15 percent
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Profit from sources outside Maldives	5 percent
Withholding tax	10 percent

The following concerns were noted by MATI on BPT

1. Capital Allowance on Building 4% as per the BPT (Regulation 33) This should be changed to allow depreciation on the unexpired lease period of the land or 4%, whichever is higher
2. Valuation of assets/buildings at the commencement of the Act (Regulation 29 and 30) The value to be taken for the assets at the time of the commencement of the act should be higher of the written down value (book value) and the open market value
3. Deduction for cost of low value asset (Regulation 27)
The exact amount defining the line between assets and expenditures should not be written in the act, but rather be determined from time to time (yearly e.g.)
4. Withholding Tax of 10% to be removed completely (section 6)
5. Managerial Remuneration (section 11(c))
6. Loss Relief (section 13)

As a onetime option the existing losses which are there on the date of commencement should be allowed and also the carried forward for 5 years should be changed to 10 years.

7. Bad Debts (Section 10(g))

The bad debts incurred on debts created prior to the commencement of the Act should be allowed as a legitimate deduction

8. Interest Expenditure (Section 11(5))

The interest paid other than financial institutions are restricted to 6%, which is unreasonable. Normally the rates in the private market are more than the rates given by the financial institutions;

9. Pension Payment (Sec. 10(d)(5) and Regulation 51)

It would be better if the actual amount contributed is allowed as a deduction.

New taxation bills submitted to the Parliament by the Government

Corporate Profit Tax Bill

Date of Submission: 20 June 2011

Current Status: Committee discussions

The Corporate Profit Tax Bill simplifies the current Business Profit Tax Act (Law Number 5/2011) by narrowing down its scope to corporate bodies only, namely companies, partnerships and corporate bodies. Tax-free threshold remains at MVR 500,000 per annum along with the tax rate of 15% and withholding tax of 10%. The Bill also proposes to abolish the Bank Profit Tax Act (Law Number 9/85) and to tax banks under the new Corporate Profit Tax regime. The basis of taxation for banks, however, remains at 25% of taxable profits and without a tax-free threshold.

Personal Income Tax bill

Date of Submission: 20 June 2011

Current Status: Committee discussions

The Personal Income Tax Bill proposes a tax on income earned by individuals as wages, dividends, and certain other types of income, including profits from businesses carried on by that individual. It incorporates all elements in the current Business Profit Tax regime that relate to individuals. The Bill proposes a progressive tax of 0% on taxable income less than MVR 360,000 per annum, 3% on taxable income between MVR 360,000 and MVR 720,000 per annum, 6% on taxable income between

MVR 720,000 and MVR 1,200,000 per annum, 9% on taxable income between MVR 1,200,000 and MVR 1,800,000 per annum, and 15% on taxable income in excess of MVR 1,800,000 per annum. It also imposes an obligation on employers to withhold the relevant percentage of tax on monthly income in excess of MVR 30,000.

Tax Administration Act Amendment bill

Date of Submission: 20 June 2011

Current Status: Committee discussions

The proposed amendments to the Tax Administration Act (Law Number 3/2010) clarifies the obligations of taxpayers and incorporates administrative procedures that are essential for the introduction of the proposed taxes. It also consolidates certain tax administration aspects that are currently in the Business Profit Tax Act and the Tourism Goods and Services Tax Act.

MMA Act

Meetings held and attended regarding the changes made to the MMA Act

- Attended meeting at MMA regarding MATI comments on Bill to amend the MMA Act.
- Meeting of the MATI Executive Board with MMA Governor
- Attended MMA meeting regarding Money Changing Regulations.
- Attended MMA Meeting regarding payment in Rufiyaa.
- Attended the People's Majlis commission discussion on the MMA Act.

Letters and correspondences relating to MMA Act

- Letter was sent to the Governor of MMA regarding the revision of the MMA Act expressing our members' view
 1. A Letter to the Governor of MMA regarding concerns of tourism industry on MMA Regulations.
 2. MATI's position on the MMA requirement to make local transactions in Rufiyaa is that those who are able to make payments in foreign currency should be able to do so.
 3. More restrictions must be imposed on the business sector at this vulnerable time for the Maldivian economy
 4. More restrictions will only discourage potential foreign investors

5. About 35 % of the resorts are now using either Opera / Fidelio and the pricing of all menus will have to be revised and fed into the system. If this is to be done it cannot be done over night and will take some time to do that
6. There might also be some issues when the final bill is generated and the payment is made as the conversion rate is supposed to be "floating".
7. There are many resorts that sell the various levels of All Inclusive Packages and these are billed to the operator but on the resort their consumption is accounted for at various outlets, I think this whole thing is going to be practically complicated
8. Also note that technically some of the guests may be converting their currency at the airport or even in Male/inhabited islands and some of the payments for services received on the island may be paid in Rufiyaa - the conversion at different places could vary too.
9. Most [payments within a resort are made using credit cards – foreign cards (BOM-Rufiyaa)
10. Current practice allows some suppliers in Male' and elsewhere to be paid in Dollars. This will only help the Dollar supply situation.

