



TOURISM EXECUTIVE BRIEF

January/February - 2007

CARIBBEAN TOURISM ORGANIZATION (www.onecaribbean.org)

INTRODUCTION

With only a few weeks left in a winter season which began with such early promise, it's time to take our first look at the 10 major issues and trends that we identified as critical to regional tourism in the last edition of the Brief. We attempt to quantify their impact thus far on the state of business and start with six of the most important using the same headlines for easy cross-referencing. The remaining four will be covered in the next issue.

1. THE US ECONOMY – SOFT LANDING OR RECESSION?

The optimism of the majority of leading economists who predicted a soft landing for the US economy in 2007 back in December received something of a jolt in late February when stock markets around the globe took a sudden and severe tumble. The Dow Jones industrials dropped over 416 points in one day following four days of smaller losses and on the heels of a nearly 9% drop in the Shanghai Composite Index only a day after China's share prices hit a record close. Other factors weighing on the US market were a downward revision in the 4th quarter GDP results, a disappointing report on durable goods orders, and remarks by former Fed Chairman Greenspan to the effect that a U.S. recession was possible by year-end. Not all the news was bad, however; on the same day that stocks went into freefall, The Conference Board Consumer Confidence Index, which had been only marginally up in January, reached a five-and-a-half year high in February with upbeat expectations for the labor market.

This was followed only days later by a gloomier report from the Reuters/University of Michigan survey. However, the Michigan report pointed out that falling consumer confidence was almost entirely in lower income households which we have pointed out previously are the most vulnerable in this economy. Current Fed Chairman, Bernanke, has also downplayed Greenspan's comments, telling Congress that the US economy is fundamentally sound and that he expects growth to continue but at a slower rate. In fact, the downward revision to 2.2% growth for the final quarter of 2006 was more in line with the Fed's earlier projections and their expectations for most of this year. The bottom line, at least for now, is that the market was overdue for a correction according to most analysts and that no single trigger was responsible for the big sell-off. Individual investors have been advised not to panic and there were short-lived signs of a rally of modest proportions. Certainly investors are much more resilient today and given the high levels of consumer confidence about the economy among our target income groups, they are unlikely to button up their pocket books and wallets entirely when it comes to discretionary spending.

The Dollar

The dollar has declined further against the euro amid concerns that the European Central Bank will raise interest rates while the Fed seems likely to freeze or even lower rates in the US. Meanwhile, sterling has also been stronger after a recent report which showed that the UK economy expanded faster than expected in the final quarter of 2006. The Bank of England is likely to hike its rate another quarter point at its May meeting. The current exchange rates which are hovering around \$1.32 to the Euro and \$1.95 to the pound have not significantly changed above recent levels to further impact trans-Atlantic travel,

already a tremendous bargain for Europeans and a headache for North Americans. Having said that, the surprise is that early returns show that tourist numbers from the US to the Caribbean and other warm-weather destinations unaffected by exchange rates have been weaker than expected this winter (perhaps because of the above-normal temperatures prevailing for most of January) while the European Travel Commission claims significant gains in January for most countries in Europe in spite of the sky high costs for visitors spending dollars.

2. THE PRICE OF OIL – WHERE IS IT HEADED?

Crude oil prices have again been highly volatile and ended February at a two-month high contributing to the stock market slide. Iran's intransigence in the face of US sanctions over its refusal to curb its nuclear ambitions and the nationalization of foreign company oil assets in Venezuela are major reasons for rising prices together with the belated arrival of very cold weather in the US and diminishing gasoline and home heating oil and gas inventories. As Spring approaches, prices will hopefully stabilize again.

Saudi Arabia has now confirmed its reduction of one million barrels a day from last Summer's output but Oil Minister, Ali Naimi, says there should be no need for further cuts when OPEC meets again on March 15 in Vienna.

Meanwhile, the airlines have been moving to increase fares and sharply reduce the availability of capacity-controlled promotionals to offset their higher fuel bills wherever competitive pressures will permit. We can expect the cost of air transportation to and within the Caribbean region to go up again.

