Caribbean Regional Sustainable Tourism Development Programme

Project No. 8 ACP RCA 035

FINAL REPORT: CARIBBEAN AIR TRANSPORT STUDY

FOR CARIBBEAN TOURISM ORGANISATION - LOT 1 RESEARCH CAPACITY

26 July 2006
Caribbean Regional Sustainable Tourism Development Programme

Project No. 8 ACP RCA 035

FINAL REPORT: CARIBBEAN AIR TRANSPORT STUDY

FOR CARIBBEAN TOURISM ORGANISATION - LOT 1 RESEARCH CAPACITY

26 July 2006

© PA Knowledge Limited 2006

Prepared by: Ian Bertrand
Air Transportation Consultant

PA Consulting Group
123 Buckingham Palace Road
London SW1W 9SR
Tel: +44 20 7730 9000
Fax: +44 20 7333 5050
www.paconsulting.com

Version: 4.0
**TABLE OF CONTENTS**

1. **Executive Summary** 1-1  
   1.1 APPROACH TO THE STUDY 1-2  
   1.2 SITUATIONAL ANALYSIS 1-3  
   1.3 INTERNATIONAL ‘OPEN SKIES’ AGREEMENTS 1-4  
   1.4 INTRA-REGIONAL ‘OPEN SKIES’ 1-5  
   1.5 STRENGTHENING THE DOMICILE AIRLINES 1-5  

2. **Introduction** 2-1  
   2.1 OBJECTIVE OF THE STUDY 2-1  
   2.2 APPROACH TO THE STUDY 2-2  

3. **Situational Analysis** 3-1  
   3.1 THE CONCEPT OF RISK MITIGATION 3-1  
   3.2 CURRENT STATUS OF RISK MITIGATION 3-1  
   3.3 CARIFORUM AIRLINES 3-3  
   3.4 NON-CARIFORUM CTO MEMBERS 3-3  

4. **Optimising the Liberalisation Mechanism** 4-1  
   4.1 THE LATIN AMERICAN/CARIBBEAN EXPERIENCE 4-2  
   4.2 INTERNATIONAL ‘OPEN SKIES’ 4-2  
   4.3 THE CARIFORUM STATUS 4-3  
   4.4 INTRA-REGIONAL ‘OPEN SKIES’ 4-4  

5. **Strengthening the Domicile Airlines** 5-1  
   5.1 RECOMMENDATIONS 5-1  

**Appendices**

**APPENDIX A:** Preliminary Report - The Current Aviation Environment in the Caribbean A-1  
**APPENDIX B:** Interim Report No 1 - Assessment of the Air Transport Sector in CARIFORUM B-1  
**APPENDIX C:** Study of Critical Issues Affecting the Regional Air Transport Sub-Sector C-1  
**APPENDIX D:** Caribbean Regional Airlines - Functional Cooperation Study D-1  
**APPENDIX E:** Caribbean Air Transport Services Symposium E-1  
**APPENDIX F:** Building Tourism Resilience in Small Island Developing States F-1  
**APPENDIX G:** Caribbean Air Transportation Sustainability Study G-1  

**LIST OF ACRONYMS**
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECS</td>
<td>Organisation of Eastern Caribbean States</td>
</tr>
<tr>
<td>RASOS</td>
<td>Regional Aviation Safety Oversight System</td>
</tr>
<tr>
<td>SIDS</td>
<td>Small Island Developing States</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom of Great Britain and Northern Ireland</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
</tbody>
</table>
1. **EXECUTIVE SUMMARY**

The main objective of The Caribbean Air Transport Sustainability Study (The Study) is to ‘assist the region in rationalizing international and intra-regional air transport as a means of ensuring the sustainable development of the tourism sector’. This has been translated to ‘how to develop and maintain regional airlift capacity consistent with the sustainable development of the tourism sector’. The study was undertaken as part of the Research & Development component of technical assistance provided to the Caribbean Tourism Organisation (CTO) and implemented by PA Consulting Group, under the Caribbean Regional Sustainable Tourism Development Programme (CRSTDP), which is administered by the CARIFORUM Tourism Programme Unit (CTPU) and financed by the European Union (EU).
1. Executive Summary

1.1 APPROACH TO THE STUDY

The approach to The Study, as approved by the CTO Board of Directors, sought to mitigate the historical implementation inertia of the region (formal approval of the report but failure to implement). It was agreed that an attempt to gain stakeholder commitment would be the core component of the approach to the Study using the mechanism of regional workshop(s). Further, the final report would be marketed (as opposed to mere submission) by the CTO to the validating stakeholders across the region.