11. Payments made by local travel agents to resorts are almost all made in

Dollars. If you stop by reinforcing the regulations:

- a) Resorts will find hard to pay rent and taxes to government in Dollars - also includes REWE, Hotel plan type operators, Stop Over
- b) Local travel agents will be put to business if this is changed to Rufiyaa
- c) Also important to note that local agents or Foreign Companies Registered in the Maldives are bringing in large number of Russians and Chinese

12. If foreign staff cannot be paid in Dollars or Foreign Currency, most of them will leave

13. Foreign staff need to be paid in Dollars even according to the regulations – my interpretation

14. Resorts could start moving to All-Inclusive resorts where even less funds are flowing to Maldives

15. Air ticket sale in Rufiyaa is impossible if banks do not convert at official rate to remit funds to overseas principals

16. Suggest pay all Maldivian staff on resorts in Dollars ... to help bring more to the market

17.1987 regulation is a tried and failed one. If bought, will create tremendous hardship and turmoil in the country. We would go as far as saying that the terrorist attack in 1988 was also partly a result of the economic hardship at the time

18.STO charges Dollars to GMR for fuel. GMIR then add their markup and sell to airlines – all in Dollars

19.Dhiraagu bills resorts in dollars. We would need to speak to Dhiraagu and Wataniya on this.

- Letter sent to the People’s Majlis with amendment to the MMA Act 6/81.

- Letter sent to the Governor of MMA requesting response to our 6 points of clarification from members.

- Letter sent to the Governor of MMA requesting to amend the MMA Regulations to reflect the present situation in the country’s economy.

- Letter was sent to the Minister of Tourism thanking her for meeting the Minister of Finance on behalf of MATI on relaxation of regulation requiring

payments of salaries in Rufiyaa and requesting information on the outcome of the meeting,

- Letter to the Governor of MMA regarding MATI's letter of 23rd May on the subject of revising the MMA Act.
- Letter sent to the Governor of MMA appealing to postpone the enforcement of the MMA Regulation of 1987 for 2 years until the recovery of our economy and the tourism industry.
- Letter to His Excellency President Mohamed Nasheed expressing the serious consequences that the economy and the tourism industry will be faced with if the Foreign Exchange Regulations were to be implemented as it is. The letter includes MATI's comments to the Regulations
- Email to MATI members with correspondence between Mr. Sim I Mohamed and Mr. Iyaz Waheed of Universal and a copy of the draft revision to the MMA Regulation.

Tourism Act

Letters and correspondences relating to the Tourism Act

- Letter to the People’s Majlis with amendment to the Tourism Law 2/99.
- 1. The security procedures police introduce to the resorts must be in consultation with the industry.
- 2. Instead of supervision it should be period compliance checks to see whether the procedures are in place and adhered to.

Import/Export Law

Meetings held and attended regarding the Import and Export Law

- Attended a meeting regarding the revision of Import Regulations held at the Ministry of Economic Development.
- Attended meeting regarding the revision of Import Regulations held at the Ministry of Economic Development.

Letters and correspondences relating to the Import and Export Law

- A Letter was sent to His Excellency President Mohamed Nasheed with submission to reconsider provisions of Import/Export Law.

Resort Security

Meetings held and attended regarding the Import and Export Law

- Participated at the discussion meeting on handling conflicts between resort management and staff held by the Human Rights Commission of the Maldives.
- Attended meeting on resort security issues held by the Ministry of Tourism.
- Participated at the seminar on Security in the Tourism Industry organized by the Ministry of Tourism in association with MATI, Maldives Police Service and Maldives National Defence Force.
- Executive Board attended a meeting of the national Crime Prevention Committee held at the President's Office.
- Attended meeting of the National Security Advisory Committee (NSAC) regarding the formulation of a training programme for resort security staff.
- Attended meeting of the National Security Advisory Committee.
- Attended meeting of the National Security Advisory Committee.
- Attended meeting of the National Security Advisory Committee.
- Attended the Tourism Security Seminar at the Ministry of Tourism.
- Attended meeting of the National Security Advisory Committee.

