NATIONAL COUNCIL OF BHUTAN

Review Report on Tourism Policy and Strategies

Economic Affairs Committee:

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Contents

Background

The Economic Affairs Committee of the National Council is pleased to provide a report on the Review of the Tourism Sector Polices and Strategies. The review is based on the mandate provided for in the Constitution of Bhutan and the National Council Act under the following articles:

Article 10.2 of the Constitution provides the basis for parliamentary review of executive functions when it says: "Parliament shall ensure that the Government safeguards the interests of the nation and fulfils the aspirations of the people through public review of policies and issues, Bills and other legislations, and scrutiny of State functions."

The Constitution in Article 11.2 also confers specific additional powers on the National Council to "*act as the House of review on matters affecting the security and sovereignty of the country and the interests of the nation and the people that need to be brought to the notice of the Druk Gyalpo, the Prime Minister and the National Assembly*".

The Section 7 of the National Council Act states that:

"*The National Council shall ensure that the Government safeguards the interests of the nation and fulfills the aspirations of the people through public review of policies and issues, Bills and other legislation, and scrutiny of State functions*."

Further Article 10 of the National Council Act highlights the review function of the National Council as follows:

"In exercising its review function, the National Council shall:

a) Review and comment on the policies, plans and programmes of the government;
b) Review performance of the government;
c) Review implementation of resolutions and laws; and
d) Review issues of national importance."

1. Introduction

Bhutan's tourism industry significantly contributes more than 9% to GDP, earns the highest hard currency reserves and provides the highest employment opportunity. It is the most important economic sectors for Bhutan in terms of providing employment for the growing number of youth, earning foreign exchange and has immense potential to bring about balanced economic growth and development across the country.

Recognizing that the Tourism Sector has the potential to grow and further contribute towards our socio-economic development. The 15th session of the National Council directed the Economic Affairs Committee (EAC) to review the following:

1. Whether we need a tourism act as a legal instrument to guide the overall tourism development in the country?

2. To understand the tourism sector issues and challenges and to provide constructive recommendation to the Government.

The committee held consultative meetings with almost all the major stakeholders, the Tourism Council of Bhutan (TCB), Association of Bhutanese Tour Operators, the Hotel Association of Bhutan, the Guide Association of Bhutan, and a range of Government offices and other stakeholders.

The Committee would like to thank and acknowledge all stakeholders and participants who contributed their time, energy and thoughts in finalizing the report.

2. The Guiding Policy

Although a very important economic sector, the tourism sector is not guided by an updated comprehensive policy document as such.

Since the inception of the tourism industry in mid 1974, Bhutan has followed a policy of "high value, low volume" tourism. Hence, it has been a highly regulated industry to ensure that the pursuit of commercial interests do not overwhelm our small country by bringing undesirable social, economic and ecological consequences.

According to this policy, all tourists to Bhutan are required to do the following:
1) Arrange all tours and treks through registered travel agents;
2) All visits are guided by licensed guides
3) All tourists are required to wire a fixed minimum tariff of US$ 250 per person per day before their visit to Bhutan. This includes a Royalty payment of US$ 65 per person per day. This is of course inclusive of accommodation, food, guide services and transport.

The "High Value, Low Volume policy, which is opposite to mass market tourism, has been very successful in developing Bhutan as a niche destination for travelers worldwide especially for cultural and ecological tourism.

In 2009, the government announced the policy of "High Value, Low Impact" as part of the Accelerating Bhutan's Socio-Economic Development (ABSD) initiative and set a target of 100,000 tourists per annum by 2012. The dramatic increase was also due to change in definition of a tourist in 2012 to include regional visitors in addition to international tariff paying tourists.

Despite the lack of a comprehensive policy, the sector was managed well as the number of tourists was relatively small and thus the sector was manageable. For example right up to 2008 the total number of dollar paying tourists numbered about 27,000 and regional tourists about 12,000. This number surged dramatically in 2014 where Bhutan received 133,480 tourists in total, out of which 68,000 regional tourists.

Considering the high importance of the sector and exponential rise in the number of tourists, it has become very important to have a comprehensive policy to guide this sector including the unregulated visitors from the region.

In the absence of a Comprehensive Tourism Policy or a law, the sector is primarily regulated by the following rules and regulations

1. Bhutan Tourism Rules and Schedules of Tariff for International Tourists 1995.

   This covers the fixing of tariffs and payment procedures, visa formalities, specify restricted areas for visitors, baggage rules for visitors and sets out a penal code for tour operators.

2. Trekking in Bhutan Rules and Regulations 1996.

   These regulations spell out the rules relating to the use of trekking equipment and DoT-licensed trekking guides and the obligation to travel on approved trekking routes.