Given the interest of the World Bank in assisting primarily the Organisation of Eastern Caribbean States (OECS) countries in developing sustainable aviation policies, it was agreed that there be a joint approach to The Study with the common objective being the ‘provision and presentation of policy advice to the respective regional governments on reliable, safe and affordable value-for money air service, which would be provided cost effectively and consistent with medium and long-term economic development objectives’.

The adopted approach placed emphasis on effective consultation. Meetings were held with key aviation officials in four (4) CARICOM countries, namely Antigua & Barbuda, Barbados, Jamaica and Trinidad & Tobago. A regional symposium for aviation stakeholders that attracted thirty-seven (37) persons, representing CARIFORUM countries, regional airlines and regional organizations, was jointly hosted by the World Bank and CTO/CRSTDP on June 1st and 2nd 2006 in Barbados. Additionally, Vincent Vanderpool-Wallace, Secretary General, CTO; McHale Andrew, CTO/CRSTDP Research & Development Adviser; and Ian Bertrand CTO/CRSTDP short-term Air Transportation Consultant, participated in the Small Island Developing States (SIDS) Tourism Conference held in the Bahamas in early June 2006 where some of the key findings of the study, among other related issues, were presented and discussed. Finally, a presentation of findings, conclusions, concepts and draft recommendations was made to CTO Ministers of Tourism at their annual meeting in New York on June 15th 2006.

In summary the broad views of the regional stakeholders were:

- Liberalisation of international air transport policy was generally accepted and is practiced albeit to different degrees across CARIFORUM. However, many of the states currently believe that any further benefits of ‘open skies’ agreements were outweighed by the resulting minimal ability to influence competitive behaviour of airlines
- ‘Community of interest’ airline designation should be an integral part of any ‘open skies’ agreements
- Countries that were shareholders in regional airlines were committed at present to the continued existence of these airlines as instruments of
1. Executive Summary

Regional socio-economic development and believed that the current benefit/cost was positive despite the endemic losses of these airlines. These countries were however open to strategies that would improve the operational benefit/cost of the airlines.

1.2 SITUATIONAL ANALYSIS

The Caribbean countries have applied to varying degrees (and with varying degrees of success) traditional risk mitigation mechanisms, viz:

- Diversification of airlift sources i.e. **liberalised air service agreements/practices** (but with the Caribbean focusing on international air service)
- Ownership of airlift capability i.e. **domiciled airlines**, preferably through private sector funding (but in the Caribbean usually through public sector funding)

In a number of countries there is a sense of conflict between these two (2) mechanisms.

Only a minority of CARICOM states practices the ownership mechanism. These airlines have provided support to the tourism sector in CARICOM at significant and consistent financial loss. These airlines have however never been effectively capitalised and they have not been able to generate major cost savings due to diseconomies of scale arising from their own relatively small size and that of their market. Their current public sector owners have nevertheless decided to keep them functioning, as instruments of socio-economic development notwithstanding the continuing financial losses.

In summary, to date:

- All members of CARIFORUM are committed to liberalisation of international air service agreements with two (2) extending this to ‘open skies’
- Four (27%) are committed to ownership of airlines providing international service even though such service may be very limited
- Three (20%) are committed to ownership of airlines providing regional service even though such service has been limited to the Eastern Caribbean
- Ten (67%) are committed to a somewhat liberal intra-regional air service agreement that is de facto confined to the Eastern Caribbean.

Given the raison d’être for The Study and the current realities, the fundamental issues to be examined are how to:

- Optimise the value of the diversification of air services (liberalisation including ‘open skies’)

1-3

Caribbean Regional Sustainable Tourism Development Programme 28/7/06
1. Executive Summary

- Strengthen the CARICOM domiciled airlines so that they can provide the sustained quality of service that the tourism sector needs.

1.3 INTERNATIONAL ‘OPEN SKIES’ AGREEMENTS

There has been gradual liberalisation of the CARIFORUM air service environment, both international and regional, over the years yet, as the need for The Study shows, there is some discomfort with its ability to ensure sustained airlift capacity for the tourism sector.

The only step to go beyond the status quo in CARICOM is the adoption of ‘open skies’ but there is a marked reluctance by a number of countries to so do. Caribbean countries wish to retain ultimate control, even though in some current agreements in force the reality is the appearance of ultimate control, over pricing. The fear is that pricing could be used as a weapon to create monopolies. This fear is more pronounced among countries that exercise the ownership mechanism.