Letters and correspondences relating to Resort Security

- Letter to Minister of Tourism regarding MATI's letter of 8th Dec to the President's regarding the Regulation on Strikes and requesting to expedite the formulation of the Regulation. MATI's comments to the working draft of the Regulation were sent to the President's Office on 25th Sept 2010.
- Letter from Chairman to His Excellency President Mohamed Nasheed regarding security situation in tourist resorts.
- Letter to the National Security Advisor and the Minister of Tourism Dr. Mariyam Zulfa on our prioritization of issues raised at the Resort Security Seminar...

Employment Act

Letters and correspondences relating to Employment Act

- Letter from Chairman to His Excellency President Mohamed Nasheed regarding the several submissions we have made to the President and the meetings we have had on the subject of expatriate employment in tourist resorts
- Letter to the Minister of Tourism attaching copy of MATI Chairman's letter of 16th Feb to His Excellency President Mohamed Nasheed regarding employment issues on the tourism sector

- Letter to the Members of Parliament requesting to submit MATI's suggestions to revise to the Employment Act 2/2008.
- Letter to Minister of Tourism regarding our members' complaints with the long delay in the processing of work permits and labour quotas and requesting the Minister to raise this issue with your government colleagues.
- Letter to MATI Members and MATI Executive Board Members informing that the labour Ministry has revised the quota of foreign employment at resorts upto 55% of the total staff from the previous 50%.
- Letter to Members of Parliament requesting to submit MATI's suggestions to revise the Employment Act 2/2008.
- Letter to Minister of Tourism urging to consider seriously setting national standards for all employees in the country.
- Letter to Minister of Tourism regarding media reports that the government is to impose restrictions on the remittance overseas of full salaries of expatriates working in the country.
- Letter to the Minister of Tourism regarding formulating a strategic HR plan for the tourism sector of the Maldives.

- Letter to the Minister of Tourism regarding appeal from our members regarding the difficulties with obtaining work permits and other official procedures and the importance in resolving the issue between the Labour Ministry and Immigration if the public is to continue to receive their services.
- Letter to His Excellency President expressing MATI Member's concern over difficulties they face in processing and managing the issues related to expat employment in the Maldives.

Issues at the Airport

Meetings held and attended regarding issues at the Airport

- Held a meeting for MATI and the Airline Operators Committee (AOC) with the Minister of Tourism to discuss the serious issues at the airport that will impact airline frequency and arrival figures, mainly to do with an increase in over 60% of ground handling charges.
- Held a meeting of airline operators with air transport officials to discuss the serious issues in the airline operations sector in the Maldives.

Letters and correspondences relating to issues at the Airport

- Letter to the CEO of GMR Male' International Airport Private Limited forwarding feedback from our members with regard to the use of airport jetties and requesting assistance in resolving these issues.
- Letter from Trans Maldivian Airways in response to MATI's request for the key issues/concerns that face the domestic operators a present:

MATI Executive Board Meetings

- Held a Special Meeting of the MATI Executive Board to discuss Maldives promotional issues and MTPB budget.
- Held a special meeting of the MATI Executive Board to discuss MATI's position on the reported hike in Custom's duty, T-GST and strikes and violent crimes against resorts.
- Held the 140th MATI Executive Board Meeting.

Issues discussed:

1. MMA regulation 2007
2. IFC Cleaner Production Energy
3. Other business related issues

4. Pending proposal from the Trade Rep. Association
 5. Attending GMR workshop on 19th June
 6. Participating at meeting with Malaysian delegation
 7. Responsibility to MIRA re comments on BPT Regulations
 8. Letter from Crown Company re, TOP Resort Brochures
- Held the 141st Meeting of the MATI Executive Board.

Issues discussed:

1. MMA regulation 2007
2. IFC's new submission to Executive Board on Cleaner Energy

Audit

3. Industrial Relations Bill and Workers Accommodation Regulation –

4. Letter from AAA Hotels and Resorts regarding issues related to obtaining expatriate work permits and payment of fees.

These now have to be paid to MIRA and MNDP is now manning the counters.

5. Tourism Security Meeting follow-up

6. Maldives Polytechnic Advisory Council Meeting on 30th June
2011

7. Letter from Nadhuva Husein, ABA (Applied Behavioral Analysis)
specialist requesting sponsorship for her postgraduate ABA
therapy course

- Held the 142nd Executive Board Meeting of MATI to continue with the issues on the Agenda of the 141st EB Meeting on 30th June.

