



## Tourism and the Galapagos economy<sup>1</sup>

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Tourism is the main economic activity in Galapagos and contributes directly and indirectly to business development and population growth in the islands. It also triggers the largest, most complex distribution network for revenues generated in the archipelago. This article summarizes the main indicators and estimates of financial flows from tourism in Galapagos. These findings result from a broad-based study of the tourism economy in the islands, information available in prior economic studies, and field research conducted in 2006 (surveys with 960 visitors, interviews with tourism operators and institutions, archives, databases, and information from various sources related to Galapagos tourism).

### Key growth indicators

Due to continued and growing interest in visiting the Galapagos, reflected in more visitors each year, the tourism infrastructure and services, including hotels, vessels, travel agencies, and associated services, have grown significantly in the last 15 years<sup>1</sup>. Total revenues from tourism have increased at a rate of 13% per year over the same period<sup>2</sup>, directly driving the growth of the overall economy of Galapagos. Key indicators confirm the rapid rate of growth (Table 1).

The economic growth rate for tourism in Galapagos during the last 15 years was 14% per year.

**Table 1.** Growth indicators for Galapagos tourism.

Average annual increase in visitors (1981-2005)	9%
Average annual increase in hotel beds (1991-2005)	4.8%
Percent increase in onboard capacity (1991-2005)	72%
Average annual increase in vessel revenues (including travel agency fees) (1991-2005)	14%
Average annual increase in hotel revenues (1991-2005)	14%
Average annual increase in total revenues from tourism (1991-2005/06)*	13%
Average annual population growth (1990-1998)	6.4%

Note:

Source: Epler 2007.

\*Based on Taylor et al., 2006<sup>2</sup>

## Estimated revenues from tourism

### Vessels

From June 2005 through May 2006, Galapagos tourist vessels generated US\$ 120.5 million in revenues, excluding

travel agency fees (Table 2). The eight largest vessels brought in nearly \$59.3 million or 49% of total revenue.

<sup>1</sup>For more details about increasing tourism supply and demand, see the articles on "How many tourists can Galapagos accommodate?" and "Tourism in the Galapagos: a strong growth trend" in this Report.

**Table 2.** Estimated prices and total revenues (US\$) of Galapagos tourist vessels, June 2005 to May 2006.<sup>1</sup>

	Large vessels*	Other vessels	All vessels
Number of passenger-nights*	165,671	197,555	363,226
Average price per night*	\$358**	\$310**	\$333**
Total revenues	\$59,310,218	\$61,242,050	\$120,552,268
Percent of total revenues	49%	51%	100%

Notes:

Source: GNPS database &amp; calculations in Epler 2007

\* The eight largest craft include 3 with 100-passenger capacity, 1 with 90, 1 with 80, 1 with 48, and 2 with 40.

\*\* Average price excludes travel agency fees, estimated at 16.7% for this study.

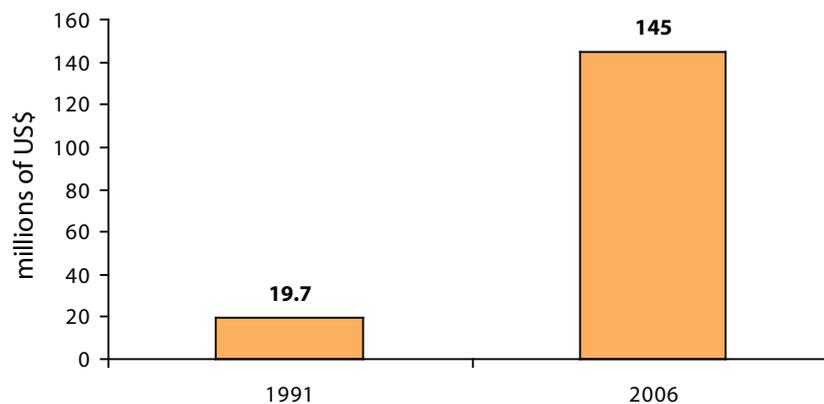
+ Total passenger-nights is the total number of nights in Galapagos for all visitors during a given period.

During the last 15 years, the average price per night for a cruise increased by over 190%, from US\$135 to US\$400 per night from 1991 to 2006.

