



New Financial Players in the Global Hotel Industry: Challenges for Trade Unions

Contents

1. Ownership Change in the Global Hotel Industry	2
2. New Financial Targets Driving Restructuring	3
• Cashing in on Real Estate Assets	3
• Cashing in through Privatization	4
• Shareholder Expectations	5
• Hotel REITs	6
• Private-equity Funds	7
• Financialization of the Hotel Industry in India	8
3. Challenges for Hotel Workers' Unions	9
4. Trade Union Responses	10
Endnotes	13

1. Ownership Change in the Global Hotel Industry

Over the past decade the global hotel industry has undergone a wave of mergers, acquisitions and divestments (sell-offs and closures) resulting in even higher levels of concentration of ownership and control in the largest international hotel chains. In the past two years the number and scale of these transactions has increased. Major international deals involving changes in hotel ownership and brands totalled US\$45 billion in 2005 and in 2006 similar deals are expected to reach US\$60 billion. This includes the purchase of UK-based Hilton Group's hotel division by **Hilton Hotels Corporation** in January 2006 for US\$5.7 billion, making it the largest hotel company in the world with 2,800 hotels and 475,000 rooms in 80 countries.

In the Asia-Pacific region mergers, acquisitions and divestments were widespread in the immediate aftermath of the Asian financial crisis in 1997-98. International hotel chains as well as financial corporations took advantage of massive levels of debt and bankruptcy in the hotel industry in Asia, acquiring hotel properties and buying out regional and national hotel chains. These changes in ownership involved massive restructuring both before the sale (to make the hotel property and business more attractive to buyers) and after they were acquired (to cut costs and eliminate debt).

In some instances ownership change in hotel properties may have little direct impact on the workplace. Intervention by trade unions to negotiate workplace restructuring and continued recognition of existing collective bargaining agreements can effectively minimize the negative impact of these changes and even turn them into positive gains for union members. In genuine cases of bankruptcy changes of ownership are vital to secure new investment and save jobs. There are also cases of ownership changes (including internal transfers of ownership with a company and temporary closures) that are directly aimed at union-busting. Many IUF affiliates have experienced the different challenges posed by ownership changes such as these.

Complex ownership arrangements involving the separation of ownership, management and hotel brands are not a new challenge for trade unions. The IUF's international solidarity actions in support of struggles against violations of worker and trade union rights have often required tracking employer responsibility and generating pressure at multiple points along the ownership/management chain.

What is relatively new is the 'financialization' of hotel properties and the companies that traditionally own and operate hotels. New forms of financing hotel development and boosting the financial value of hotel properties have led to significant changes in the priorities and goals of hotel management. These changes are based on financial targets that include extraordinarily high rates of return to shareholders (15-20%), financing new hotel properties through debt rather than re-investing profits and the rapid acquisition and liquidation of hotel properties as 'real estate assets'.

The kinds of ownership change and restructuring brought about as a result of financialization pose new and urgent challenges for hotel unions everywhere.

The purpose of this briefing is to further our critical understanding of these challenges so that **unions are pro-active in tackling ownership change and financialization through organizing and bargaining strategies that overcome insecurity and uncertainty and rebuild the confidence of our union members.** These strategies must form part of a broader political mobilization/intervention to reverse the changes in national laws, regulations and policies that have paved the way for attacks on employment security and union bargaining power by these new financial interests. Despite the threat that financialization poses and its far-reaching impact, we must keep in mind that **financialization is not inevitable – it can be challenged, it can be reversed.**

2. New Financial Targets Driving Restructuring

The strategy of separating hotel business operations from ownership of hotel properties is geared towards “unlocking” the financial value of real estate assets. Hotel properties are sold not on the basis of business performance or profitability, but as a means of generating cash flow needed to satisfy the short-term demands of shareholders. As a result, hotels are seen by investors not as a long-term, viable service-provider, but as “... **a bundle of assets to be deployed or redeployed depending on the short-run rates of returns that can be earned.**”¹ This transformation of hotel properties into a bundle of assets that can be bought and sold on a short-term basis is largely the result of the entry of new financial players such as Real Estate Investment Trusts (REITs) as owners of hotel properties and private-equity funds as owners of real estate, hotel companies and/or brands.