Alternative Energy Sources

We mentioned previously that the US is seeking a big increase in ethanol production and that sugar cane is a more efficient crop than corn in the conversion process. We saw this as a good opportunity to revive the sugar industry in the Caribbean. Now we see that the US and Brazil are wrapping up a major agreement to promote the production and use of ethanol from sugar cane throughout Latin America and the Caribbean. The agreement should lead to the spread of Brazil's well-developed technology and manufacturing equipment for ethanol production throughout the region. President Bush was scheduled to meet with Brazil's President Lula da Silva in Sao Paulo in early March to complete a memorandum of understanding calling for cooperation between the two countries on research and common standards for bio-fuels. Brazil's own direct exports of ethanol reached record levels in 2006 and it has the highest usage of ethanol for its automobiles anywhere in the world.

3. THE PASSPORT ISSUE – HOW BIG AN IMPACT?

The jury is still out on this one as early results trickle in just a few weeks since the new regulations took effect. One thing is reasonably certain, though certainly puzzling, that popular winter destinations which are not affected by the passport requirement like Hawaii, Puerto Rico, Southern Florida and the USVI do not appear to be benefiting. The cruise industry which is also unaffected is having a very soft season and is moving inventory elsewhere (see details below.) On the other side of the coin, European business in January was substantially up and tour operators specializing in more exotic itineraries such as Morocco, Turkey and long-haul South America are reporting sold-out departure dates in Spring and Summer. The largest wholesale/retail company for the Caribbean, Libgo, conducted a survey of all their retail agency locations in February. They found that big-city offices like those in New York and Philadelphia reported

no impact at all while small-town office managers said that some clients had to postpone their departures to obtain passports but nearly all rebooked for later dates.

4. **THE AIRLINE INDUSTRY – RETURN TO PROFITABILITY/MERGER FRENZY**

Members of a US Senate Committee on Commerce, Science and Transportation put at least a temporary damper on the consolidation and merger proposals sweeping the US airline industry when they expressed major concerns about a negative impact on consumers. The committee grilled senior airline executives in a three-hour hearing in January and they were particularly negative about US Airways hostile bid for Delta which was subsequently withdrawn. Congress cannot actually block proposed mergers but it became obvious after the hearing that consolidation of major carriers will face continued resistance from lawmakers concerned about the reduction of competition on fares and the potential loss of service to smaller communities.

In spite of this setback to the merger frenzy, the US airline industry remains in very dangerous shape, particularly if the price of oil climbs again, and regulators will have to face up to more U.S. carriers going out of business if they remain opposed to additional consolidation. Delta has assured its creditors that it won't rule out a merger with another airline more suited to its operations and route structure after it emerges from bankruptcy as expected in late April or early May.

Meanwhile, another possible merger candidate, Northwest Airlines, also prepares to emerge from Chapter 11 in June. The carrier has filed a post-bankruptcy business plan with a high equity value up to \$7.5 billion which would give its unsecured creditors a much higher debt recovery rate than experienced by creditors in other recent airline bankruptcies, including Delta and United. Northwest's business plan and growth expectations through 2010 concentrate heavily on international routes, particularly over the North Atlantic.

In still another odd development, Business Week magazine reported that AMR Corp, parent company of American Airlines, might be a possible takeover target of a group including British Airways and Goldman Sachs. The magazine quoted a proposed bid between \$9.6 billion and \$11.1 billion or up to \$52 a share. None of the principals would comment directly, but an AMR spokesman said that while it has lots of conversations, it never comments unless those conversations "result in substantial outcomes." In these tumultuous times, anything seems possible!