Revenues received by the Galapagos tourist fleet, including travel agency fees, have multiplied nearly

eight-fold over that period, from US\$19.7 million in 1991 to US\$145.5 million in 2006 (Fig. 1). Of the total revenues in 2006, travel agencies retained approximately \$25 million, with \$20 million going to overseas travel agencies and \$5 million to Ecuadorian companies.

The economic growth rate for tourism in Galapagos during the last 15 years was 14% per year.

**Figure 1.** Increase in yearly revenues from tourist vessels, 1991 to 2006\*

Note:

\*Revenue figures include travel agency fees.

Source: Epler 2007.

## Land-based tourism

The transition from the original model of cruise ships or “floating hotels” to more land-based tourism began in the late 1970s, when the port towns established themselves as tourist destinations. Since then, hotel capacity has grown significantly, at an average annual rate of **4.8%** from 1991 to 2006. This growth is reflected in increasing revenues for this sector.

Overall, Galapagos hotels had gross revenues of roughly US\$10.7 million in 2006 (Table 3). This is significantly higher than the US\$1.2 million estimated for this economic sector in 1991<sup>3</sup> (Fig. 2). From 1999 to 2006, the annual compounded growth in revenue of the hotel sector was slightly over 14%, similar to that of tourist vessels.

**Table 3.** Hotel room occupancy and revenues (US\$) by island, 2006.

	Santa Cruz	San Cristóbal	Isabela & Floreana	TOTAL (weighted)
Number of rooms	431	217	109	757
Maximum possible occupancy (nights/year*)	57,315	79,205	39,785	276,305
Occupancy rate	70%	14%	31%	48%
Actual occupancy (nights/year)	110,120	11,089	12,333	131,958
Average weighted price per night**	\$89.18	\$43.62	\$34.20	\$68.25
Total estimated revenues	\$9,820,501	\$483,702	\$421,789	\$10,725,992

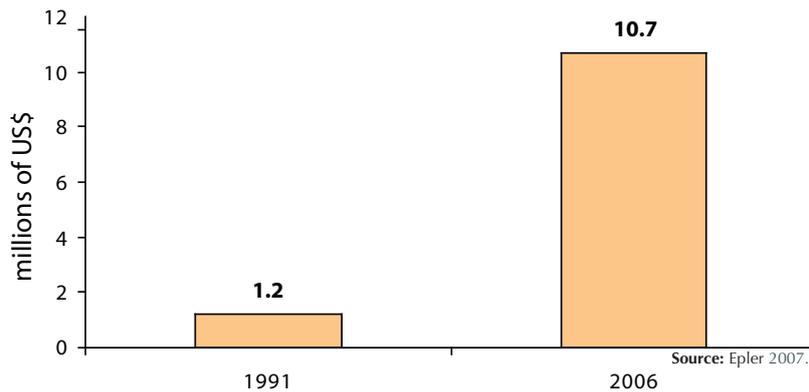
Notes:

Source: Epler 2007.

\* The number of rooms multiplied by 365 days.

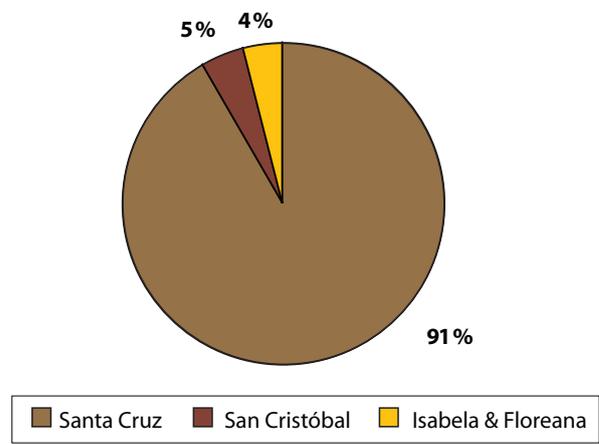
\*\* The average weighted prices assume two people per room and reflect differences in prices paid by foreigners and Ecuadorians.