Even hotel properties that are not owned by REITs or private-equity funds are subject to new financial pressures. Shareholders of hotel companies expect the same high rates of return paid out by these new financial players, which in turn shifts the priorities and goals of management. In fact, financialization does not necessarily require a change in ownership to have an impact on the workplace. The threat of a hostile takeover, falling share prices or the withdrawal of investment funds may be sufficient to change business plans and investment decisions to meet the short-term demands of financial investors.

• **Cashing in on Real Estate Assets**

The international hotel chain **Accor** (4,000 hotels under the Sofitel, Novotel, Ibis, Mercure, Dorint, Suitehotel, All seasons brands) continues to expand, with 188 new hotels (23,472 rooms) and the purchase of a 28.9% stake in Club Mediterranee for €308 million. But at the same time Accor is spinning off real estate assets, shifting out of hotel property ownership and concentrating on brand management. Accor’s asset disposals reached €461 million in 2003 and €456 million in 2004.

In 2005 Accor adopted a “new real estate management strategy” to “improve financial flexibility” and “focus on its core business” (managing and branding but not owning hotels). As part of this strategy Accor is undertaking a **sale and leaseback** programme, selling off Sofitel hotel properties while

maintaining management contracts and in some cases a minority ownership stake. The aim is for 75% of all Sofitel hotels to be under management contract by the end of 2006.

There is also a shift from fixed leases to variable leases to “unlock additional financial resources.” What this means is that to make the real estate segment of hotel properties more attractive to investors such as hotel REITs, more flexible, short-term leases are being introduced that allow increases in rent during economic upturns. By the end of the year 15% of Novotel and Mercure hotels will be under variable leases.

According to its 2006 business plan Accor will sell hotels in Europe and the US to REITs as a way of generating cash flow. For example, in March 2006 Accor agreed to sell six Sofitel Hotels in the US (with a total of 1,931 rooms) for US\$370 million. The hotels were sold to a REIT consortium involving GEM Realty Capital, Whitehall Street Global Real Estate and Limited Partnership 2005. Accor maintains 25% ownership and a 25 year management contract for the hotels operating under the Sofitel brand name.

- **Cashing in through Privatization**

An important trend in the Asia-Pacific region is the move by governments to “disinvest” from the hotel sector by privatizing hotels owned by government departments or public corporations and cashing in on the real estate value of these hotel properties. This has serious implications for the rights and employment security of public sector hotel workers.

In India the Ministry of Civil Aviation launched a “disinvestment” programme in 1998, including the sale of five **Centaur Hotels** owned by the **Hotel Corporation of India** operated through the government-owned airlines Air India. This included two five star hotels in Mumbai, **Centaur Hotel Juhu Beach** and **Airport Centaur**. Through a process tainted with corruption, collusion and nepotism, the hotel properties were deliberately undervalued and sold to an insider - Ajit Baburao Kerkar, who was a member of the Air India board and also a member of the Hotel Corporation of India’s Subcommittee on Disinvestment. Ajit Baburao Kerkar transferred all five hotels to his own company **Tulip Hospitality Services Ltd.** which took over ownership of the hotels in June 2002.

The agreement of sale included a clause guaranteeing that all terms and conditions of employment would be unchanged for a minimum of one year and after that period an appropriate “voluntary retirement scheme” (VRS) would be offered. However, Tulip Hospitality Services Ltd. violated this clause, imposing extensive restructuring measures that undercut working conditions and benefits. Only after the union petitioned the High Court was VRS offered – but was not actually paid. Another prolonged legal battle followed, with management coercing workers into accepting a level of VRS well below their entitlement as former public sector employees.

