

PROCESS DESCRIPTION

Hotels typically provide paid lodging on a short term basis and the cost and quality of a particular hotel is usually indicative of the range and type of services available. Other activities and services typically associated with hotels include administration, laundry, air conditioning, and leisure facilities, (swimming pool, gym, tennis courts, etc). Catering facilities are also usually located on site to provide meals.

There is a diverse range of different types of hotels from small family owned hotels to large resorts, purpose built by major corporate hotel chains. Geographically, increased tourism worldwide and customer demand to travel to remote and exotic locations has resulted in the increased development and expansion of hotels and resorts in areas of high natural biodiversity and environmental sensitivity.

KEY ENVIRONMENTAL, HEALTH AND SAFETY RISKS/LIABILITY FACTORS

Site Sensitivity

Each hotel site will have a different level of environmental sensitivity. This is based on factors such as site history, local hydrology, hydrogeology, and the existence of conservation areas (buildings and natural habitats), historic properties or sites of archaeological interest.

Prior to construction, the hotelier should carry out an assessment of the environmental sensitivity of the site, and ensure that the operations to be carried out will be compatible with the sensitivity of the site. Damage to, or alteration of, existing properties may be illegal if the property or site is protected by legislation. Similarly, damage to persons or property may

result in civil action and possible need for financial compensation.

Construction

During the selection/development and construction phase, environmental and social issues may include; increased demand on limited local infrastructure (including roads & water supply), disposal of liquid effluent and solid waste disposal capacity and increased stress on ecologically sensitive areas.

Environmental issues during the construction and development of hotels and resorts are common and typically include construction site waste generation, soil erosion and the need for sediment control from materials-sourcing areas and site preparation activities. Other environmental issues include fugitive dust and other emissions (e.g. from vehicle traffic, land clearing and movement, and materials stockpiles), noise from heavy equipment and truck traffic, and the potential for hazardous materials and oil spills associated with heavy equipment operation and fuelling activities. Development of hotels and resorts at remote and sensitive locations poses additional challenges such as infrastructure support and wildlife habitat management.

Occupational health and safety issues during the construction of a hotel can be significant with the majority of serious injuries and deaths occurring during this phase of a hotel's development and operation. Hazards include physical hazards (e.g. collisions, slips and trips and falls from height), mechanical hazards (e.g. crushing, cutting and entanglement), chemical hazards (e.g. heavy metals, highly reactive chemicals and particulates) and biological

hazards (e.g. bacteria, viruses and blood-borne pathogens).

Environmental issues associated with hotels and resorts during operation include the following:

Climate Change Adaptation

Climate change is widely regarded as one of the greatest challenges facing the world today. The scientific community now has broad consensus on the role human society has played in accelerating climate change through the release of greenhouse gases associated with activities such as burning fossil fuels and deforestation. This has led to growing action on and expectations for climate change mitigation and adaptation.

Companies across industrial sectors face climate change-related physical, regulatory and market risks. The hotel sector is vulnerable due to the impact (on demand and on physical assets) of climate change on global weather patterns and temperature changes. Some regions of the world are expected to face rising sea levels, others increasing frequencies of drought and storms. These factors will impact existing assets, for example with a large proportion of hotels located on or adjacent to coastlines, affecting the construction techniques needed to adapt to different climate change risks and the value of real estate.

Commercial and residential buildings account for approximately one-third of greenhouse gas emissions worldwide. Mitigation and adaptation efforts are already starting with regulatory efforts focusing on improving building energy efficiency and on greener construction standards. The European Union has already set directives for building energy efficiency for its member states. Over time, similar regulatory measures are likely to be enacted in other jurisdictions.

Climate related risks are also increasingly featuring in market decisions. For example, hotels with high geographical risks associated with climate change, such as floods or extreme weather, may be less attractive to potential buyers and insurers. Also, with snow lines in ski resorts retreating up mountains, new hotels in ski areas may need to be constructed at higher altitudes.