**Figure 2.** Increase in gross yearly revenues for hotels, 1991 and 2006



The highest percentage of revenues generated by hotels in Galapagos is concentrated in Santa Cruz (91.6%) (Fig. 3). Santa Cruz is frequented by more visitors and has a greater number of hotel beds than the other islands. A comparison between San Cristóbal and Isabela Islands shows that Isabela has a higher rate of occupancy and length of stay even though it has half the number of beds. However, prices on Isabela are below those charged on San Cristóbal so the island's hotel revenues are lower.

**Figure 3.** Distribution of hotel revenues by island, 2006



Source: Epler 2007.

Total annual hotel revenues in Galapagos have increased from US\$1.2 million to US\$10.7 million over the last 15 years.

Although hotels have almost the same tourist capacity as vessels, their revenues equal about 10% of vessel revenues<sup>1</sup>. While hotels, in part, cater to budget-minded foreign backpackers, students, and Ecuadorians, this difference in revenues can also be attributed to the fact that vessels provide additional services, including interisland transport, meals, guides, etc.

### Other on-island expenditures

In addition to expenditures on vessels and hotels, tourists spend significant amounts on meals, dive tours, recreation, souvenirs, gratuities, and other items and services.

Estimating expenditures for such products and services involved an analysis of the different categories of tourists and their share in this type of spending. When each category of tourist was weighted to reflect their importance in terms of percentage of all tourists, the average expenditure per tourist was US\$ 114.65. Therefore, the total expenditures on the items identified above, based on a total of 105,000 tourists per year<sup>11</sup>, would be approximately US\$ 12.1 million per year. This amount represents revenues received by island-based operators and residents for land-based tourism services and related businesses, excluding hotels and vessels.

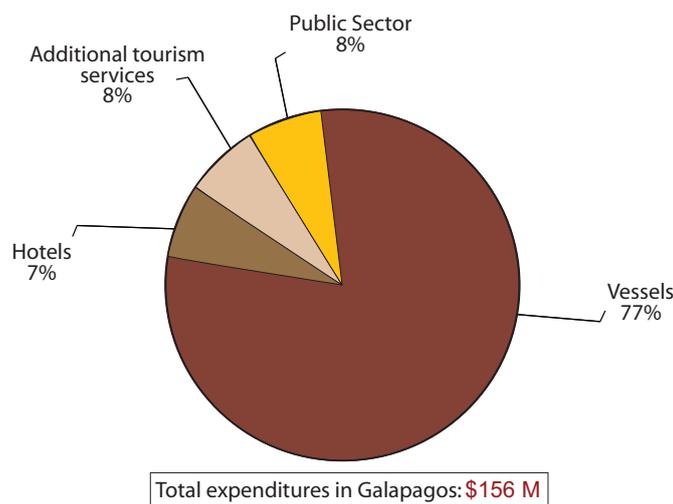
## Summary of financial flows from tourism

### Direct expenditures in Galapagos

According to this study, tourists' expenditures in Galapagos in 2006 were estimated at US\$156 million. This total includes revenues from vessels (US\$120.6 million, excluding travel agency fees), revenues from hotels (US\$10.7 million), estimated additional expenditures by tourists on land (US\$12.1), and estimated revenues received from tourism in the public sector (US\$12.1 million, including the GNP entrance fee and other tourism-related fees for permits and licenses). The public sector revenues include those received by several local institutions (GNP, INGALA, municipalities, Provincial Council), which then trickle down to various secondary beneficiaries and the community at large, especially through employment.

A breakdown of tourism revenues in Galapagos by recipient is presented in Figure 4. Vessels receive the largest portion (77%) of tourism-generated income.

**Figure 4.** Galapagos tourism revenues by recipient



**Note:**

\* Includes direct income from GNP entrance fees and tourism operation fees such as municipal permits, licenses and other fees.

<sup>11</sup>The number of tourists in this calculation comes from the estimate by Epler (2007) based on the National Park entrance cards, excluding an estimated percentage of 'non-tourists,' from June 2005 to May 2006.