By way of example, it must be noted that Chile and its major airline LAN have been strong proponents of ‘open skies’ agreements (probably even more so than the USA) and LAN has prospered in this environment. LAN is a properly capitalized non-low cost carrier (LCC), with a customised business plan and effective market-driven management operating in a strong demand environment. It provides a high level of service and controls its costs. It generates record profits in the current high fuel environment at a time when the US legacy airlines and some of the key LCCs have been very unprofitable. LAN’s management is on record that ‘open skies’ is beneficial to it. ‘Open Skies’ gives it the freedom to find the optimum mix of destinations to fly. COPA and TACA in Central America have had similar experiences. Moreover TACA was the result of the application of functional cooperation to a number of loss-making airlines seeking to benefit from economies of scale.

1.3.1 Recommendation

It is recommended that CARICOM countries proceed to negotiate ‘open skies’ agreements with the USA using the Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) Agreement as a model and incorporating the ‘community of interest’ designation for those CARICOM airlines whose host countries are party to such Agreements. The principles used by the USA to regulate domestic predatory pricing issues can form the basis of negotiation for the inclusion of similar procedures in the ‘open skies’ agreements.

Given the contentious nature of this recommendation the CARICOM Ministers of Transport should be encouraged to meet during the 4th quarter of 2006, or as soon as possible thereafter, to review this report and at that meeting Jamaica, Chile and Panama be invited to share their experience in:

- Negotiating ‘open skies’ agreements with the USA.
1. Executive Summary

- Managing such agreements to ensure both the sustainability of international airlift and improvements to the operations of their domicile airlines.

Following that meeting, the countries of CARICOM, as sovereign states, can decide whether and when they wish to proceed with implementing ‘open skies’ agreements.

1.4 INTRA-REGIONAL ‘OPEN SKIES’

The current CARICOM Multilateral Air Services Agreement (MASA) is in reality confined to the Eastern Caribbean. The less liberal ACS version is yet to come into effect. The current MASA does not now conform to the requirements of the Revised Treaty of Chaguaramas – it is not liberal enough and must be amended. But how far should the liberalisation go?

It must be noted that the aviation corollary to the CSM would be ‘open skies’. Indeed the concept of ‘open skies’ goes hand in hand with the single markets of the USA/Canada and Europe.

1.4.1 Recommendation

It is recommended that the CARICOM MASA be amended to an ‘open skies’ agreement based on the MALIAT model but retaining designation of CARICOM airlines only. The target completion date for this revised Agreement should be December 31, 2006. The Agreement should allow for the CARICOM Competition Commission to have jurisdiction over unfair competition disputes. This will ensure full compliance with the Revised Treaty of Chaguaramas. It will also signal to the international community that the Caribbean wishes to apply to itself that which it may be prepared to negotiate with the international community.

1.5 STRENGTHENING THE DOMICILE AIRLINES

An analysis of Caribbean airlines indicates that they are generally under-capitalised and that they lack economies of scale, inclusive of demand. A review of successful airlines indicate that they are well capitalised, operate in an environment of high demand and enjoy economies of scale. It is also generally recognised that endemic loss-making airlines are unable to provide the sustainable high quality of service that tourism economies need. Since the owners of these airlines want them to contribute effectively to the socio-economic development of the tourism-driven economies of the Caribbean, it is incumbent on them to provide the environment and tools to give the airlines a reasonable chance of success.

1.5.1 Recommendation

The recommendations presented in this section take account of these realities and are focused on the public sector controlled airlines. It is important to stress that
the recommendations be treated as a cohesive whole and not be cherry-picked.

i. Improving Demand

The core demand for airlift capacity is driven by the extent to which the tourism product is of quality and relevant to the defined target markets. Creating this demand is a function of the tourism sector and the policies of the governments of the Caribbean, including those that own the airlines. In addition, demand is boosted by:

- Giving increased focus to intra-regional and multi-destination tourism
- Maintaining the International Aviation Safety Assessment (IASA) Category 1(Cat 1) status of the domicile airline countries and encouraging those other countries that are Cat 2 to achieve Cat 1 in the shortest time possible.
- Adopting ‘open skies’ regimes across CARIFORUM for intra-regional and international service.
- Improving hub airport-client country relations, *(see ‘Hub & Spoke’ Systems below)* thus facilitating service and encouraging demand to countries without airports capable of handling passenger jet service.

ii. Generating Economies of Scale

Responding to increased demand requires expansion of the operations of the airline thus providing the potential for internally generated economies of scale. Further, economies of scale can be generated by pursuing:

- Functional cooperation among the domicile airlines
- Strategic alliances with international airlines – preferred over regional functional cooperation by Caribbean airlines- even though *the two (2) mechanisms are not mutually exclusive.*

iii. Hub & Spoke Systems

Airlines adopt ‘hub & spoke’ systems as one mechanism for creating economies of scale when it is in their interest to do so. However, passengers tend to prefer same plane non-stop service unless the price premium for such service is significant, loyalty programmes are not available or flight times are grossly inconvenient. When operated efficiently ‘hub and spoke’ systems can be of financial benefit to airlines and of service benefit to passengers. When operated inefficiently, which is all too easy to do, these systems can significantly increase the operating costs of an airline and its hub airport and be powerful disincentives for passengers to use the airline. LCCs tend not to adopt ‘hub and spoke’ systems.