Regulatory responses to climate change adaptation and mitigation are accelerating, exposing slowly adapting companies to higher compliance costs. There is a strong market and regulatory focus on green buildings and raising building standards to become more energy efficient and adapt to climate change impacts. Hoteliers should review their portfolios for risks related to climate change and make necessary property adjustments or asset changes.

Forward thinking companies are raising building standards, retrofitting old buildings and saving (long-term) energy costs through energy efficiency measures.

Energy Conservation

Hotels and resorts consume large amounts of energy in the form of heat and power. Energy consumption is directly linked to building siting, design, construction and operating patterns. A hotel's energy efficiency can be significantly improved by considering passive solar design, building orientation, installation of renewable technologies and selection of building materials (e.g. insulation, high-efficiency light bulbs, occupancy sensors and daylight controls).

Wastewater

A hotel's largest wastewater source is domestic sewage from toilet flushing and bathing. Nevertheless, smaller wastewater streams often

present a greater environmental risk particularly streams from laundry and dry-cleaning, housekeeping, maintenance, and kitchen departments, as well as recreational facilities, such as swimming pools. These streams may include cleaning agents, disinfectants, and linen washing agents, including liquid bleach, chlorine products, and ionic and non-ionic detergents, which may release excessive phosphates and cause eutrophication of natural waterways. Kitchen effluents may also contain oils and greases.

If the local wastewater infrastructure is unable to process increased wastewater from a new hotel development such that water is discharged directly to coastal areas, it can lead to significant water pollution. Hotels need to work with the local and sometimes national governments to ensure that the appropriate facilities or infrastructure are in place. This may require the installation of an on-site wastewater treatment plant.

Waste Management

The main types of solid wastes generated at hotels include paper and cardboard items, glass and aluminium products, plastic items, organic waste, building materials and furniture, and used oils and fats. Hazardous wastes may include batteries, solvents, paints, pesticides/herbicides and some packaging wastes.

Increased use of local waste management infrastructure can have a significant impact on the local community, if a new development has not included an evaluation of the handling capacity of the local infrastructure. If locations have limited infrastructure waste may have to be transported over long distances or work with local authorities to develop new capacity may be required.

A hotel can minimise the impact of waste generated on site by segregating waste, reusing where appropriate, composting organic waste and recycling all recyclable material. This process begins with the purchasing choices and the related packaging but also the implementation of a waste management plan that incorporates a waste reduction programme.

Noise

Sources of noise are typically associated with mechanical rooms (containing boilers, generators and air conditioning units), kitchens and laundries, waste management areas e.g. compactors, garages, entertainment areas, and lobby areas. The impact of noise to local communities should be considered during the planning phase and mitigation put in place during construction and operation of the hotel.

Occupational Health & Safety

Occupational health & safety issues impact both facility workers and guests and typically include the following:

- Manual handling;
- Trips and falls;
- Accidents from machine and tool use;
- Heat stress;
- Water and food quality;
- Fires and explosions;
- Noise exposure;

- Exposure to hazardous or toxic substances, for example chlorine fumes from water/swimming pool treatment, cleaning materials, descaling agents, pesticides/herbicides, paints and other coatings;
- Exposure to electricity;
- Swimming pool safety;
- Legionella exposure (particularly in warm countries);
- Vehicle/pedestrian safety.
- Detection Alarm systems – All measures to detect and alert occupants to a potential fire.
- Compartmentation – Measures to prevent or slow the spread of fire and smoke, e.g. fire walls, dampers, smoke control systems and fireproof doors.
- Fire suppression and control – All automatic and manual fire protection/suppression installations, e.g. automatic sprinkler systems, fire extinguishers and fire hose reels.

Life and Fire Safety (L&FS)

Hotel operations are exposed to life and fire safety risks, as they are accessible to the public. Newly developed hotels and existing buildings scheduled for renovation should be designed, constructed and operated in compliance with local fire department regulations, local building codes, local legal/insurance requirements, and in accordance with internationally accepted life and fire safety (L&FS) standards. These considerations should be included within a Life and Fire Safety Master Plan, which identifies major fire risks, standards and regulations, applicable codes and mitigation measures. The plan should consider the following issues:

- Fire prevention – Identification of fire risks and ignition sources and mitigation measures to limit fire and smoke development.
- Means of Egress – Design measures to assist in the safe evacuation of occupants during a fire or other emergency, e.g. emergency lighting and clear, unimpeded escape routes.