3. Key Institutions and Stakeholders

In the earlier decades, tourism was managed and run as a government monopoly with the establishment of the Department of Tourism (DoT) in the 1970s. By the 1980s, the Bhutan Tourism Corporation was established to handle commercial tourism activities which still remained as a government monopoly. A major shift in Bhutan's tourism policy occurred in the 1991 when the government decided to privatize the tourism business and open it up to Bhutanese private sector tour operators. However, it is still a regulated sector which has served the country well.

In 1990 there were 33 licensed tour operators and with liberalization of licenses in 1998 the number of tour operators increased dramatically and is said to be 1700 today.

The main institutions related to the sector include the following:

1. **Tourism Council of Bhutan**

   The Tourism Council of Bhutan (TCB) is the apex agency for promotion and regulation of the sector. It is overseen by a high level board chaired by the Prime Minister along with two Cabinet Ministers, sector representatives and industry association.

2. **Tour Operators**

   There are currently 1700 licensed tour operators in the country. However data indicates that only half of the operators are active. The tour operators play the critical role in managing the entire travel itinerary and pricing. The tour operators are organized under an industry association called the Association of Bhutanese Tour Operators.

3. **Hotels & Restaurants**

   The Hotels and Restaurants sector is perhaps one of the most important players in the tourism sector in terms of volume of investments required and the employment and demand generated both directly in indirectly.

   It is estimated that there are about 133 accredited hotels by TCB, which provides 2,813 rooms per night and above for tourist occupancy. As an investment heavy sector, it is estimated that the investment in hotels is currently Nu. 10. Billion. The sector also directly employs more than 4,200 people of whom most are young educated persons.

   At present there are more than 12 FDI Investment hotels focused on attracting high end travelers and room charges ranging from 300 USD to 1500 USD per night beside the royalty.

This sector is formally organized around the Hotels and Restaurants Association of Bhutan.

4. Guides Association of Bhutan.

As all tours are to be led by licensed Bhutanese guides. There are about 2,500 licensed guides in the country. The guides are organized formally through the Guides Association of Bhutan which has about 500 members.

4. Tourism Sector in the Eleventh Plan

The RISE programme (rapid investment in selected enterprise) is one of the initiatives taken by the current Government to accelerate the economic growth and to achieve the objective of self reliance. One of the important sectors identified is the Tourism sector - with the focus to achieve higher yield per tourist as well as double the arrivals but spread across the country and throughout the calendar year.

As referenced in the 11th FYP, current specific objectives for the tourism sector are:

a) Tourism Sector Key Result Areas and Key Performance Indicators:

GNH Pillars	Sector Key Result Areas	Key Performance Indicators (Outcome)	Baseline	Target
Key Objective -Promote Bhutan as high end high value low impact destination				
Sustainable and Equitable Socio-Economic Development	Improved Service Delivery	Tourist arrivals (no./pa)	1,05,407	>200,000
		Tourist satisfied with visit	85% (2011)	>90 %
	New products developed	No. of new products (wellness, cultural, sports, eco-tourism, MICE community based tourism etc)		At least 2 in each category.
		% of tourist visiting east, south and central circuits > 50%	21.86% (2011)	>50 %
	Contribution to GDP, Revenue and Employment increased	Contribution to GDP(US$ m)	62.8 m	>250 m
		No. of Bhutanese employed	28,982 (2012)	40,000
		Yield per tourist/night(US $)	344	350
Preservation and Promotion of Culture	Bhutanese culture and tradition promoted among visitors	% of tourist on cultural tours	77.09% (2011)	80%
		Growth in sale of handicraft products	TBD	TBD
Conservation &Sustainable Environemt	Environment conservation promoted and well being of rural communities improved through eco-tourism	Rural communities benefitting from eco-tourism (CBST)	4 communities (project areas)	8
		% of tourists on eco-tourism	13.04% (2012)	20%
Strengthening Good Governance	Enhance effectiveness and efficiency in delivery of public service	TAT for public services reduced		>75 %
		Anticorruption Strategy implemented		
		Average performance rating (Govt. Performance Management System - GPMS)		>90 %

b) Key Programmes:

1. **Sustainable Tourism Development:** The focus of this programme will include product diversification to ensure regional and seasonal spread, improving quality and standards of services including accommodation and tourism attractions, exploring new markets, and decentralization of tourism planning and development. Further, the programme will ensure that local communities are able to reap the benefits from this industry. The thrust area for this industry will continue to be high end sustainable tourism destination.

2. **Strengthening of Royal Institute of Tourism and Hospitality:** The Institute is expected to enhance the quality of tourism and hospitality professionals by benchmarking its training programmes to international standards and working towards its vision of becoming a regional center of excellence. The training modules and curriculum will be reviewed and improved based on periodic training needs assessments. Required additional infrastructures will be put in place and capacity development of faculties will receive priority.

5. Situational Analysis

This section provides an overview of the tourism sector and recent developments.