Other Airline News

- American Airlines and Expedia ended their squabble over the listing and sales of the airline's international fares as well as domestic first class and business class categories. For most of January and the beginning of February, Expedia.com had been selling only domestic coach tickets for American in a dispute that involved the relative economics of Expedia's handling of the airline's bookings through their two GDS vendors, SABRE and Worldspan.
- The legacy airlines are by no means alone in their drive to expand their long-haul international routes. It is now 25 years since Sir Freddie Laker finally grounded Skytrain after the first attempt by any budget carrier to challenge the supremacy of the big established airlines in the all-important trans-Atlantic market ended in failure. Unfortunately, Sir Freddie was ahead of his time. However,

the Economist has pointed out that a whole new family of low-cost operators is taking on the establishment on long-haul (over 6 hours) routes. Many of these newcomers are based in Asia like Hong Kong's Oasis which recently started service from that country to London and is planning to launch flights between Hong Kong and the US this Summer. This could be interesting to Caribbean tourism interests looking at the China market. The Oasis model, like several low-cost entrants on the Atlantic including EOS, Silverjet, MaxJet and L'Avion is focusing on the upscale market by offering business class seats and premium service at a price well below fares for similar service offered by the legacy airlines.

We can't leave the subject of low-cost carriers without a look at the very successful Canadian carrier, WestJet. This airline began life 11 years ago and it has established itself as a clear choice to Air Canada with 30% market share in Canada. WestJet is based in Calgary and operates a 63 all-jet fleet to 38 destinations in Canada, the US and the Bahamas. WestJet has been consistently profitable for all but one year since it started operation in 1996. It has modeled itself to a large extent on JetBlue offering many of the service "perks" of that airline including seatback television screens. In fact JetBlue founder, David Neeleman, is an investor and director for WestJet. This carrier sees its major growth opportunities in cross border international operations and we hope to see an expansion beyond Florida and the Bahamas into the Caribbean region in the near-term.

5. THE CRUISE INDUSTRY OUTLOOK FOR THE CARIBBEAN THIS YEAR

The 2007 Wave season has been less than successful according to executives from the major cruiselines including Carnival and Royal Caribbean. Royal Caribbean's CEO, Richard Fain, told investors early in February that the outlook for the first half of 2007 was disappointing which led to a substantial drop in the cruiseline's share values. Fain said that their higher-end cruise product in Europe was performing well but pricing and bookings for the Caribbean were weaker than forecast. Many cruise-specialist agencies also report slower cruise business for the Caribbean with bookings for Alaska and Europe showing stronger percentage increases.

The shift in cruise business began in 2006 when Norwegian Cruise Line's CEO Colin Veitch, noted there was less demand for lower-price winter cruises in the Caribbean than for premium-price summer cruises in Alaska and Europe. It has sparked big moves in the location of homeports and in marketing investments. The most significant of these is an increase in capacity of ships sailing between European ports. Royal Caribbean has announced that its newest megaship, the 3,600-passenger Independence of the Seas will sail in Europe from Southampton after its debut in May 2008. The vessel will be the largest ship ever to be based in Europe. Already this year, Royal Caribbean will have 21% of capacity, including its Celebrity and Pullmantur brands, sailing in Europe.

Following Royal Caribbean's lead purchase of Spanish cruise line Pullmantur last November, Carnival has signed a letter of intent to form a joint venture with Orizonia Corp to operate the Iberojet Cruceros cruise line which currently has two ships, the 1,196 passenger Grand Mistral and the smaller Grand Voyager. Carnival's CEO, Mickey Arison, calls the Spanish market "one of the fastest growing segments of the European vacation industry." The joint venture will be 75% owned by Carnival and is expected to expand its fleet over the next few years. In still another development, Holland America Line is returning to its roots by opening a sales and marketing office in Rotterdam, Netherlands in almost the same

location where Holland America began life 134 years ago.

Like the others, HAL's move is seen as supportive of the rapidly growing cruise market in Holland and the rest of Europe.