The Life and Fire Safety Plan should also incorporate an emergency response plan and include an assessment of local fire prevention and suppression capabilities. The scenario-based emergency response plan is designed to assist staff and emergency response teams during emergencies and training exercises.

OTHER ENVIRONMENTAL, HEALTH AND SAFETY RISK/LIABILITY ISSUES

Water Consumption

Water efficiency should be considered during the building siting, design and construction phases of a project. Water consumption is directly linked to personal use by guests and the site's requirements for housekeeping, laundry, cooking, swimming pools, spa facilities, and ground maintenance. Where water is drawn from natural sources, a water sustainability assessment should be undertaken to assess the current and future needs of the local community and impact to local ecosystems, against predicted climate fluctuations.

Soil and Groundwater Contamination

The purchase and development of hotels on 'Brownfield sites'¹ can increase the likelihood of identifying contamination that requires clean up, thus substantially increasing development costs and/or reducing the asset value of a site.

While some legal jurisdictions may operate under the 'polluter pays principle'², in practice this may be difficult to enforce particularly where the original polluter "cannot be found" (e.g. because the company has ceased trading). In such circumstances it can be the owner of the land that is ultimately responsible for any remediation required.

To manage this risk an environmental site assessment should be undertaken prior to acquiring the site to establish the extent and severity of any contamination.

Air Emissions

Air emissions associated with hotels and resorts typically include products of combustion (e.g. carbon monoxide, carbon dioxide, nitrogen and sulphur oxides, and hydrocarbons) and particulates from fossil fuel-operated boilers, stoves and generators. Volatile organic compounds (VOC) may also be emitted from dry-cleaning, refrigeration, and air conditioning units. Only refrigerants with low global warming potential should be selected and the use of ozone-depleting refrigerants should be

avoided. For further information, refer to the Montreal Protocol (<http://ozone.unep.org/>).

Building Safety

Hotel companies will be responsible for ensuring safety within the hotels they own. This includes having sufficient air quality and ventilation, safe wiring and electrical components, and the use of safe materials in building construction and maintenance. Property owners are also generally responsible for the construction and maintenance of protective infrastructure built into the buildings. This relates to equipment such as cages and lifts for window cleaners and netting and railings on building roofs. Hoteliers should ensure that only authorised individuals have access to potentially dangerous features and areas such as exposed electrical wiring, boiler rooms or high voltage areas.

Buildings that contain asbestos for example, may be higher risk investments due to the substance's impact on human health through asbestosis or mesothelioma. Asbestos has been, and in some parts of the world still is, widely used as a fire proofing and insulating material. Where doubt exists, hotel management should determine (via an asbestos survey from a specialist supplier) whether asbestos is contained within the fabric of the hotel building and if so, put measures in place to limit exposure to employees and guests.

Property owners are generally responsible for the fire safety infrastructure in a building. Specific requirements vary by jurisdiction and type of property but generally include the provision of emergency exits, fire detectors and alarm systems. Regulations may also require owners to include features such as fire escapes emergency lighting, fire extinguishers, fire hoses, fire alarms, smoke detectors, fire resistant doors and sprinkler systems. Indeed, regardless of

¹ 'Brownfield' is the term generally used to describe previously developed land, which may or may not be contaminated.

² The 'polluter pays principle' is a principle that the cost of pollution control, prevention, and remediation should be the responsibility of the entity which profits from the process that causes the pollution.

regulation such measures should be incorporated into hotel buildings as a matter of good practice.

Poorly constructed and maintained buildings have led to injury and death.

KEY SOCIAL, LABOUR AND COMMUNITY RISK/LIABILITY ISSUES

Labour standards

Labour standards are rules that govern working conditions and industrial relations. They may be formal, such as national level regulation and international agreements, or informal, expressed through norms and values. In general, developed countries have more robust labour standards than developing countries where the associated risks are higher. The commonly accepted rights and principles enshrined in the International Labour Organization (ILO) conventions are the right to collective bargaining, elimination of forced or compulsory labour, abolition of child labour and elimination of all forms of discrimination. In addition fair wages and working hours and acceptable working conditions should be expected.