It was soon clear to workers at the **Centaur Hotel Juhu Beach** that Tulip Hospitality Services Ltd. had no intention of operating the hotel. **The new owner was only interested in taking over the hotel as prime real estate for redevelopment.** Despite high occupancy rates and excellent business performance at one of Mumbai’s most famous hotels (the scene of

numerous 'Bollywood' films), the hotel was closed. In May 2005 a new union, the Union of Centaur-Tulip Employees, was formed to fight the closure of the hotel and demand a reversal of the privatization. The union describes the disinvestment as the **looting of public assets**.² The union won its case in the Industrial Court and High Court and now Tulip Hospitality Services Ltd. has appealed to the Supreme Court.

- **Shareholder Expectations**

One of the most significant shifts in the global hotel industry in recent years has been the rise in the rate of returns expected by financial markets. Currently the ten largest international hotel chains average 12.3% returns to shareholders and are under pressure to match financial market leaders like **Shangri-La** and **InterContinental Hotels Group** (IHG) which return 16% to shareholders every year.

The demand of shareholders for cash payments in the form of dividends and share buy-backs has determined management priorities and goals. Management may implement restructuring to cut costs and generate 'super-profits' or sell hotel properties to satisfy shareholder demands. This in turn translates into continuous workplace restructuring and constant pressure to reduce costs. Ultimately these rates of return demanded by investors are unsustainable – placing tremendous pressure on wages, benefits and working conditions and putting employment security at risk.

InterContinental Hotels Group (3,600 hotels and 540,000 rooms globally under the InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites, Hotel Indigo brands) has also adopted a strategy to "grow its managed and franchised business and reduce asset ownership." Since April 2003 IHG has sold or is in the process of selling 175 hotels with a net asset value of £2.8 billion. At the same time £2.75 billion was paid out to shareholders.

In its drive to generate cash flow to satisfy shareholders IHG sold 16 properties to **Hospitality Properties Trust** – a US-based REIT that has spent US\$3 billion in acquiring 274 hotel properties, including several properties in the **Marriott** hotel chain.

In March 2005, 73 hotels in the UK were sold to LRG Acquisition Limited, a consortium comprising Lehman Brothers Real Estate Partners, GIC Real Estate and Realstar Asset Management ("LRG"). The £1 billion cash raised through the sale was paid out to shareholders. According to the IHG press release, "... subject to completion of the sale, a proposed further £1bn return of funds to shareholders in conjunction with a capital restructuring."³

In May 2006 IHG sold another 24 hotels to a subsidiary of an investment fund, Westbridge Hospitality Fund for €352 million. The hotels were sold to Westbridge Hospitality Fund with 15 year franchise contracts with franchise fees of €4 million per annum.

What is remarkable is that when IHG announced on 22 August 2006 a 30% rise in half-year profits compared to the previous year and 1,000 new hotels under development, there was a *negative* reaction from financial markets. The company's share price fell because it did not announce a cash return to shareholders. Every year for the past three years there has been a

cash return to shareholders mainly financed through its “hotel asset-disposal” program. Between now and 2008 IHG will dispose of more hotel properties that it builds.

- **Hotel REITs**

Real Estate Investment Trusts (REITs) originated in the US in the 1960s as a vehicle to invest in commercial real estate while avoiding corporate taxation. Even today most REITs distribute 95% of their income to shareholders to avoid corporate taxation. According a recent conference on global REITs, investors in hotel REITs can expect:

- *Higher returns as compared to average common stock*
- *Tax holidays*
- *Profits paid out to shareholders in the form of high dividends*
- *High liquidity*
- *Lower risk levels as REITs are collateralised with real estate*

In the case of hotel properties, the hotel business is separated from the property (real estate) and the hotel in turn pays rent to the REIT. This allows both the REIT shareholders (which may include top hotel management) and the hotel company to pay less in taxes.

A particular advantage of hotel REITs over other REITs (such as office REITs that own commercial office buildings) is that they have the flexibility to raise rents quickly. This in turn has an impact on the earnings of hotel businesses renting these properties.

This raises an important question for unions. Rent increases and/or high rent paid to hotel REITs may produce artificially low figures for net earnings – figures the hotel management can then use in negotiations on wage and benefits. In cases where profits are channeled through a REIT owned by the same holding company, the hotel business itself will show persistent losses that management could then use to justify restructuring and rejection of union demands in wage negotiations.