5.a. Arrivals and Revenue

	2012	2013	2014	Growth %
Arrivals	1,05,407	1,16,224	1,33,480	14.85%
International	54,685	54,798	68,081	28%
Regional	50,722	63,426	65,399	3.11%
Gross Earnings (from int'l tourist)	$62.80m	$63.49m	$73.199m	
Royalty	$16.63m	$16.62m	$20.199m	

The number of international tourists visiting Bhutan has increased from 1, 05,407 in 2012 to over 1, 33,480 in 2014. The tourism industry continued to grow at a steady rate with 2014 recording the highest number visitors and the Gross earnings of USD 73.19 million from international tourist, out of which 20.19 million was generated direct revenue for the Government through Royalty.

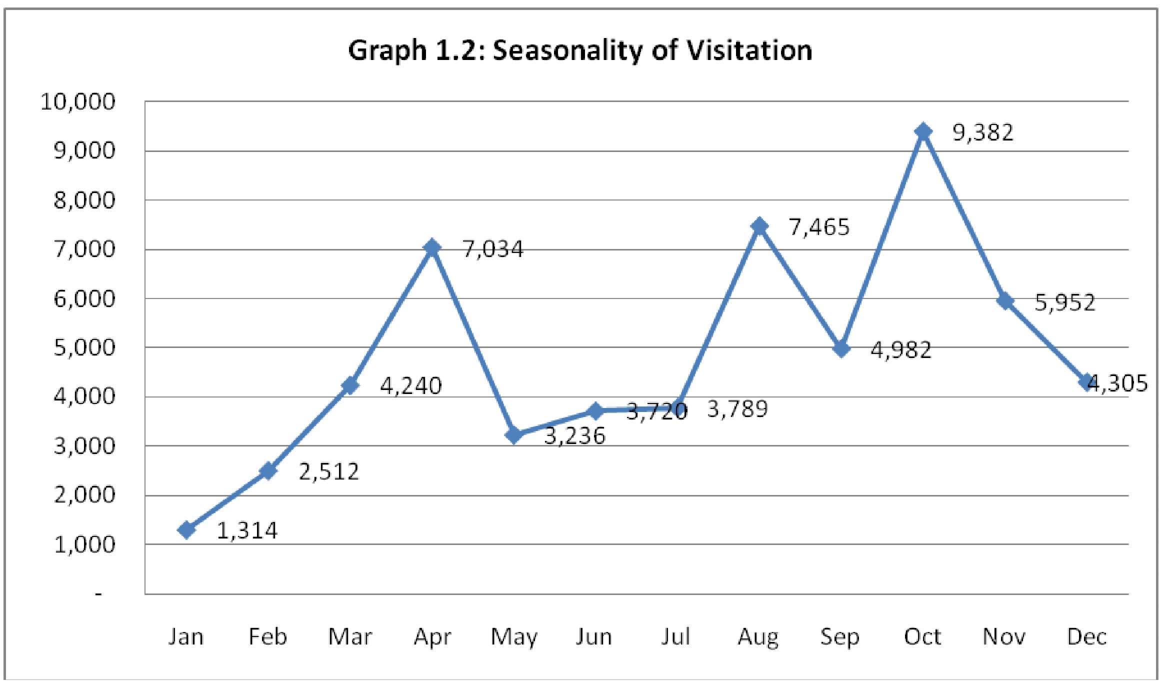
5.g. Share of the market

Although there are in total 1700 operators, the industry is dominated by a few large players. Bhutan Tourism Monitor Annual report 2014 shows that top ten tour operators control about 30 % of the tourist market.

5.b. Visitors Activity and Seasonality of Visitation:

[redacted]

Culture and Festivals/Events are the two leading purposes for tourist arrivals. Graph 1.1 shows that a majority of 72% visited for cultural tours, 13% visited to witness festivals, 8% visited to experience trekking and hiking and visitors who visited to experience flora/fauna, adventure & sports and wellness accounted for 1% each.