In the Eastern Caribbean the effective adoption of ‘hub and spoke’ systems can:
1. Executive Summary

- Facilitate service to low demand generating islands
- Allow such islands to attract international visitors without the capital and operating expense of providing airports capable of supporting trans-continental service
- Generate increased service for the hub airports thus allowing capital and operating costs to be spread across a larger number of flights.

This strategy demands a more effective level of planning at both the developmental and operational phases of the hub airport(s). It requires a higher level of on-time performance by the participating airlines for inter-airline connecting systems (e.g. BA/LIAT), and a greater degree of trust among them for the effectiveness of their security systems. It also needs more efficient support systems at the hub airport(s).

Most of all there must be a sea change in behaviour, overcoming the negative impact of separation by water and sovereignty. Given the current status of the hub airports at Antigua and Barbados, the Transport Ministers of the OECS countries, Barbados and Trinidad & Tobago should convene a meeting in October 2006, if not sooner, to determine whether they wish to adopt this sea change in behaviour. If the decision is positive this meeting should be followed immediately thereafter by one comprising the various airport authorities and the airlines serving the Eastern Caribbean to advance and implement the concept.

iv. Proper Capitalisation

This is probably the area of greatest challenge to owners of CARICOM airlines, whether public or private sector. For government owners, the competing demands for limited funds have continually constrained their ability to adequately capitalise their airlines. Yet it is necessary if the airline has to make reduced (preferably none) on-going demands on the public purse and achieve its service mandate of providing sustainable high quality service at acceptable prices to customers.

It appears that the World Bank, the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) have all recognised the importance of effective airlift capacity to the socio-economic development of the Caribbean region.

It is therefore recommended that on the basis of credible business plans that have been subject to thorough scrutiny, the development financial institution(s) lend the government owners the funds to provide proper equity capital for the airlines, such loans to be repaid from the government ticket taxes collected from the airlines. It must be emphasized that the funds will be loaned to the shareholder government (s) and not directly to the airlines.

v. Maintaining a Commercial Culture

In order to maintain the commercial drive within the respective government-owned airlines it is recommended that:
1. Executive Summary

- The airlines be mandated to develop a financially viable business plan meeting agreed criteria; board and management will be judged against that plan.

- To the extent that the shareholder(s) wish additional flights to be performed the level of funding and the related service expectations will be agreed and once again board and management will also be judged against this agreement.

It is expected therefore that the airlines would seek competent market-driven management and that tenure and compensation of all staff would be performance based.
This Caribbean Air Transportation Sustainability Study (The Study) has been undertaken as part of the Research and Development Component of technical assistance provided to the Caribbean Tourism Organization (CTO), and implemented by PA Consulting Group, under the Caribbean Regional Sustainable Tourism Development Programme (CRSTDP). The CRSTDP is administered by the CARIFORUM Tourism Programme Unit (CTPU) and financed by the European Union (EU).

Although the client is the CTO, the Terms of Reference (TOR) of The Study specifically state that the “Caribbean” is restricted to those member countries of CARIFORUM, which are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad & Tobago. Further, the TOR suggests that it would be more practical to focus the intra-regional aspects of the study on the Eastern Caribbean sub-region of CARIFORUM (comprising Antigua & Barbuda, Barbados, Dominica, Grenada, Guyana, St. Kitts/Nevis, St. Lucia, St. Vincent & the Grenadines, and Trinidad & Tobago) plus Jamaica and then apply its conclusions, where feasible and with necessary adaptations, to the wider Caribbean.

It should be noted that all but one of the member countries of CARIFORUM and all of the states of the Eastern Caribbean sub-region are full members of CARICOM. Therefore whether intentional or not this Study essentially has CARICOM as its geographic focus.

2.1 OBJECTIVE OF THE STUDY

The TOR state that the main objective of The Study is to ‘assist the region in rationalizing international and intra-regional air transport as a means of ensuring the sustainable development of the tourism sector’. This has been translated to ‘how to develop and maintain regional airlift capacity consistent with the sustainable development of the tourism sector’. It is assumed that each Caribbean country has determined the components and scope of its own sustainable tourism sector and therefore is able to shape the general recommendations of The Study to meet its own specific needs.