Other Cruise News

- The Holland America division of Carnival is selling off its Windstar Cruises brand to Ambassadors International Inc for \$100 million. Windstar operates three unique steel-hulled luxury sailing ships including the 312-passenger WindSurf. The three ships operate in the Caribbean and Costa Rica in the Winter and shift to Europe for the May to November period. Ambassador International is based in California and is mainly known for its extensive river cruise operations in the US. Ambassadors' chairman, Joe Ueberroth, says it plans to complete overhauls on these vessels started by Holland America and run similar itineraries. The transaction is expected to close in April subject to expected Federal Trade Commission approval.
- A low-cost development in New York City which should be of interest to Caribbean countries attempting to increase local provisioning is being undertaken by the city's Economic Development Corporation. The EDC is publishing an extensive directory of qualified New York City distributors which will be given to the 15 cruise lines currently operating at terminals in Brooklyn and Manhattan. The government agency has issued a Request for Qualifications for food and beverage suppliers who wish to be included in the directory. Those firms must meet general guidelines and criteria used by the cruise lines for purchasing decisions. According to the International Council of Cruise Lines statistics for 2005, the most recent available, the cruise industry spent about \$500 million in direct purchases for New York sailings but much of the food and beverage provisions needed were purchased in other states and trucked in so there's a lot at stake, no pun intended.

6. GLOBAL HOTEL INDUSTRY TRENDS – THEIR RELEVANCE

- According to Smart Money magazine, the latest trend in the hotel business is a shift away from the family-oriented movement that has dominated many resorts in recent years. Properties in the US and the Caribbean are building adults-only wings and adding no-kids-allowed features like pools, beach and bar areas.

In Aruba, for example, the Renaissance Aruba Resort and Casino has split itself in two with the Marina Hotel, fitness room and spa, becoming off limits for the under-age set. The giant Atlantis resort complex in The Bahamas which has heavily promoted family vacations in the past is joining in with a brand new upscale hotel within the property designed for adults without children. Similar developments are happening in California, Bermuda, Florida and Vermont. Of course, we note that Sandals was there long ago with its couples-only resorts!

- AAA which is known for its coveted Diamond ratings for hotels and restaurants is introducing user reviews for hotels written by AAA members and non-members on its Websites this year.

AAA has previously utilized member-written reviews of cruise lines with a requirement that reviewers had booked their cruise through AAA to ensure their legitimacy. Now AAA has

opened its websites to non-members and members alike including the opportunity to review hotels and cruise lines on-line without the need to book through the club.

Bogus hotel reviews can be a serious problem and several travel sites including priceline.com and Expedia's TripAdvisor are cracking down on fake online consumer reviews. Priceline.com's CEO says they have discovered instances where insiders have put reviews up for a particular hotel in the guise of consumers but were actually written by someone paid to make the property look good. This is a major issue given the size of the online travel markets. Expedia's site alone carries more than 5 million reviews and they claim that 97% of reviewers return to TripAdvisor to plan their next stay. Priceline.com says it only allows users to post opinions if its records indicate that person has actually stayed at the hotel.

POSTSCRIPT

A breakthrough agreement has been reached between negotiators for the European Union and the United States which would eliminate virtually all existing restrictions on trans-Atlantic air routes and have a significant knock-on effect for the Caribbean. The Paris accord, which will be submitted to European transport ministers on March 22, will allow European member airlines to fly into US points from any country in the 27-nation bloc. Current agreements permit trans-Atlantic departure cities only in the country of origin of the carrier. At the same time, most restrictions would be lifted on US carrier operations to UK/Europe including allowing more airlines to fly into London's Heathrow, currently limited to American and United.

The new open-skies agreement would be a giant step forward towards increasing service and lowering fares in a market that already represents around 60% of international air traffic according to IATA's figures.

The agreement requires Congressional approval which is expected and would take place on October 28 this year. EU Transport Commissioner, Jacques Barret, said that the US had also agreed in principle to a change which would permit increased ownership rights by EU investors in US airlines.