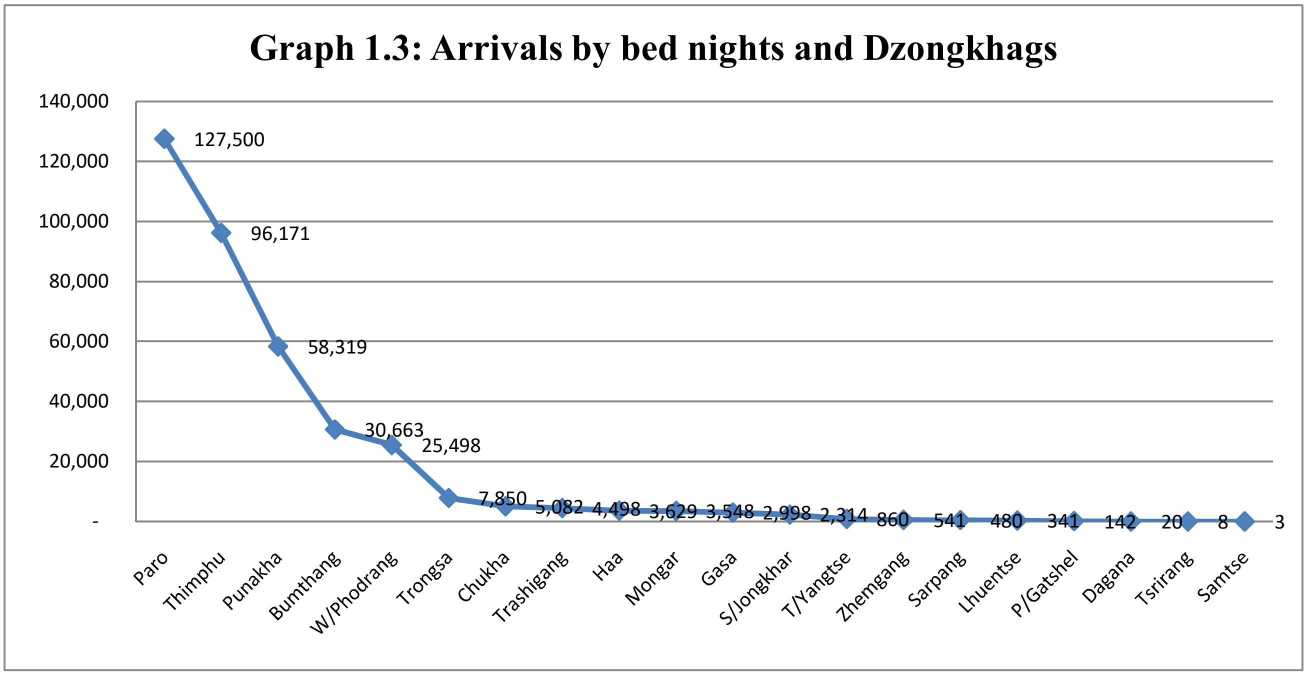


Graph 1.2: Seasonality of Visitation

The majority of arrivals are in spring (February – April) and autumn (August-October) season because of more culture and festivals events happenings and good weather conditions. Most of the international and regional tourists visited the country for the purpose of holidaying and leisure. As shown in the graph 1.2 it is notable that tourist arrivals in summer (May – July) have been as high as the peak spring season in 2014. This was particularly because many Thai tourists visited Bhutan in summer during the lean season taking advantage of the Bhutan – Thailand Friendship offer, where the Government relaxed the daily minimum tariff to commemorate the 25 years of friendship and diplomatic relationship between Bhutan and Thailand.

5.c. Tourist Spread in 20 Dzongkhags

The graph below shows the spread of tourism across twenty Dzongkhags in Bhutan.



The Graph 1.3 shows the spread of tourism across the country. It clearly illustrates that the regional distribution is very limited with high concentration of visitation mainly in the western and central part of the country. Paro hosted the maximum bed nights (34.43%) followed by Thimphu (26%) , Punakha (16%), Bumthang (8.82%) and Wangdiphodrang (6.8%). Although Wangdiphodrang received a higher number of tourists compared to Bumthang the number of bed nights recorded in Bumthang exceeded Wangdiphodrang.

5.d. Hotel Industry and Occupancy:

The Tourism Council of Bhutan continued assessment and accreditation of Hotels and Resorts as per the star classification. TCB has set a minimum requirement of a 3 Star property for tourism accommodation to encourage quality and high standard services to justify the tourism policy to promote high-end tourism.

Table 1.3: TCB Accredited Hotels

Data from 2013 and 2014	**Star Rated by TCBS**					**Total Hotels**
	5 Star	4 Star	3 Star	2 Star	1 Star	
Paro	3	2	15	14	5	39
Thimphu	2	4	12	10	3	31
Bumthang	1	2	11	6	3	23
Punakha	2	2	2	1	0	7
Wangdi Phodrang	1	1	1	5	1	9
Trongsa		-	3	0	1	4
Chhukha (p/ling)	-	-	4	1	0	5
Trashigang	-	-	2	1	2	5
Mongar	-	-	1	2	0	3
Haa	-	-	0	0	2	2
Samdrup Jongkhar	-	-	1	2	2	5
Total	9	11	52	42	19	**133**

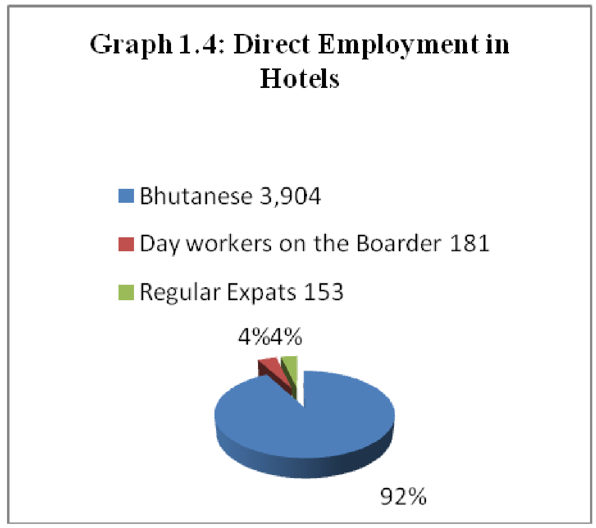


Table 1.3: shows that there are 133 TCB accredited hotels in the country; out of which 3 star and above hotels are established only in 9 Dzongkhags.