In addressing this objective the TOR raises a number of issues to be reviewed including the following:

- Low Cost Carriers (LCCs) and their relevance to the region
- Air Transportation cost structures in the region
- Government subsidies
- Hub & Spoke operations in the Eastern Caribbean
2. Introduction

- The CARICOM Multilateral Air Services Agreement (MASA)
- Open Skies Agreements of regional countries with the USA
- Consideration of previous studies
  - The 2001 ‘Study of Critical Issues affecting the Regional Air Transport Sub Sector
  - The 1993 Caribbean Regional Airlines Functional Cooperation Study

2.2 APPROACH TO THE STUDY

The approach to The Study, as approved by the CTO Board of Directors, sought to mitigate the historical implementation inertia of the region (formal approval of the report but failure to implement). It was agreed that an attempt to gain stakeholder commitment be the core component of the approach to the Study using the mechanism of regional workshop(s). Further, the final report would be marketed (as opposed to mere submission) by the CTO to the validating stakeholders across the region.

The interest by the World Bank in assisting primarily the OECS countries in developing sustainable aviation policies influenced the detail but not the structure of the approved approach.

2.2.1 Collaboration with World Bank on Conduct of Study

In January 2006 the CTO/CRSTDTP and the World Bank exchanged information and following discussions, agreed on a joint approach to the study of air transportation in the region but with separate final reports consistent with the separate mandates of the two (2) organisations. Further, it was agreed that, for logistical and current airline ownership/domicile reasons, the geographic focus of the joint approach would be the Eastern Caribbean (OECS, Barbados, and Trinidad & Tobago) and Jamaica, with initial concentration on those countries and then application and adaptation of the lessons and conclusions, if possible, to the wider Caribbean.

The World Bank was interested primarily in the reform agenda for regional air services policy and regulation but shared the concerns of the CTO’s proposed study for the issues relating to (a) support for regional carriers, (b) ensuring air access for all countries at affordably priced airfares, (c) airport infrastructure and regional cost structures, and (d) rationalising hub and spoke operations.

The common objective of the joint approach would be the provision and presentation of policy advice to the respective regional governments on reliable, safe and affordable value-for money air service, which could be provided cost effectively and consistent with medium and long-term economic development objectives.
2. Introduction

2.2.2 Desk Research

Apart from its own desk research covering the key issues identified in the TOR of The Study, the CTO/CRSTDP had access to further desk research conducted by the World Bank and its consultants covering:

- Demand, supply and fiscal analyses of current regional air transportation markets
- Specialised examinations of relevant issues and comparative analyses of air transportation regimes in other regional destinations
- Case studies of tourism performance and nature of international air service agreements (ASAs) in Aruba, Bahamas and Barbados

Two reports have been presented to date. The first was submitted on October 09, 2005 and focused on the approach to the Study, an analysis of the Study TOR and the core characteristics of the LCCs. It recognized that the LCC strategy was not a panacea for airline success and that indeed many LCCs had failed across the globe.

The second report, “An Assessment of the Air Transport Sector in CARIFORUM”, was submitted on April 17, 2006. This report covered an overview of CARIFORUM air transport, the state of its competitiveness and the implications of the findings for the proposed regional workshop. It addressed the financial and operational status of the major CARIFORUM airlines, international and regional regulatory air transport policy of the CARIFORUM states and the level of air transport integration and coordination in CARIFORUM.

These reports are included as Appendices ‘A’ and ‘B’ to this report. The review of the 2001 report forms Appendix ‘C’ and that of the 1993 report Appendix ‘D’. These reviews found that to a very large extent the concepts and strategies of both reports were still valid today. Detailed recommendations however needed to be updated to ensure consistency with the current operations of the regional airlines.

2.2.3 Consultations

The World Bank and CTO/CRSTDP consultants conducted a series of stakeholder visits beginning in February 2006 apprising key officials, including regional airline CEOs and senior personnel, on the approach to The Joint Study, getting their views and input on same, and gathering information on the key issues to be dealt with in The Study. Countries visited were Antigua & Barbuda, Barbados, Jamaica and Trinidad & Tobago.

i. The World Bank/CTO/CRSTDP Symposium

As part of the consultation process, the World Bank and the CTO held a stakeholder/air transportation experts’ symposium on June 01 – 02, 2006, aimed
at getting reliable information, views and (hopefully) support of those stakeholders on the findings of The Joint Study. The symposium focused on (i) policy issues, including air services agreements, tourism and economic development; and (ii) regional airlines including ownership challenges and choices for governments.