- Held an informal meeting of the MATI Executive Board to discuss the issue of safety in over bungalows making rounds in the local media

- Held a Special Meeting of the MATI Executive Board to discuss Foreign Exchange Regulations.

Wildcat industrial strikes on resorts

The issue of industrial action on several tourist resorts has led to a crisis of confidence in the industry and the Maldives economy and major investors are putting on hold plans to expands operations in this country.

Banks and other financial institutions would refuse to provide financing for ongoing and new resort development projects and other tourism-supporting businesses.

MATI urged the government to communicate to the tourism industry and to the international community a clear statement of where the government stands on the key issues of industrial action on the tourist resorts.

MATI said the tourism industry operators and local and foreign investors needed an urgent boost of confidence for them to reconsider the viability of investing in and conducting business in the Maldives.

TOURISM; THE BIG PICTURE

- Tourism is an economic engine that has huge potential to drive sustainable growth in developing countries, especially least developed countries. Although its origins exist in the often unplanned practice of exploration and discovery, its future lies in highly structured, well planned and managed execution.
- Tourism is also a lot more than just an industry. It represents a diverse, multi-dimensional supply chain across different sectors.

- Sustainable tourism development, along with the growing importance that the role tourism is playing in helping to build a better future for communities in developing countries, especially in least developed countries.
- Many countries in which ITC works are increasingly dependent on tourism for their long-term economic survival.
- In many of these countries it is the life blood of the community.
- We need to look to these and other countries successes and learn how to translate their achievement for others.
- Individual businesses inevitably struggle without support from industry bodies, government agencies and multilateral organizations such as the World Tourism Organization and ITC. The challenges for all of us are integration and long-term partnering.
- Sitting alongside this is the challenge of funding. The most unique, interesting and potentially highly sought-after destinations in the world cannot achieve a positive long-term economic outcome for those communities without the right investment at the right time, delivered in the right way.

- The private sector of course is constantly on the lookout for investment opportunities, but the facilitation of their involvement in an inclusive and sustainable manner is critical to success.
- The success of tourism will also be built on how effectively we link sustainable supply systems into local communities. This focus on ‘inclusive tourism’ is about ensuring that there is the maximum opportunity for local producers, manufacturers and service providers to supply a tourism operator. It is about a local employment and skills development. It is about deeply embedding local cultural experiences, and creating innovative and sustainable practices to support lasting environmental outcomes. And it is about ensuring that local communities are engaged with and benefit from tourism development in the long-term.
- The recently released UN world Economic Situation and prospects report says that while global recovery in today’s post-crisis environment is still fragile, developing economies are fuelling growth. The report suggests that larger developing economies such as China, Brazil and India continue to lead global recovery while the performance of richer nation is weaker amid concerns over public debt. Gross world product is expected to grow by

3.1% in 2011 and by 3.5% in 2012, a slight increase from forecasts released in early 2011.

- As a US\$ 3 billion a day global business, the tourism sector is one of the world's fastest growing industries an important driver for economic growth in least developed countries.
- Since the 1950s, tourism has experienced continued expansion and diversification, becoming one of the largest and fastest growing economic sectors in the world. As an export category, tourism currently ranks fourth globally after fuels, chemicals and automotive products.
- Tourism has also been single out as a distinct 'graduation factor' for at least three former LDCs, notably Cape Verde, the Maldives and Samoa.
- Despite having been hard-hit by the recent economic and financial crisis, the tourism sector continues to among the most dynamic in the global economy. The worldwide contribution of tourism to GDP exceeds 5% and its annual turnover has been growing at faster space than GDP.
- According to the World Tourism Organization (UNWTO). Demand for tourism services fell abruptly I mid -200 but returned to growth in the last quarter of 2009 and continued to grow throughout 2010 and into the first

quarter of 2011. In 2010 international tourism receipts surpassed US\$ 900 billion, up 4.7% on 2009.

- These results confirm that in spite of several challenges, the recovery of international tourism, which was remarkably strong last year, is consolidating ; said UNWTO Secretary General Mr. Taleb Rifai in his address at WEDF 2011.
- In part, this recovery can be credited to measures-be they fiscal, monetary or marketing support to the tourism sector-that many countries implemented to stimulate their economies and restore growth after the crisis.
- The most significant change in 2010 international arrivals was the emergence of China to third place in international arrival numbers and fourth place in terms of tourism receipts (+ 15%).