Table 1.4 Annual Occupancy and Occupancy for the highest October Month:

Data from 2013	No. of Rooms Per night	Available beds			Bed nights occupied in 2013	Annual occupancy rate	Occupancy for the highest – Oct Month
		Per night	in a Month	in a Year			
5 Star	212	424	12,720	152,640	42,455	27.81%	62.86%
4 Star	196	392	11,760	141,120	18,517	13.12%	39.13%
3 Star	1,064	2,115	63,450	761,400	130,145	17.09%	50.10%
2 Star	1,084	2.145	63,350	772,200	100,966	13.08%	35.67`%
1 Star	249	496	14,880	178,560	7,760	4.35%	13.38%
Total	2,805	3,429	166,160	2,005,920	299,843		

Table 1.4 illustrates the capacity of the hotels:

- Total Number of rooms : 2,805
- Bed Nights per year: 2,005,920
- Average Utilization between 7%~28% *
- Average Unutilized assets 93% ~72%

In 2013 earning from Tourism sector USD 73.199 million. Based on above un- utilized infrastructure the possible revenue lost will be over USD 100 million; Which means that if all the beds are occupied in all the 133 registered accommodation providers every night, current bed supply would be able to cater to more than in excess of 6 times than that of the overall annual occupancy of international visitors in 2013.

Graph 1.5 shows that the maximum bed nights were for 3-Star category of hotels, which is not surprising - as the tourism policy set a minimum requirement of a 3 star property for safety, hygiene, quality services and to promote Bhutan as high-end destination.

6. Emerging Issues and Concerns

6. a. Poor Regional Spread of Tourism

Although tourism is an important sector that holds immense potential for the economy and society, the benefits of tourism are not spread evenly across the county. As shown earlier in Section 5.c. most tourism activities and hence the benefits are concentrated in western Bhutan. For example, 82 percent of all bed nights are hosted in Paro, Thimphu, Punakha and Wangdi valleys.

Considering the immense potential and benefits of tourism, the present government has pledged to make 20% of the tourist visit Eastern Bhutan by 2018. However, this seems like an ambitious target as in 2014, only 3.6% of the international tourists visited Eastern Bhutan.[1]

The reasons for lower visits further east is attributed to poor quality of roads, lack of roadside amenities and long travel distances and poor quality of hotels, and the difficulties of using Gawhati as an air gateway.

Tour operators have stated that the long travel distance to central and eastern Bhutan can be addressed by using domestic air services. However the tour operators and hoteliers have pointed out that domestic air services are not regular and reliable. This makes it challenging for tourists who have short tour duration and connecting flights.

Most recently, hoteliers from eastern Bhutan have proposed direct international flights to Yonphula when the airport renovation is complete.[2] This could be extended to Bumthang airport as well which can connect to regional hubs like Kathmandu and Calcutta using present aircraft. Further requests have also been made to open visa processing centers in Samdrup Jongkhar and Gelephu to facilitate ease of entry of tourists.

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1 http://www.kuenselonline.com/tourist-footfalls-well-below-eastern-bhutan-target/

2 http://www.kuenselonline.com/hoteliers-seek-support-to-boost-tourism-in-the-east/

6.b. *Minimal Local Benefits*

Although efforts have been made to promote other Dzongkhags as tourist destinations, the results have not been encouraging. Likewise efforts to spread the benefits to local residents through farm-stays and home-stays have also been rendered a failure. For example, in Tang in Bumthang, 15 houses were repaired, furnished and farmers trained to receive and look after tourists. However, over the last two years, these houses have not received even a single tourist.[3] The main reason attributed is the lack of cooperation from tour operators and guides. The local people have said that rather than encouraging tourist to stay in farm houses, the tour operators set up camping tents for tourists so that they maximize their revenues rather than sharing with the local communities.

There are similar stories from eastern Bhutan in the case of Sakten which was opened to tourism from September 2010.[4] In an effort to spread benefits of tourism to the communities, an agreement was signed between the TCB, the Tashigang Dzongkhag and ABTO to hire the services of locals for porter, pony, local guides and cooks.

By November, 2010 more than ten groups had visited the area but the locals have expressed great disappointment as the tour operators breached the agreement by not using local services and hence not having any benefit to the local communities.[5]

Considering that most of the tourists visit Bhutan for culture and nature, and those local communities are indeed the true custodians of what make Bhutan unique and attract tourists, it is unfortunate, that tour operators are unwilling to share some of the benefits with the local communities. It is only a matter of time that the rural communities raise this issue and demand a greater and direct share of the tourism pie as the justifications of the benefits from the royalty will no longer be convincing enough as tour operators themselves also benefit from the proceeds of the royalty.