Thirty-seven (37) persons attended representing seven (7) Caribbean countries, Antigua and Barbuda, Barbados, Dominican Republic, Grenada, Guyana, Jamaica and Trinidad and Tobago, four (4) regional airlines, Air Caraibes, BWIA, Caribbean Star and LIAT and seven (7) regional organizations, Association of Caribbean States, CARICOM Secretariat, Caribbean Development Bank, Caribbean Hotel Association, Caribbean Tourism Organisation, Eastern Caribbean Civil Aviation Authority and Eastern Caribbean Central Bank.

The primary objectives of the symposium were to:

- Present progress achieved and tentative conclusions reached on regional air transport services emanating from the complementary work streams of the World Bank and CTO/CRSTDP
- Share new information and the results of new analyses carried out on the issues
- Interact with and listen to the views of key Caribbean stakeholders on the issues and how they might be resolved
- Discuss the possible solutions that could apply in the changing global and regional environment
- Build support for some of the key changes in policy that need to be undertaken and
- Devise appropriate implementation strategies for change.

ii. The SIDS Bahamas Tourism Conference

In addition CTO/CRSTDP took advantage of the June 07 – 09, 2006 conference ‘Building Tourism Resilience in Small Island Developing States’ sponsored by the Bahamas Ministry of Tourism, United Nations World Tourism Organisation, United Nations Environment Programme/Global Programme of Action, and University of the West Indies to consult further with regional stakeholders.

A panel chaired by McHale Andrew, CTO/CRSTDP Research & Development Adviser and comprising Vincent Vanderpool-Wallace, Secretary General, CTO, Dr. Jean Holder, Chairman LIAT/ former Secretary General, CTO and Ian Bertrand CTO/CRSTDP short-term air transportation consultant addressed the topics ‘Managing a Tourism Organisation in a Dynamic Industry’ and ‘The Role of Local and Regional Airlines in Building Tourism Resilience: The Open Skies Agreement and the Maintenance of Regional Airlift Capacity’.
The conclusions of the conference are to be published.

*** \textit{The CTO Ministers’ Caucus} ***

The caucus took place on June 15, 2006. Limited time was available for the presentation of the conclusions and recommendations of The Study. Concerns were raised about the relevance of The Study to the wider membership of the CTO and the need for ownership of airlift was emphasised by Ministers.

In summary the broad views of the regional stakeholders were:

- Liberalisation of international air transport policy was accepted and practiced to different degrees across CARIFORUM. However many of the states currently believe that any further benefits of ‘open skies’ agreements were outweighed by the resulting minimal ability to influence competitive behaviour of airlines
- ‘Community of interest’ airline designation should be an integral part of any ‘open skies’ agreements
- Countries that were shareholders in regional airlines were committed at present to the continued existence of these airlines as instruments of regional socio-economic development and believed that the current benefit/cost was positive despite the endemic losses of these airlines. These countries were however open to strategies that would improve the benefit/cost of the operation of the airlines.

The presentations made to the symposium forms Appendix ‘E’ to this report, that to the SIDS conference Appendix ‘F’ and that to the Ministers’ caucus Appendix ‘G’. The feedback at the symposium, the conference and the caucus, especially the points of disagreement, was stimulating and influenced the content of this final report.
3. SITUATIONAL ANALYSIS

The objective of The Study and the fact that a number of similar studies have been commissioned in the last fifteen (15) years indicate the importance of the topic and the dissatisfaction with the results to date. Both the geography and the economic structure of the Caribbean region demand effective airline service and the countries generally feel a strong sense of vulnerability in this regard. This vulnerability is greater in the tourism sector and therefore the Ministers of Tourism are aware of their on-going responsibility to market the recommendations for effective airline service to their cabinet colleagues.

3.1 THE CONCEPT OF RISK MITIGATION

The essential underlying requirement of this and previous studies is therefore to minimize if not remove this airlift vulnerability i.e. effective risk mitigation.

The Caribbean countries have applied to varying degrees (and with varying degrees of success) the traditional risk mitigation mechanisms, viz:

- Diversification of airlift sources i.e. liberalised air service agreements/practices (but with the Caribbean focusing on international air service)
- Ownership of airlift capability i.e. domiciled airlines, preferably through private sector funding (but in the Caribbean usually through public sector funding)

In a number of countries there is a sense of conflict between these two mechanisms. However, it must be emphasized that neither will be successful unless there:

- is demand to support the airlift capacity to the country (in this context the quality and relevance of the tourism product)
- are effective partnerships established between the tourism sector of the country and the individual airlines

3.2 CURRENT STATUS OF RISK MITIGATION

CARIFORUM, the focus of this study, is a grouping of fifteen (15) sovereign states that jealously guard such sovereignty. It comprises all of the full members of CARICOM, but Montserrat, together with the Dominican Republic. All members of the CARICOM Single Market (CSM) are members of CARIFORUM. All CARIFORUM members are part of the 32-member CTO.