Hotels commonly use migrant and temporary labour and hotel management should strive for best practice labour standards, but as a minimum should meet ILO principles. These labour standards should not just apply to the company's own employees but to all contractors and sub-contractors the hotel engages. In addition, labour standards should be expected to be enforced by key suppliers. For further information, refer to the International Labour Organisation (<http://www.ilo.org>)

Corruption and Bribery

The hotel and property development sectors are characterised in some parts of the world in

extreme cases by high incidences of corruption and bribery. Companies face reputation and legal risks where neglect of sound environmental and safety practices and standards, as a result of corruption, lead to environmental damage or injury and death.

Corruption and bribery practices are illegal in themselves and perpetrators therefore face the risk of legal actions, financial penalties and fines along with the loss of business licences and permits.

Anti-corruption and bribery policies as well as whistle-blowing procedures should be in place. Where the hotel company contracts to third parties in construction or building maintenance, clear anti-corruption and bribery clauses should be maintained as part of the contractual agreement.

Community engagement

Community engagement is important to maintain good relations with the communities within which the hotel operates. Apart from the environmental impacts of the company's operations on local communities, there are also significant social and economic impacts, which might be positive or negative. Hotels can significantly contribute to local economies when employment and procurement policies and practices (see below) are developed with local benefits in mind.

From a risk perspective, however, the larger the size of the company's operations (physical footprint, number of employees, turnover, trucking frequency etc.), the greater the need to engage with the community in order to protect the reputation of the firm and its licence to operate. Consultation should be undertaken in the selection of a particular site and in advance of construction especially if its operations are



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adjacent to sensitive land (for instance, land of cultural or biological significance). Please also see land rights guidance below.

Supply Chain

The supply chain impacts of a hotel may be quite significant with respect to environmental and/or social issues. Supply chain risks may include issues such as illegally sourced wood in construction, poor labour standards and over-exploitation of natural resources. Issues in the supply chain may be of greater concern than the direct risks and impacts of the hotel itself.

Hoteliers can face business disruptions through poorly managed supply chains. Where their suppliers do not incorporate environmental and social risks into their operations, they may be unable to effectively conduct business. Examples include business disruptions from labour issues and loss of licence due to environmental damage.

Sexual Exploitation

In certain regions of the world, both adults and children are subjected to commercial sexual exploitation. Hotels and other accommodation are often the places where sexual exploitation takes place, as well as acting as the hub for the growth of this illegal industry. Since the World Tourism Organisation (WTO) Statement on the Prevention of Organised Sex Tourism (1995) and the Stockholm Congress, other tourism industry organisations such as the International Federation of Tour Operators (IFTO) and International Hotel & Restaurant Association (IH&RA) have launched international campaigns to stamp out commercial sexual exploitation of children. Hotel management should ensure that its policies and practices are aligned to codes of conduct such as ECPAT's Code of Conduct for

the Protection of Children from Sexual Exploitation in Travel and Tourism.

OTHER SOCIAL, LABOUR AND COMMUNITY RISK/LIABILITY ISSUES

Land Rights

Land rights and land claims are contentious issues related to issues such as historical land use by local groups or tribes, unfair land purchase practices, and involuntary displacement of people and communities.

Prior to acquisition, hotel companies should evaluate existing land claims and the legal standing of the property they are acquiring.

Hotel companies should seriously consider the impact of acquiring land and property connected with the involuntary displacement of people and communities. For example, the removal of homeless people to allow hotel development and the acquisition of beaches used by local fishing communities. Where this is unavoidable, appropriate re-settlement and compensation arrangements should be made towards the affected parties.

FINANCIAL IMPLICATIONS

Regulatory Risks

Hotel companies may lose regulatory licences/permits if found to be negligent or failing to meet environmental and health and safety standards. They may also face fines or penalties. Hotel companies also face compliance costs associated with increasingly stringent regulations with respect to environmental and social standards. Please see the Improvements section below.