### Indirect benefits in the Galapagos Islands

In addition to the above-mentioned direct revenues, tourism provides the local populations with secondary benefits, including revenue flows generated through employment in various tourism-related activities and services<sup>3</sup>. Taylor *et al.* (2006) used a social accounts matrix model to calculate direct and indirect effects of tourism on the local economy. This model estimated revenues of approximately US\$62.9 million per year from tourism-related activities including trade, transport, banks, agriculture, construction, and public and social services (Fig. 6).

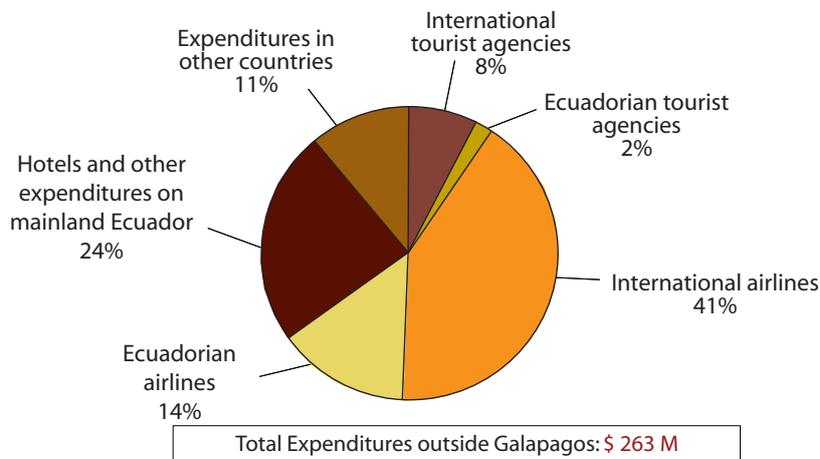
Indirect tourism-generated benefits for the local economy primarily include revenue flows generated through employment and other tourism-related services.

### Economic impacts of Galapagos tourism outside the archipelago

Tourists' expenditures related to travel to the Galapagos Islands also involve benefits outside the archipelago. Beneficiaries include Ecuadorian and international tourism operators and agencies, hotels on Ecuador's mainland and in other countries, as well as other small service providers.

The total direct expenditures on tourism involving travel to the Galapagos Islands are approximately US\$419 million<sup>1</sup>. Excluding direct benefits to the Galapagos economy (US\$156 million, Fig. 4), estimated expenditures outside Galapagos are approximately US\$263 million per year (Fig. 5).