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3 http://www.kuenselonline.com/no-guests-in-tangs-farmhouses/
4 http://bhutanobserver.bt/3229-bo-news-about-all_afoot_for_tourists.aspx
5 http://bhutanobserver.bt/3504-bo-news-about-tour_operators_breach_agreement.aspx

6.c. Weak Inter Agency Coordination

During the course of the review, the Economic Affairs Committee held several stakeholder consultations. One of the main issues highlighted repeatedly was the very weak level of organization and coordination among government agencies in regulating and promoting the sector.

The situation was best epitomized when the Prime Minister, in March 2015, expressing disappointment on the failure to develop and maintain basic tourist infrastructure like toilets stated that: "*If no one is interested, I'll have to take the initiative myself.*"[6] Most recently, in October 2015, the TCB announced plans to develop 18 restrooms throughout the country by 2018.[7]

The institutional weakness at TCB and bureaucratically complex inter-agency coordination is exposed when the Prime Minister of Bhutan has to take a lead role to develop restroom facilities and further when development of 18 restrooms across the country is expected to take more than two years.

Furthermore, there are other issues of weak interagency coordination. For example, the government decides to encourage development of the tourism sector grants tax exemption on import of goods for approved hotels. However, the incentive is rendered meaningless when Custom officials use the narrowest definitions to interpret the exemption and effectively nullify any incentives.

In its effort to promote high value tourism, the government has encouraged investments in 3 Star hotels and above for tourism. On the other hand, the recruitment restrictions imposed by Ministry of Labour and Human Resources & Department of Immigration on bringing in foreign executives and trainers to provide on the job training in the hotels has also impeded service improvement.

The lack of proper coordination between the inter-ministerial committee and between different ministries, agencies & other stakeholders has also been highlighted. For example it has been stated that many agencies were implementing and developing tourism activities, without the TCB council being informed and thus leading to duplication of efforts and waste of resources.

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6 http://www.kuenselonline.com/tourist-footfalls-well-below-eastern-bhutan-target/
7 http://www.kuenselonline.com/tourists-ask-for-better-restroom-facilities/

Members of the industry association such as HRAB, ABTO and GAB were also candid to share off the record and of course anonymously that their voices were not adequately represented in the Tourism Council of Bhutan which is the apex decision making body. For example, the associations usually receive last minute notice on council meetings and they have no opportunity to submit agenda items for consideration and deliberations. Hence their memberships on the Council are seen as mere tokenism as the meetings conducted and concluded without much consideration of their views and concerns.

6.d. Relevance of the Pricing/Tariff Model

As mentioned earlier, tourism is highly regulated through the pricing mechanism with the intent to ensure high value, low impact tourism.

Since the last revision in 1989, tariffs were revised in Jan 2012 from $200 to $250 during peak season and from $165 to $200 during lean season. With royalty payable to the Government still remaining at USD 65, the revised tariff covers the cost for food, lodge, and transport and guide service.

The table below shows the calculation for the minimum daily tariff which is one of the main policy platforms to support the policy.

Table 1.5 Government's Calculation of Daily Minimum Tariff

Break Down of Daily Minimum Tariff	**Peak Season** (Mar - May & Sep - Nov)	**Lean Season** (Dec - Feb & Jun - Aug)
Tourist Pay Per Day	$ 250	200
Less: 10% Com. Oversea Agent	$ 25	20
So Bhutan Receives	225	180
Less: Royalty to RGOB	65	65
Less: 2% withheld tax (BIT)	3.2	2.3
Received by tour operators	**$ 156.8**	**$ 112.7**

The minimum daily tariff threshold has served Bhutan well in the past to control the quality of tourists visiting Bhutan. This fixed tariff model was easily implemented when the entire tourism sector was run as a state monopoly.

With the privatization of tour operations in the 1990s there are emerging voices that perhaps this tariff has outlived its use and it was timely to liberalize the tariff. The Accelerating Bhutan's Socio-Economic Development (ABSD) initiative of the previous government in fact promoted the idea of liberalizing the tariff to enhance tourism flexibility and spur innovation and competition in the sector.

To this end, the Tourism Council of Bhutan in November 2009 signed the compact to liberalize tariff by June 2010. However, this did not materialize for reasons not stated officially. Unofficially it is said that the large and politically influential tour operators lobbied against the liberalization of the pricing mechanism.

However, the success of the Bhutan-Thailand Friendship offer (in June July August 2014), where Thai national and foreign residents in Thailand paid only the $65 royalty and were exempt from the daily minimum tariff, has spurred discussions on possible merits of thinking afresh on the tariff policy.

6.e. Issue of Undercutting

Although it is not officially acknowledged there are sufficient sources of information to indicate rampant undercutting in the tourism sector.[8] Essentially undercutting involves selling tour packages below the government set minimum price of US$ 200 and US$ 250 per person per day based on the season of travel.