Litigation

Failure to manage environmental, health & safety risks to meet regulatory or legal obligations, and/or negligence causing harm can result in litigation. This may be brought by individuals, communities, customers or government and can significantly reduce the asset value of a company or site.

Remediation

Site contamination may result in hotel companies being held responsible for costly site clean-up. Businesses should conduct pre-acquisition environmental impact assessments to avoid unforeseen liabilities and costs.

IMPROVEMENTS

The environmental, health & safety improvements needed at a given hotel will depend on the country, site location, surrounding environmental sensitivity, and the type of operations and activities conducted on site.

Hoteliers can implement improvements to better manage the environmental and social aspects of their business. Examples of such improvements are given below;

Environmental, Health and Safety

- Specify minimum environment, health and safety procedures and standards during the construction upgrade and operation of a hotel development.
- Conduct regular environmental, health & safety audits to identify and manage risks across a hotel portfolio.
- Review the hotel portfolio for necessary building improvements and energy efficiency

upgrades in line with or ahead of legislative requirements, for example energy-efficient lighting system. Consider certification schemes such as BREEAM (Building Research Establishment Environmental Assessment Method).

- Restrict detergent use via towel re-use notices in guest bathrooms.
- Where asbestos is present, obtain and record detailed information on the condition of the property and develop an asbestos management plan setting out how exposure will be prevented. Remove the asbestos, using licensed contractors, where necessary/feasible.
- Where there is Legionella exposure risk (for example where there are cooling towers or significant water systems), assess the level of risk and implement protective measures where needed (such as biocide treatment).
- Review fire protection measures across the hotel portfolio and where appropriate upgrade fire fighting procedures and equipment.
- Explore how to reduce logistics related carbon dioxide emissions through distribution efficiencies.

Social, Labour and Community

- Consult the local community prior to major construction, land conversion or other activities that may impact community quality of life and environment.
- Ensure fair working hours and a minimum age of workers.
- Ensure fair wages in line with national law and sector standards, including for temporary and migrant labour.

- Develop a policy on ethical procurement to ensure that there are no labour standard violations in the supply chain.
- Ensure hotel management and security staff are adequately trained to identify and eradicate sexual exploitation.
- Include minimum labour standards in contracts for all third-party contractors working on-site. These standards should include provisions related to illegal, child and forced labour.

GUIDE TO INITIAL DUE DILIGENCE SITE VISITS

The issues and risks associated with a site will vary depending on factors including the type and size of the operation, site location, and the quality of management. However, due diligence visits should consist of a tour of the entire site.

When visiting the sites of potential borrowers or during loan supervision, financial intermediaries may wish to use the following suggestions to guide the initial due diligence process. However, note that this does not represent an exhaustive list of issues for consideration.

During the initial site visit to a hotel, it will be important to assess the following:

Environmental, Health and Safety

- What was the site used for prior to acquisition by the hotel company? This may reveal material environmental or social issues to be considered by the current management. For example, if the site was previously used by heavy industry, the land may be contaminated.
- Has the hotel company conducted pre-acquisition environmental and social impact assessments for all its sites? If these are

available, review them for any significant issues and follow up on progress by the company on any recommended remedial actions.

- Does the hotel have valid environmental, health and safety permits and licences to operate?
- Does the hotel company have appropriate property insurance, including coverage for climate related risks where relevant?
- Have there been any material incidents or stakeholder protests at or against any of the portfolio sites or the hotel company? How has the hotelier addressed these issues?
- Are there any outstanding environmental, health and safety fines or penalties in the hotel company's property portfolio?
- Identify environmental, health and safety information available for each hotel within a portfolio by contacting the local authority.
- Has hotel management assessed risks to the health and safety of employees and guests and put in protective measures where needed?
- Have the portfolio sites been inspected recently (within the past 2 years) by the regulatory authorities for health, safety and environment?
- Check for signs of ground contamination from chemicals stored and used at the site (e.g. chlorine for swimming pools and diesel for standby generators), for example looking for stained earth/concrete, dead vegetation near storage containers and production areas, the integrity, condition and age of storage tanks and assess the age and integrity of the drainage system;
- What is the standard of housekeeping on the portfolio site? Do areas look clean and tidy?