Colony Capital LLC is one of the largest REITs in the world with US\$14 billion invested in properties globally. In 2005 Colony Capital bought the Singapore-based hotel chain **Raffles Holdings Ltd.** for US\$1 billion including 41 hotels and resorts (15 **Raffles Hotels** and 26 **Swiss Hotels & Resorts**) in 35 countries. This includes Raffles hotels in the Asia-Pacific, Germany, Switzerland, the Caribbean and the US. In Asia Raffles Hotels & Resorts includes: Raffles Hotel and Raffles the Plaza in Singapore; Raffles Beijing Hotel; and two hotels in Cambodia: Raffles Grand Hotel d’Angkor in Siem Reap and Raffles Hotel Le Royal in Phnom Penh. Two more hotels, Raffles Resort Bali and Raffles Resort Phuket are under development.⁴

In February 2006 Colony Capital bought Fairmont Hotels & Resorts Inc. for US\$3.9 billion, which includes 87 properties with 34,000 rooms in Canada and the US. Colony Capital will combine Raffles and Fairmont into a single luxury hotel brand operating 120 hotels in 24 countries.

Colony Capital promises shareholders returns averaging 20% per annum under a “strategic approach” that involves “... creating value appreciation opportunities through repositioning, restructuring, development and intensive management.” Ultimately value is realized when Colony Capital “exits” the investment, that is, sells it off. It is this restructuring and exit that potentially has a far-reaching impact on workers in the Raffles and Fairmont hotel chains.

Significantly Colony Capital invested €1 billion in **Accor** in 2004 becoming a “strategic investor for Accor”. While it is not yet clear how Colony Capital’s role will ultimately affect workplaces throughout the Accor hotel chain, it is essential that unions monitor, understand and develop strategic responses to this potential threat.

In the Asia-Pacific region REIT markets have been created in Japan, Singapore, Korea, Hong Kong and Australia. (In Australia REITs are known as Listed Property Trusts - LPTs). Most REITs in Asia have focused on office buildings, stadiums, parking lots and shopping malls and only recently moved into the hotel sector. The first specialized hotel REIT in Japan was created in February 2006. **Japan Hotel & Resort (JHR)** is a REIT established by the global investment fund Goldman Sachs and Mori Kanko Trust of Japan.

In Hong Kong **Regal Hotels International Holdings Ltd** announced in January 2006 plans to create a hotel REIT, transferring ownership of five hotels (Regal Airport Hotel, the Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel) to the new REIT. **Cheung Kong Holdings Ltd** (controlled by the business tycoon Li Ka-shing) will also create a hotel REIT involving 11 hotels (four of which are under development).

Singapore’s first hotel REIT, **CDL Hospitality Trusts**, owns Orchard Hotel, Grand Copthorne Waterfront Hotel, M Hotel and Copthorne King’s Hotel, as well as the Orchard Hotel Shopping Arcade and in 2006 issued 410 million public shares to institutional investors. Singapore is fast emerging as the regional centre for hotel REITs, with companies listing new REITs that own hotel properties across the Asia-Pacific region. **Lippo Group** from Indonesia, for example, is planning to launch a REIT in Singapore that includes hotel properties in Indonesia.

It is significant that the majority of REITs in Asia have adopted a common strategy of issuing commercial mortgage-based securities to finance new acquisitions: basically **accumulating debt to finance the takeover of more properties**. Since debt plays such an important role in financing hotel acquisitions, development and restructuring, fluctuations in interest rates and rated changes in bond markets have a significant impact on decision-making by investors, REITs and private-equity funds. This in turn adds to the instability and short-termism pervading the hotel industry.

Hotel REITs by themselves may not have a significant impact on hotel workers. The real impact lies in the fact that **REITs are used in the “exit” strategies of private-equity funds**.

- **Private-equity Funds**

In several countries the “buyout” activities of private-equity funds⁵, geared towards large, short-term returns, have involved asset-stripping and

closures. This destructive approach has led them to be labeled "locusts" in Germany. Private equity funds undertake buyouts on the basis of an "exit" strategy – cashing in on the investment within three to five years. This is the opposite of a committed, long-term investment geared to the development of the company.