Within CARIFORUM there are four (4) countries (27%) each of which has a domiciled public sector owned airline providing international service but with a heavy emphasis on service to the United States; indeed one (1) airline serves only
3. Situational Analysis

the Atlantic Seaboard of Florida. All four (4) airlines, Air Jamaica, Bahamasair, BWIA and Suriname Airways, provide limited intra-regional service.

One country, Antigua is the domicile of two (2) airlines providing regional service. One (1) of these is privately owned (Caribbean Star) and the other (LIAT) is substantially owned by three (3) regional governments. Both serve primarily the Eastern Caribbean.

Less than 50% of CARIFORUM is therefore committed to the ownership risk mitigation mechanism while all are committed to the diversification mechanism for international air service. Dominican Republic, generally recognized as the most successful stayover tourism destination in CARIFORUM, depends only on the diversification risk mitigation mechanism, thereby demonstrating that the ownership mechanism is not a necessary condition for the sustainable development of its tourism sector but that the quality and relevance of the tourism product is such a condition.

Only one country, Jamaica, is committed to full diversification, ‘open skies’ for international service, and to the ownership mechanism. Ironically it is also one of the few countries that has not to date signed the somewhat liberal CARICOM Multilateral Air Services Agreement (MASA). Since the MASA is limited to CARICOM members, Dominican Republic cannot participate in this Agreement. Given that:

- Membership in MASA is to date confined to members of CARICOM
- Bahamas, Jamaica and Montserrat are yet to sign the MASA
- St. Vincent (a significant shareholder in LIAT) and Suriname have signed but not yet ratified,
- There is no service by any of the regional airlines to Belize

The MASA is therefore defacto applicable only to the Eastern Caribbean membership of CARICOM.

CARICOM succeeded in getting the International Civil Aviation Organisation (ICAO) to support the principle of ‘community of interest’ for airline designation of airlines of countries in an economic grouping of developing states. In the Caribbean context, it applies, to date, only to full members of CARICOM. It can be requested by a CARICOM state but its applicability is not mandatory but voluntary on the part of the ‘other party’ in air service agreements. To date it has only been successfully implemented on a ‘case by case’ basis by some of those Eastern Caribbean member states of CARICOM that do not have a domiciled airline providing international service.

In summary, to date:

- All members of CARIFORUM are committed to liberalisation of international air service agreements with two (2) extending this to ‘open skies’
3. Situational Analysis

- Four (27%) are committed to ownership of airlines providing international service even though such service may be very limited
- Three (20%) are committed to ownership of airlines providing regional service even though such service has been limited to the Eastern Caribbean
- Ten (67%) are committed to a somewhat liberal intra-regional air service agreement that is de facto confined to the Eastern Caribbean

3.3 CARIFORUM AIRLINES

Only a minority of CARICOM states practices the ownership mechanism. These airlines have provided support to the tourism sector in CARICOM at significant, consistent financial loss. These losses have occurred pre- and post-liberalisation, pre-and post-9/11, whether private sector or public sector owned, through management with a previous record of success and through management without. Such financially challenged airlines do not have the capability to provide the sustained quality service that tourism economies need. Moreover, given the limited scale of their service, both international and regional, they at best provide the equivalent of limited airlift insurance cover at very high premia.

These airlines have however never been effectively capitalised and they have not been able to generate major cost savings due to diseconomies of scale arising from their relatively small size and that of their market. Further, the owners (whether public or private sector), board of directors and executive management of these airlines have consistently since 1993 refused to effectively participate in regional airline functional cooperation that would have gone some way to achieving some of the benefits of economies of scale. Their current public sector owners have nevertheless decided to keep them functioning, as instruments of socio-economic development notwithstanding the continuing financial losses.

Given the raison d’être for The Study and the current realities, the fundamental issues to be examined are how to:

- **Optimize the value of the diversification of air services (liberalisation including ‘open skies’)**
- **Strengthen the CARICOM domiciled airlines so that they can provide the sustained quality of service that the tourism sector needs**

The Dominican Republic, the non-CARICOM member of CARIFORUM, already practices ‘open skies’ on its international services and does not have any domiciled airlines.