Look for evidence that the walking and working surfaces are kept clean and dry;

- Check signage around the site. Does it convey the health and safety risks? Are the fire exits clearly marked?

Social, Labour and Community

- Check that the hotel company's working conditions are of adequate quality – working areas not cramped, ready access to drinking water, areas well lit.
- Check that the hotel company's employee hours worked, including overtime, are recorded. Staff should receive written details of hours worked and payment received.
- Check that there are no illegal labour practices such as child or forced labour, prevention of the right to collective bargaining, discrimination (by interviewing a sample of the workers if possible). Employees of the hotel company should also be free to form, or join, a worker's organization of their choosing.
- Check that the hotel company has policies in place regarding bribery, corruption and whistle-blowing.
- Check whether the hotel company has a business code of conduct.
- Has the hotel company received inspections from the local labour inspectorate in the previous three years? Have these resulted in any penalties, fines, major recommendations or corrective action plans?
- Does the hotel company have a grievance mechanism which allows employees to raise workplace concerns?

ACTION PLANS

Any lending or investment should take place within the context of Environmental and Social Action Plans, which should have clear timescales and roles and responsibilities established for each action point. Typically, plans include:

Environmental, Health and Safety

- Conduct an environmental, health & safety pre-acquisition and divestiture audits on all hotel holdings.
- Maintain accurate and comprehensive information on the environmental status of all hotels owned.
- Ensure compatibility between the site sensitivity and proposed operations.
- Implement an environmental management system certified to a recognised standard such as ISO 14001.
- Implement a carbon management strategy to monitor and reduce energy use and carbon emissions.
- Implement a waste management plan incorporating a waste reduction programme to reduce solid waste generation and improve waste disposal, materials storage, materials handling and emergency response procedures;
- Develop formal environmental, health and safety policies.
- Maintain a schedule to track training given to workers and managers on safety policy and procedures.
- Develop Key Performance Indicators (KPIs) for environmental, health and safety

measures with monitoring, reporting and target setting.

- Ensure hotels are maintained in a good state of repair, and that land holdings are managed in compliance with the national legislation on conservation and land management issues.

Social, Labour and Community

- Design and communicate an appropriate code of business conduct that considers concerns of key stakeholders (shareholders, employees, government bodies, NGOs).
- Implement a process to assess labour and human rights conditions for contractors, sub-

contractors, and workers associated with supply chains of key suppliers.

- Design a robust and on-going community engagement process that enables measurement and reporting on impacts (positive and negative) on local communities.
- Consider measuring and communicating wider socio-economic impacts (job creation, infrastructure development) – for example using the WBCSD Measuring Impact Framework.
- Ensure the hotel's policy clearly states the hotel's position with regards to sexual exploitation.



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REFERENCES AND ADDITIONAL SOURCES

Issue/Body	Link
Environmental standards in buildings - BREEAM	http://www.breeam.org/
Code of Conduct for the Protection of Children from sexual exploitation (ECPAT International)	http://www.ecpat.net/EI/Publications/CST/Code_of_Conduct_ENG.pdf
Energy Efficiency in buildings (European Commission)	http://ec.europa.eu/energy/efficiency/buildings/buildings_en.htm
Inter-governmental Panel on Climate Change	http://www.ipcc.ch/
Environmental, health and safety guidelines (International Finance Corporation (IFC))	http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_Tourism/\$FILE/Final+-+Tourism+and+Hospitality+Development.pdf
International Hotel & Restaurant Association	http://www.ih-ra.com/
International Labour Organisation	http://www.ilo.org/global/lang-en/index.htm



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Issue/Body	Link
Transparency International	http://www.transparency.org/
UNEP, Montreal Protocol	http://ozone.unep.org/
Energy Efficiency in Buildings (World Business Council for Sustainable Development)	http://www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MjYyODg
World Tourism Organisation	http://www.unwto.org/index.php