Private-equity funds have now become major players in the global hotel industry. Even in Europe where private-equity fund involvement in the hotel industry is relatively new, from 2001 to 2003 an average 33% of all transactions in hotel properties were the result of private-equity fund buyouts and divestments.

The largest private-equity fund in the world, **Blackstone Group**, acquired five hotels in the past year, including the purchase of the hotel REIT **MeriStar Hospitality Corporation** (which owns 57 hotels under the Hilton, Sheraton, Marriott, Ritz-Carlton, Westin, Doubletree and Radisson brands in the US) for US\$2.6 billion. In 2005 Blackstone bought **Wyndham International** hotel group for US\$1.44 billion and subsequently sold the brand and franchise system to **Cendant**. In Europe, Blackstone recently bought the **Hospitality Europe** hotel group for US\$790 million.

Starwood Capital Group a US-based private-equity fund that holds \$14 billion in real estate assets, including **Starwood Hotel & Resorts Worldwide Inc.** (Sheraton, Luxury Collection, Four Points by Sheraton, Le Méridien, Westin, St. Regis, W Hotels) with 850 hotel properties in 95 countries and 145,000 employees. Starwood Hotel & Resorts Worldwide Inc. is in fact a hotel REIT that was merged into other Starwood companies and the holding company, Host Marriott Corporation, in 2005.

Financialization of the Hotel Industry in India:

On 14 March 2005, the private-equity fund **Warburg Pincus** made the largest single transaction in the 130 year history of India's stock markets. The sale of its stake in Bharti Tele-Ventures (one of India's largest mobile phone companies) for US\$560 million took only 26 minutes. Warburg Pincus has now made more than US\$1.1 billion from its original investment of US\$300 million in Bharti Tele-Ventures made in stages in 1999 to 2001.

Now Warburg Pincus has started acquiring hotels in India. In July 2006 Warburg announced that it is spending Rs.280 crores (US\$60 million) to buy a 27% stake in Delhi-based **Lemon Tree Hotels** and a new chain of budget/economy hotels called **Red Fox Hotels**. Lemon Tree Hotels operates two hotels in Gurugram and will launch two more hotels in Pune and Goa in 2006. Another seven hotels (1300 rooms) are under development across India, including Mumbai, Hyderabad and Chennai. By 2010 there will be 25 Lemon Tree Hotels in operation. Although Lemon Tree Hotels is not a major hotel chain in India the entry of global private-equity funds like Warburg is just the beginning and is set to have a dramatic and far-reaching impact on the entire hotel industry.

At the beginning of 2006 **Blackstone** announced the creation of a US\$1 billion fund for acquisition of local companies in India. It is expected that private-equity funds will spend more than US\$8 billion in investments and buyouts in India in 2006 alone.

Although REITs have not yet been established in India, changes to regulations by the Securities Exchange Board of India have allowed the creation of Real Estate Funds (REFs) for investment in the shares of real estate companies. It is expected that new regulations allowing the establishment of REITs will be introduced soon. In reality global REITs are already operating in India through the hotel chains that they own. In the case of **Starwood Capital Group**, for example, the there are 20 hotels (Sheraton, Le Méridien, ITC) operated by **Starwood Hotel & Resorts Worldwide Inc.** are included as financial assets in its global portfolio.

4. Challenges for Hotel Workers' Unions

The impact of ownership changes in the hotel industry under financialization varies from country to country and according to different corporate structures and business strategies. In some cases there may be little or no impact on the workplace, especially in the case of private-equity fund “start-ups” (providing venture capital to launch a new company) as opposed to buyouts (acquiring an existing company).