Anecdotal evidence indicates that through undercutting the Bhutanese operators in collusion with foreign partners sell Bhutan for as low as US$136- US$ 146 per person per day. While this may lead to higher numbers, the yield is lower and the tourist experience is also compromised as undercutting to meet the sale price leads to cheaper hotels and food. Eventually it leads to Bhutan being seen as a cheap destination and not a high value destination.

There are also rising concerns that some of the so called tour operators in Bhutan merely act as ground handling agents for larger tour companies based abroad and actively engage in undercutting the others. This leads to leakages of profit and foreign exchange and gradually loss of control of tourism development in the country.

6.f. Unregulated Regional Tourism

One of the major anomalies that have become more pronounced the recent years due to the lack of a comprehensive tourism policy is the issue of unregulated regional tourism.

While international tourism is highly regulated through the minimum daily tariff mechanism, the royalty fee, mandatory need to route through tour operators and compulsory use of local guides, tourists from India, Bangladesh and Maldives are exempted. While travels for some of the visitors are arranged through Bhutanese tour operators and handled by tour guides and local transport operators, there are growing number of visitors who travel independently without the above arrangements.

[8] Undercutting in tourism industry, 31 March 2012, http://www.bbs.bt/news/?p=11254

Till the recent past, the concerns about independently arranged, unregulated regional tourism did not arise as the numbers were small. For example in 2010, it was only about 12,500 visitors. However, by 2014, the numbers have grown exponentially reaching 65,399 visitors in 2014.

With such dramatic surge in numbers, the private sector is calling for more uniform regulation of regional tourists.[9] The reasons provided are as follows:

1. Need to ensure regional visitors have access to high quality services and experiences as provided to other international visitors.
2. Need to enhance safety and security of regional visitors by routing through licensed local tour operators and tourism outlets in the southern border towns
3. Ensure adherence to local laws, customs, traditions etc, by using local tour guides.
4. Ensure road safety by using local transport operators to avoid accidents while driving in mountain roads and difficult road conditions.

From a services export point of view, there are concerns that unregulated regional tourists exchange INR for Nu. in the informal market in the border town of Jaigaon and hence Bhutan as such does not benefit from earning much needed INR.

Considering the growing number of regional visitors and increasing complainants on the social media from private sector and residents, it is imperative to ensure that this issue to be addressed in order to avoid unnecessary backlash in the future. Bhutan must learn from the experiences from other parts of the world on the consequences of unregulated tourism and its impact on relations between the tourists and locals.[10]

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[9] "Formalise Regional Tourism" http://www.kuenselonline.com/formalise-regional-tourism-say-bhutanese-tour-operators/ Kuensel.

[10] The Revolt Against Tourism. http://www.nytimes.com/2015/07/19/opinion/sunday/the-revolt-against-tourism.html?_r=0

7. Observations & Recommendations

Based on the discussions, study of documents and analysis by the Committee, the EAC would like to submit the following recommendations:

7.a. URGENT NEED OF A COMPREHENSIVE TOURISM POLICY

In the absence of a comprehensive policy framework to guide the sector it is clear that numerous difficulties have arisen in policy, planning and coordination for the development, promotion and regulation of the tourism sector.

A clear and comprehensive policy will provide the overall direction and also delineate clear authority and accountability on various institutions and agencies. In the absence of such clarity a tourism related initiative promoted by the TCB can be easily hamstrung by bureaucrats in another entity although it is under the same government.

A comprehensive policy will also provide clarity on what high value- low impact actually stands for and outline strategies to attain this objective. Currently, different stakeholders interpret it differently according to their convenience. For example some attribute it only as high value extracted by tour operators while others are more generous and believe it includes high value of services and satisfaction for the tourists.

Therefore, EAC recommends the Government to initiate a Sustainable tourism policy which will be the basis for framing Tourism related legislation and measures to strengthen institutional frameworks.

7.b. Focus on Yield and Quality not Quantity

It is also necessary to shift the focus of tourism development from an obsession to meet numerical targets to emphasize on higher yield and higher quality tourism.

In addition to fiddling with the definition of tourists, under the advice of McKinsey and Co, and attaining 100,000 tourists per annum, the Eleventh Plan goes on further and envisages bringing in 200,000 tourists per annum by the end of the plan period.

While this may be a boon for the tour operators and hoteliers, we must be mindful of the carrying capacity of our natural and cultural environment to deal with an influx of tourists that is about one third of our own population.

Therefore EAC recommends the Government to focus on attaining higher yield from existing numbers by diversifying tourism products, enhancing out of pocket spending, promoting handicrafts and local home stays, spreading tourism to other parts of the country etc.

Research must be conducted to know the maximum carrying capacity of the tourism activities; both tangible and intangible.