The future for tourism –led growth and inclusive sustainable development in LDCs

- A focus of managing the environmental impacts of tourism was one of the issues raised in discussions at WEDF 2011. Pressure on land use as well as waste generation can become significant problems for some LDCs, especially for remote island communication. This is also true for the high levels of water and energy use for which the tourism industry is known.

- The sector is slowly recovering from the economic downturn, with emerging market economies leading the way and advanced economies, for the most part, lagging behind.
- A growing national tourism sector contributes to employment, raises national income, and can improve the balance of payments. It spills over into much of the rest of the economy through demand for local products and services, and by improving transportation, infrastructure and utilities inter alia. The sector has thus become an important driver of growth and prosperity and it can also play a role in poverty reduction, particularly within developing countries.
- Comparing performance within the individual pillars some of the largest gaps compared with the OECD are in various aspects of physical infrastructure particularly tourism and information and communications technology infrastructure. Similarly indicators related to the countries human infrastructure are also significantly weaker. Well qualified people are less likely to be available to work in the sector.
- On the other hand the figure also shows that there are two areas where LDCs actually outperform OECD countries on average for the price competitiveness of the T&T industry and the quality and richness of natural

resources. By natural resources we mean the extent to which countries are able to offer travelers access to natural assets such as natural World Heritage sites rich fauna and well protected natural environments. In other words LDCs have the potential to offer very good value (rich natural resources) for money (price competitiveness).

- We are at a tipping point where the past four decades of climate and poverty concern the Stockholm Environment Conference the Rio Earth Summit the Kyoto Climate Summit the Millennium Development Goals and the like must give way to shared solutions. What is needed now is vision innovative thinking and courage by policymakers public private and civil society to recognize the potential and create new inclusive frameworks to make it happen.
- The rapidly evolving green growth paradigm shift that all nations are embracing at a policy level with the buy in of industry and civil society provides an unparalleled opportunity to leverage the massive socio economic power of travelism (travel and tourism) to benefit humanity and the planet.
- Travelism must be mainstreamed by all in green growth strategies in the next five years.

- It must be recognized and supported as a responsible sector that will meet and exceed evolving government carbon targets including for the pivotal air transport sector.
- Last, but by no means least, change is required in all levels of education to produce a green travelism workforce including the entrepreneurs who make up so much of the informal sector. At present travelism education is quite inadequate.

Trends in Tourism FDI

- While data indicate that there has not been much FDI in tourism so far, they also show that tourism FDI is growing in many countries. However tourism related FDI is largely concentrated in a few activities such as accommodation restaurants and car rentals. There is little FDI in high profile activities such as tour operations reservation systems and air lines.
- Although tourism FDI is largely concentrated in developed countries, tourism-related FDI developing countries is growing markedly. Furthermore global data on Greenfield (undeveloped site) investments in foreign hotels indicate that there is some reorientation of tourism FDI towards developing countries.

ANNEX 1

Tourism Act

Second Amendment to Law no. 2/99 as enacted on 24.8.2010.

1. Add the following Article at the end of Article 6 and re-number all Articles in order.

“Lease-rent

7. (a) Under this Act, lease-rent on islands or land leased for the purposes of running a tourist resort, tourist hotel and tourist guest house, shall be paid according to the provisions of this Article.
 1. If the lease-rent charged on land whose area measuring less than 200,000 (two hundred thousand) square metres exceeds US\$ 1,000,000 (one million), the rent of such land shall be US\$ 1,000,000 (one million) per annum. If the lease-rent is below US\$ 1,000,000 (one million) the lease-rent shall be an amount calculated at the rate of US\$ 8 (eight) per square metre of such land.
 2. The lease-rent charged on land whose area measures between 200,001 (two hundred thousand and one) square metres and 400,000 (four hundred thousand) square metres shall be US\$ 1,500,000 (one and a half million).
 3. If the lease-rent charged on land whose area exceeding 400,001 (four hundred thousand and one) is greater than US\$ 2,000,000 (two million), the rent of such land shall be US\$ 2,000,000 (two million) per annum.

(b) Upon the Second Amendment coming into force, subsections (a)(1)(2) and (3) of this Article shall also apply to lease-rents on islands or land leased for the purposes of running a tourist resort, tourist hotel and tourist guest house granted prior to the second amendment coming into force.

(c) The provisions of this Article of this Act shall be operative when the Act on charges levied on establishments providing goods and services to tourists is enacted by Parliament and upon publication of that Act in the Maldivian government gazette and upon commencement of taxation pursuant to that Act.