However, as we have seen from the international campaign against union-busting by the international catering service company **Gate Gourmet** following its acquisition by the private-equity fund **Texas Pacific Group**, such takeovers pose a very real threat to unions.⁶

We may summarize the impact of these ownership changes on unions as follows:

- **Evading employer responsibility:** Complex employment relationships are created that obscure the real employer and/or enable owners to evade employer responsibility.
- **Short-termism and super-profits:** The short-termism and excessively high rates of return expected by investors further increase downward pressure on wages and benefits and intensifies pressure for continuous cost-cutting. These profit levels are unsustainable in any viable hotel business and so there is continuous pressure to cut costs and generate cash flow to pay investors/shareholders. Paying out earnings to shareholders means that new investment requires growing levels of debt which then affects the long-term viability of the business.
- **Undercutting collective bargaining:** Collective bargaining is affected by a more complex and less transparent employment relationship as well as management priorities geared towards “short-termism” and excessive cash payouts to shareholders. A fundamental impact on collective bargaining is the fact that decisions to sell and/or restructure hotels are based on these short-term demands and have no relationship to business performance and profitability. The wages-productivity-profit linkage that underpins bargaining is broken. As mentioned earlier, in the case of hotel REITs bargaining may also be affected by artificially low earnings in the hotel business resulting from high rents paid to a REIT owned by the same company.
- **Flexibility, continuous restructuring and employment insecurity:** Frequent, rapid changes in ownership and management contracts contributes to growing employment insecurity, especially when new owners such as private-equity funds and REITs view their new investment in terms of a 3-7 year cycle of acquisition, restructuring and exit. The short-term demand for higher rates of return and more cash flow translates into a need for greater flexibility. This reinforces existing hotel

management strategies of maximizing flexibility and cutting costs through outsourcing and casualization. This constant pressure to cut costs to “unlock value” for shareholders leads to an environment of continuous restructuring that may add to the sense of insecurity and uncertainty among union members.

5. Trade Union Responses

Collective bargaining strategies: There are several ways in which collective bargaining agreements can be used to counter the threat of takeovers by private-equity funds/REITs or limit the impact of a takeover. This includes:

- negotiating succession clauses or clauses on ownership change that guarantee continuity in employment security and union recognition in the event of a takeover;
- ensuring that such clauses as a condition of sale when approaching potential buyers;
- negotiating more comprehensive clauses that act as a “poison pill” to make the company less attractive to private-equity funds (similar to shareholder rights or shareholder voting plans in publically listed companies), e.g. union agreement needed prior to any restructuring, workforce relocation, transfers or divestment prior to and after a change in ownership;

We also should note that in the context of financialization collective bargaining agreements (especially workplace-level bargaining agreements) face important limitations. Since financialization breaks the link between hotel business profitability and performance and wages, there are limitations to workplace bargaining strategies. Regardless of the business performance, occupancy rates and quality of service, the hotel REIT or private-equity fund that exercises ownership of these real estate assets may restructure the hotel to cut costs even further and/or sell off the hotel property to generate cash flow. Combined with short-termism, this adds an element of unpredictability in business decisions.

The cycle of takeover, restructuring and sell-off by private-equity funds is generally between 3 to 7 years, so it is possible for a fund to “wait out” an existing collective agreement before launching an attack on the union and imposing restructuring, job cuts or closures. Only “status quo” conditionality for 10 years or more would be an effective deterrent to private-equity funds, which is much longer than the validity period of collective bargaining agreements in most countries and disadvantageous to members when this “status quo” is applied to economic benefits.

Therefore is critical to recognize that any collective bargaining agreement strategies must involve broader political intervention at the national and international level.

Pension fund/shareholder activism: Private-equity fund associations have expressed concern about political appointees on the investment boards of public pension funds as an obstacle to their activities. They have also

criticized freedom of information lawsuits filed in the US to reveal the private-equity investments of public pension funds. This clearly indicates a need to escalate this kind of pressure. Unions must be pro-active in monitoring the use of their members' pensions by pension funds and fight to ensure that they are not financing the buyouts activities of private-equity funds and REITs.