7.c. Spread the Benefits to Other parts of the country

Considering the immense potential tourism to transform rural economies and create employment across the country, it is important to spread this benefit to other parts of the country especially northern, eastern and southern Bhutan.

Therefore EAC recommends the Government:

a) To invest in necessary tourism infrastructure and product diversification. Policy facilitation such as opening immigration counters in Samdrup Jongkar and Gelephu for ease of entry and exit of tourists.

b) To involve local leaders like Dzongdas and Thrompons in developing tourism plans and activities and focusing on regionally balanced tourism development.

c) To make efficient road and air accessibility for tourism benefit to spread. The two airlines operating in the country must be encouraged to operate scheduled flights to all the three domestic airports and detailed tourism investment and plans for the destinations linked to the three airports. In addition, to explore direct flights from regional hubs like Kathmandu and Kolkata to bring tourists directly to the existing domestic airports.

d) To strengthen coordination between Tourism Council and Nature Recreation and Eco-tourism Division (MoAF) in designing and promoting eco-lodges, agro-tourism and natural products, enabling the rural people to benefit from the tourism largesse.

e) To strengthen coordination between Ministry of Home and Culture Affairs (MoHCA) and Tourism Council in preserving and promoting local cultural and heritage sites. For e.g. collection of entry fees for popular sites like Taktsang Goemba and festivals like Paro and Thimphu Tshechu.

7.d. Enforcement of proper Pricing Mechanism:

Since the institution of the current pricing mechanism in the 1970s, there has been a sea change in the tourism sector. It has evolved from being a state monopoly to a sector that has numerous stakeholders which include 1700 tour operators, hundreds of guides, hoteliers etc. The demographics in the source markets are also changing from the baby boomers to the millennial, where the latter prefer more flexible travel itineraries and choices. The development of internet and abundance of information makes it all the more attractive. The practice of arranging visa, guides and tours through a local tour operator is considered a good regulation which requires a greater review.

Therefore it is timely to examine if the pricing mechanism that was designed for a state monopoly is still relevant today. Given the competitiveness of the sector, the existence of multiple players in a fixed tariff system has led to predatory pricing among operators and hence the issue of undercutting which could undermine the core value proposition of Bhutan's tourism which is to ensure high value and low impact.

The fixed tariff caused wrong marketing and awareness with the misunderstanding of all inclusive nature of tariff. More so the profit is harvested by overseas middle agents at the cost of Bhutanese tour operators.

The EAC recommends the Government to retain the royalty component (sustainable tourism fee) and to drop the tariff itself to ensure that the tourism system maximizes tourism benefits and opportunities and minimizes tourism leakages. This is a critically important area that requires greater attention of the Government

7.e. Regulation of Regional Tourism

In view of the rapid surge in the number of regional visitors and the need to provide these visitors worthwhile travel experiences that is safe, enjoyable and memorable, the government must implement measures to regulate regional tourism

In the current state of affairs, there have been numerous unfortunate experiences such as tourist deaths and other avoidable problems owing to violations of health and safety conditions in hotels, violations of traffic safety and overcrowding of vehicles, and conflict with local communities on ignorance of religious observations and sentiments, littering in sacred places etc., The EAC recommends the Government to adopt reasonable measures to improve travel experience for regional tourists and avert problems for the visitors arising from the government's failure to regulate tourism.

7.f. Creation of Gainful employment:

The increasing number of tourist arrivals has not translated in gainful employment. For most of the travel companies and hotels seasonality continues to be an issue. In terms of direct employment of guides and hotel staff, since the business is there only during the peak season, most of them do not employ permanent staff.

There is a lack of qualified and practiced tourism & hospitality related professionals working in both the government and private sectors.

Though there are many cultural guides; there are shortage of professional guides - in trekking, mountaineering, GNH philosophy, and historian. Similarly in the hospitality sectors there are no locals working in executive levels – For e.g. Chefs, Financial Controller, Maintenance Manager and General Manager etc.

The EAC recommends the Government to develop tourism and hospitality professional by providing scholarship & leadership training opportunities.

In addition, the Government must strictly implement and follow up on the FDI policies and MoUs in terms of promoting Bhutanese at the executive level. The foreign recruitment rules between MoLHR and Immigration Department must be streamlined.

7.g. Fair Reporting of Tourism Sector Earnings:

There is currently an intense debate among the stakeholders about the role of tourism taxation and its impact on the competitiveness and attractiveness of destination. The stakeholders expressed that the tariff system hands tour operators a considerable stake in terms of the way tourism activity is conducted. While it is straight to calculate the income received by tour operators it is not easy to estimate tour operator spending patterns through the various supply chains.

Even in the annual statistical reports the Government does not present total tourism sector earnings. It presents only the earnings from royalty, hotels and restaurants.

The EAC recommends the Government to work on a system and procedures for taxation and reporting. That would involve cooperation between TCB, Revenue and Customs Department, Royal Monetary Authority and National Statistics Bureau to calculate and define the true financial contribution of tourism sector to the national economy.