Figure 5. Distribution of tourists' expenditures outside Galapagos

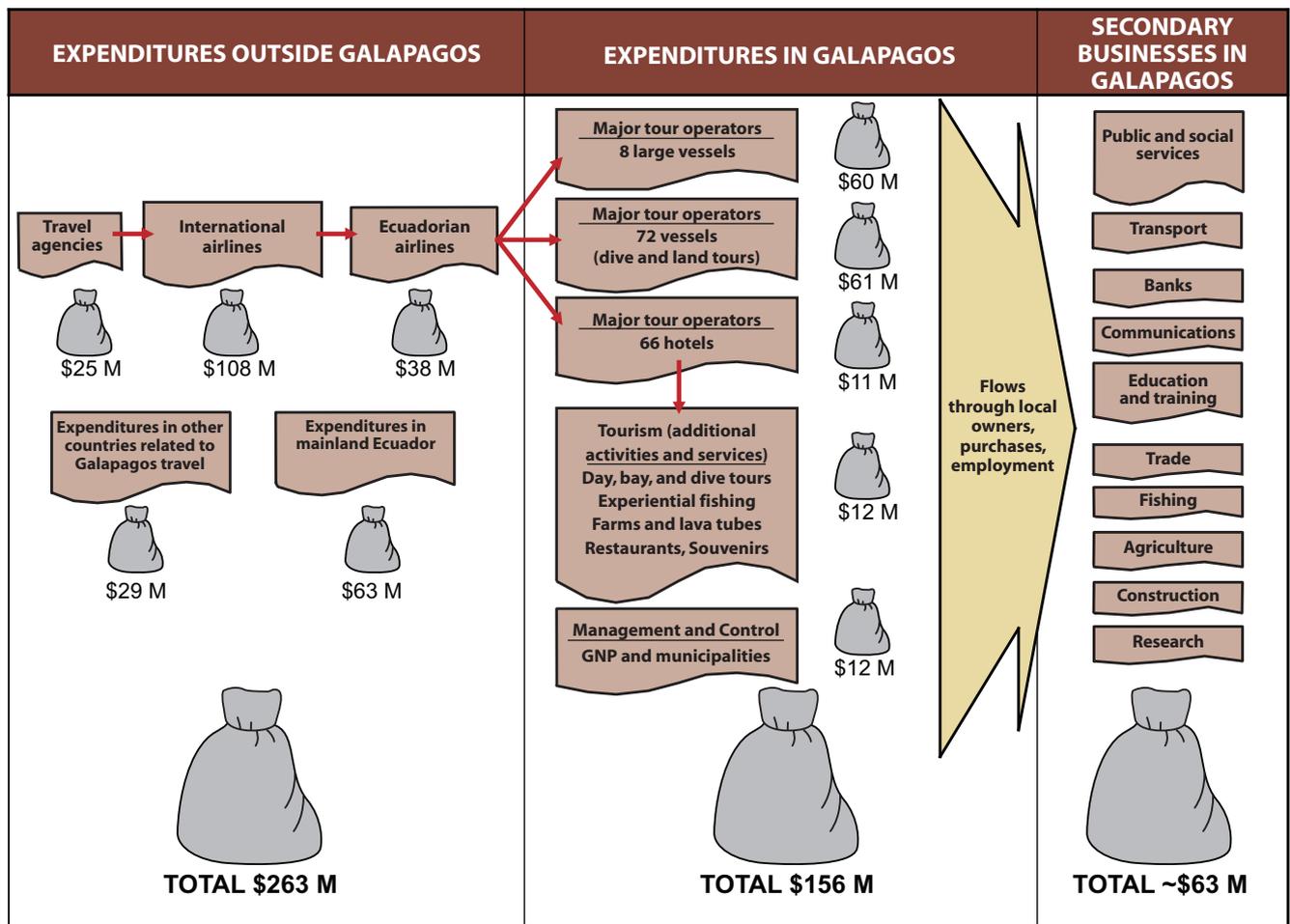


### Where do financial flows from tourism end up?

Expenditures on Galapagos tourism reach a variety of direct beneficiaries, both in the islands and elsewhere. Direct beneficiaries in the islands then generate a secondary distribution of revenues among the local population, especially through employment<sup>3</sup>. This complex distribution network of tourism revenues is summarized in Figure 6. There has been an on-going

discussion about how economic flows from tourism are distributed and, above all, how much of this benefit reaches residents of the Galapagos. Although expenditures at the tourist destination (i.e., the Galapagos Islands) total US\$156 million, many owners of the main sources of income (vessels) are not residents of Galapagos. At present, local operators own 40% of all

Figure 6. Distribution of tourists' expenditures related to travel to the Galapagos Islands (estimates for 2006)



Source: Epler 2007<sup>1</sup> and Taylor et al. 2006<sup>1</sup>

vessels with concessions to operate in the archipelago. The nature of these highly competitive and changing tourism markets leaves minority operators at a disadvantage vis-à-vis international and mainland Ecuadorian operators who are better equipped to access larger-scale production chains.<sup>3</sup> Nevertheless, local revenues and ownership of licensed vessels have increased since the 1980s, although not as rapidly as revenues of international and mainland Ecuadorian operators.

### Conclusion

There has been a major transformation in the distribution of financial benefits and the structure of tourism in Galapagos. These changes have influenced the distribution of benefits at the local level, especially because of expanding facilities on land and the secondary service

network that supports tourism activities. Several studies have shown that tourism is the mainstay of the Galapagos economy and that the primary revenue flow is through the generation of employment and secondary activities<sup>3</sup>. Current economic flows from tourism form the basis of the economy in Puerto Ayora and of the small and medium companies providing services or trade in Galapagos.

Economic flows from tourism involve and benefit a variety of stakeholders in Galapagos and elsewhere. Estimates from the most recent studies on this subject suggest that approximately 15.5% of total tourism revenues remain in the archipelago. More in-depth studies on this topic are required, with greater participation of the private sector, in order to develop a business model for tourism in Galapagos that will be better suited to the special nature of Galapagos and the islands' local population.