2. Amend Article 8 of the said Act as follows:

Lease period

8. (a) Under this Act, islands or land leased for the purpose of building tourist resorts shall be leased for a period of no more than 50 calendar years from the date of assignment of land.

(b) If a request for extension of lease-period is made by a lease-holder of an island or land leased for the purposes of running a tourist resort, tourist hotel and tourist guest house prior to the second amendment coming into force, an increase may be allowed of no more than 50 (fifty) years from the date

of assignment of lease, such increase subject to clause (c) of this Article.

(c) Requests to the tourism ministry for extensions in lease period under clause (b) of this Article shall be granted upon payment of a fee of US\$100,000 (one hundred thousand) for each year to which such extension applies.

(d) The fee referred to in clause (c) of this article shall be totalled to apply for the total period of extension and an annual sum payable calculated, such sum paid on an annual basis until total payment is completed.

(e) All requests for extension of lease of islands or land leased for the purpose of building tourist resorts in operation at the time of enactment of this Act shall be made and grants effected within 18 (eighteen) months.

(f) All requests for extension of lease of islands or land leased for the purpose of building tourist resorts on which operations have not yet commenced at the time of enactment of this Act shall be made and grants effected within 36 (thirty six) months.

(g) Extensions applied for pursuant to clauses (e) and (f) of this Act shall be granted by the tourism ministry within 4 (four) months of lodgement of request for such extension.

3. Amend Article 9 of the said Act as follows.

(a) Parties currently granted islands or land to operate tourist resorts or parties applying for a grant of an island or land to operate tourist resorts shall be permitted a 99 (ninety nine) year lease-period if such party is a public company which meets the following criteria.

(1) Company is registered in the Maldives.

(2) The objects of the company specified in its memorandum of association include setting up and operating tourist resorts.

(3) Of the shares of the company 55% (fifty five percent) is sold to the public.

4. Repeal Article 10 of the said Act and re-number accordingly.

5. Amend Article 13 of the said Act as follows.

If the status of a public company granted a 99 (ninety nine) year lease on an island or land changed to a private company or if any of the criteria specified in Article 9 of this Act is no longer met, the extension period granted to such company as a public company shall be reduced.

6. Add the following clause to Article 35 of the said Act:

(d) Upon completion of 3 (three) years from the date of imposition of the tax on goods and services provided at tourism service organisations, the tax referred to in clause (a) of this Article shall no longer apply.

7. Renumber the Articles to the said Act after incorporating the insertions and deletions referred to in this Act.

8. Amend the references to the articles and clauses of the said Act pursuant to the changes made to this Act.

9. This Act shall come into effect upon its enactment by the People's Majlis and subsequent publication in the Maldivian government gazette.

Annex 2

UNOFFICIAL TRANSLATION

Ministry of Human Resources, Youth & Sports
Male', Maldives
No. HR-A/2009/37

NOTICE

Strike and Assembly on Resorts

Articles 31 of the Constitution of the Maldives confers on every person employed in the Maldives and all other workers the freedom to stop work and to strike in order to protest. Article 32 of the Constitution specifies that everyone has the right to freedom of peaceful assembly without prior permission of the state. Additionally, Article 40 (a) confers the right on every citizen to acquire, own, inherit transfer or otherwise transact of property. In view of these provisions, the Constitution guarantees that the freedom to strike and peaceful assembly is a basic right inasmuch as the right to protect property. Neither right or freedom may be interpreted as higher or more significant than the other. The constitution does not allow the exercise of either of these rights or freedoms in a manner that diminishes the constitutional rights conferred upon any citizen.

Consequently any strike or assembly may only be deemed to be in accordance with the right to strike or freedom of assembly conferred by the Constitution if

such strike or assembly is conducted without detracting from the Constitutional rights granted to other persons to transact of property or any other right. *For example, a strike in a shop, factory or resort or residence may be allowed if such strike is conducted only with permission of the owner or person authorized by a law or contractual arrangement to be in charge of such a place. The recent strikes or assemblies in the resorts of Maldives have not been conducted with permission from the owners or management of the resorts.* Subsequently, it is notified that any person engaging in a strike on a resort as a result of which the basic rights of the owner or management to transact in property may be prohibited, any such person engaging in a strike or assembly without the permission of the owner or management shall not be deemed to be engaging in a strike or assembly pursuant to Article 31 and 32 of the Constitution. Therefore, in view of such protests as falling outside the provisions of the Constitution notice is hereby given to refrain from such strikes.

19th March 2009.