De-funding the funds: Cutting off or restricting sources of funds is a critical element of any strategy to tackle private-equity funds. This means a closer look at where the money comes from, how it is raised and how unions can directly (pension funds) or indirectly (government regulation; public outcry) block this flow of money. It also involves:

- exposing financial and legal liability and risks; launching legal challenges
- exploiting the window of opportunity in the period during which a takeover deal is being put together to raise doubt/risk levels
- Raise public awareness & generate political pressure by exposing the practices of a specific private-equity fund through a “corporate campaign” that:
 - exposes destruction of jobs and job security and the ruthless logic of their business (to reinvigorate public criticism of barbarians/locusts) and shows that no real economic or social contribution is made by these financial companies;
 - establishes legally that the private-equity fund is the real employer, and involve relevant international jurisprudence, or file a lawsuit on this basis

Coordinated political intervention to re-regulate

A broader **political mobilization** in the trade union movement is needed to intervene at a political level, challenging government attempts to change investment, ownership and taxation laws in favour of financial interests such as REITs and private-equity funds, as well as opposing regressive labour law reforms that legalize the destruction of permanent employment. There is also an urgent need to build or re-build employment security and strengthen trade union rights through positive changes in laws and policies, as well as the implementation of new political measures to regulate corporations nationally and internationally.

- this involves intervening to stop planned de-regulation, often disguised as policies designed to promote entrepreneurialism, financial services, etc
- union intervention to criticism specific legislation that helped unleash the “locusts”
- need to challenge specific changes to banking regulations; pension fund regulation and corporate taxation laws
- identify laws that financial players like private-equity funds want scrapped or changed – blocking these changes could be a deterrent to “locusts”
- explore existing international regulatory mechanisms

- seek the application of existing international instruments (e.g. OCED Guidelines on Multinational Enterprises or ILO conventions) to illustrate that a) these private-equity funds must be bound by the legal obligations imposed on employers and/or b) that new instruments are needed

Tourism unions are in a position to develop political support for the idea that countries/regions/cities have a vested interest in the long-term stability and growth of the tourism sector, particularly in places that depend on it. Political interventions can be based on the argument that the boom and bust cycle, unregulated development, employment insecurity and high job turnover all place tourism at risk. As does a hotel industry built on an exit strategy.

Governments at all levels seriously interested in developing a sustainable tourism base to generate revenue and employment need to combat short-termism and the heightened instability it introduces into a sector already characterized by an inability to retain qualified workers (or even to develop qualifications), low wages, unregulated development which undermines the environmental and cultural basis of the industry. This can be a jumping off point for unions to campaign for regulatory changes to promote stability and encourage long-term investment.

As we stated at the outset of this briefing: **financialization is not inevitable – it can be challenged, it can be reversed. Now it is time to act.**

Endnotes

¹ Neil Fligstein and Linda Markowitz, "Financial Reorganization of American Corporations in the 1980s," in W. J. Wilson (ed), *Sociology and the Public Agenda*. Newbury Park: Sage, 1990, p.187.

² The Report of the Comptroller and Auditor General of India for the year ending March 2004 presented extensive evidence concerning irregularities in the government's disinvestment of the Centaur Hotel Juhu Beach and Airport Centaur.

³ InterContinental Hotels Group, "Sale of 73 Hotels in UK for £1 billion; Further Return of Funds", 11 March 2005.

⁴ There was a major dispute at the two Raffles hotels in Cambodia from April to September 2004 and the IUF organized international solidarity actions in support of its affiliate, the Cambodian Tourism and Service Workers Federation (CTSWF). The purchase of the Raffles hotel chain by Colony Capital took place six months after a settlement was reached.

⁵ Private equity is a pool of money raised and professionally managed for the purpose of investing directly in private companies. A private-equity fund is a fund manager or management company that actively manages this money. Investors in private-equity funds expect substantially higher rates of return on their private-equity investments than on the stock market. When a private-equity fund buys out a company that is listed on the stock market, the company "goes private", meaning it is no longer listed on the stock market. Investors in private-equity funds include corporate pension funds, private pension funds, public pension funds, commercial banks, investment banks, insurance companies, wealthy families and individuals, and endowments and foundations.

⁶ See the news and action alerts on Gate Gourmet on the IUF Global website: www.iuf.org