<p><u>BARBADOS</u> One Financial Place Collymore Rock St. Michael, Barbados Tel: 246-427-5242 Fax: 246:429-3065 ctobar@caribsurf.com</p>	<p><u>NEW YORK</u> 80 Broad Street, 32nd Floor New York, NY 10004 USA Tel: 212-635-9530 Fax: 212-635-9511 ctony@caribtourism.com</p>	<p><u>LONDON</u> 22 The Quadrant Richmond Surrey, TW9 1BP, England Tel: +44-208-948-0057 Fax +44-208-948-0067 ctolondon@caribtourism.com</p>	<p><u>CANADA</u> 2 Bloor Street West, Suite 2601 Toronto, Ontario Canada M4W 3E2 Tel: 416-935-0767/1-866-997-0096 Fax: 416-935-0939 ctotoronto@caribtourism.com</p>
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Tourist (stop-over) Arrivals and Cruise Passenger Visits in 2006						
Destination (Stop-Over)	Tourist Arrivals			Cruise Passenger Visits		
	Period	Tourists	% Change 2006/05	Period	Cruise Passengers	% Change 2006/05
Anguilla	Jan-Oct	58,527	18.8	-	-	-
Antigua & Barbuda *	Jan-Dec	253,669	3.4	Jan-Sep	304,569	-2.3
Aruba	Jan-Dec	694,372	-5.2	Jan-Dec	591,474	7.0
Bahamas *	Jan-Oct	1,276,377	0.5	Jan-Oct	2,509,263	-6.4
Barbados	Jan-Dec	563,189	2.9	Jan-Sep	351,574	-11.5
Belize	Jan-Dec	247,204	4.5	Jan-Dec	656,638	-18.0
Bermuda	Jan-Dec	298,962	10.9	Jan-Dec	335,874	36.1
Bonaire	Jan-Dec	63,552	1.6	Jan-Dec	61,844	54.3
British Virgin Islands ^p	Jan-Dec	356,271	5.7	Jan-Dec	443,987	-1.1
Cancun (Mexico) **	Jan-Dec	1,586,942	-25.6	-	-	-
Cayman Islands	Jan-Dec	267,257	59.3	Jan-Dec	1,930,136	7.3
Cuba ^p	Jan-Dec	2,220,567	-4.3	-	-	-
Curacao	Jan-Dec	234,370	5.5	Jan-Dec	321,551	16.4
Dominican Republic *	Jan-Dec	3,965,055	7.4	Jan-Sep	231,990	3.0
Grenada	Jan-Dec	118,490	20.6	Jan-Dec	218,838	-20.4
Guyana	Jan-Dec	113,474	-2.7	-	-	-
Haiti	Jan-Jul	59,800	2.5	Jan-Sep	318,874	18.4
Jamaica	Jan-Dec	1,678,905	13.5	Jan-Dec	1,315,333	15.8
Martinique ^p	Jan-Dec	502,053	3.7	Jan-Dec	95,812	3.0
Montserrat	Jan-Dec	7,963	-17.8	-	-	-
Puerto Rico **	Jan-Nov	1,353,963	1.5	Jan-Nov	1,164,622	0.1
Saba	Jan-Dec	11,012	-3.9	-	-	-
St. Eustatius	Jan-Jun	5,236	-1.2	-	-	-
St. Lucia	Jan-Dec	302,510	-4.9	Jan-Dec	359,593	-8.8
St. Maarten *	Jan-Dec	467,804	0.0	Jan-Dec	1,438,211	-3.4
St. Vincent & the G'dines	Jan-Dec	97,432	2.0	Jan-Dec	106,474	53.4
Suriname	Jan-Mar	34,887	-6.3	-	-	-
Trinidad & Tobago	Jan-Jun	232,743	-1.0	Jan-Apr	62,897	63.9
US Virgin Islands	Jan-Dec	671,362	-3.7	Jan-Dec	1,901,275	-0.6

* Non-Resident Air Arrivals

** Non-Resident Hotel registrations only

- No Cruise Figures are Reported

^p Preliminary figures

n.a. Figures not available

N.B: Figures are subject to revision by reporting countries

SOURCE - Data supplied by member countries and available as at March 8, 2007