3.4 NON-CARIFORUM CTO MEMBERS

An examination of seventeen (17) non-CARIFORUM members of the CTO (Anguilla, Aruba, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Cuba,
3. Situational Analysis

Curacao, Guadeloupe, Martinique, Montserrat, Puerto Rico, St. Barts, St. Eustatius, St. Maarten, Turks & Caicos, and U.S. Virgin Islands) indicates:

- Each has the tourism sector as a significant component of its economy
- Only one (6%) is a sovereign state and so the remainder would not have total control over their air service agreements but in a significant number of cases the controlling state supports ‘open skies’
- Only one (6%) is a full member of CARICOM but five (29%) are associate members
- Eleven (65%) are situated in the Eastern Caribbean
- All but one (94%) are committed to liberalisation of air service agreements with ten (59%) extending this to ‘open skies’
- Three (18%) have domiciled airlines providing international service and limited intra-regional service, two (2) of which are public sector owned. One (1) of these airlines flies internationally to the USA only; another is banned from flying to the USA.
- Two (12%) have between them three (3) domiciled airlines providing regional service focused on the Eastern Caribbean. Two (2) of the airlines are private sector owned and one (1) public sector owned.

American Eagle, based in Puerto Rico (a hub for US traffic to the Eastern Caribbean) and serving the Eastern Caribbean, has an effective capital structure and enjoys economies of scale from being part of a large airline, American Airlines, that has a strategic alliance with other international airlines (“One World Alliance”). It is consistently profitable. Aruba, which is heavily dependent on tourism and which refused to continue to support a loss making airline, negotiated an ‘open skies’ agreement with the USA and is generally considered to be able to conduct the sustainable development of its tourism sector; once again demonstrating that ownership of airlift is not a necessary condition of success. On the other hand, the Cayman Islands with tourism arrivals in 2004 totaling just 36% of Aruba’s arrivals and closer geographically to the USA, by far the major visitor generating market for both countries, insists that its endemic loss making Cayman Airways is crucial to its tourism sector.

When compared to the CARICOM members of CTO, these countries exercise less sovereignty, are more likely to exploit the diversification mechanism to include ‘open skies’ and are less likely to use the ownership mechanism. When the latter is used, the funding is more likely to be from the private sector. The Dominican Republic’s air transport policy is more akin to that of the non-CARICOM CTO members than it is to CARICOM’s.

Given this analysis, the recommendations of The Study will be of significance to the CARIFORUM states other than Dominican Republic (i.e. the full members of CARICOM) but should have some resonance among all the other CTO members.
4. OPTIMISING THE LIBERALISATION MECHANISM

There has been gradual liberalisation of the CARIFORUM air service environment, both international and regional over the years yet, as the need for The Study shows, there is some discomfort with its ability to ensure sustained airlift capacity for the tourism sector.

It must be emphasized that this mechanism will not work where temporarily there is no tourism product or where the product is poor. The impact of natural disasters can lead to no product and the inability to contain crime when trying to sell ‘paradise’ (as opposed to reality) would lead to a poor product. The failure of liberalisation to meet expectations should not fall on the mechanism but on the environment.

The only step to go beyond the status quo in CARICOM is the adoption of ‘open skies’ but there is a marked reluctance by a number of countries to so do. Caribbean countries wish to retain ultimate control, even though in some current agreements the reality is the appearance of ultimate control, over pricing. The fear is that pricing could be used as a weapon to create monopolies. This fear is more pronounced among countries that exercise the ownership mechanism.

The very comprehensive June 2006 InterVISTAS study entitled, “Economic Impact of Air Service Liberalisation”, sponsored by a number of institutions including IATA and the World Travel & Tourism Council, concluded that traffic growth resultant to liberalization of air services agreements between countries typically averaged between 12 percent and 35 percent, significantly greater than during the years preceding liberalization. In a number of situations growth exceeded 50 percent and in some cases reached almost 100 percent of the pre-liberalization rates”.

The report also states that, “an examination of 190 countries and 2000 bilateral air service agreements suggests that there are still a number of countries that place a priority on protecting their flag carrier (s) rather than enhancing the overall welfare of the broader public interest”.

Moreover, it is fully accepted by Caribbean States that sustainable development of the tourism sector in the Caribbean requires effective partnerships between that sector and airlines. Effective partnerships are based on trust, mutual benefit and a sense of welcome and openness between the partners. Air Service Agreements, though negotiated between countries, can be viewed as gateways facilitating ongoing access to the designated airlines of the signatory countries. An ‘open skies’ agreement, more than a mere liberal agreement, demonstrates that sense of welcome and openness to the airlines of the other party thereby creating a positive environment for effective and multiple airline partnerships.

In this regard it is interesting to note that Aruba, which lies deep in the Caribbean and has no large non-resident national market, has been able to attract the LCC
4. Optimising the Liberalisation Mechanism

Jet Blue to start service from the USA. Aruba has a highly demanded tourism product, an ‘open skies’ agreement with the USA and a USA immigration and customs processing facility at its airport.

4.1 THE LATIN AMERICAN/CARIBBEAN EXPERIENCE

But what has been the experience in Latin America and the Caribbean? The USA has ‘open skies’ agreements in force with the South American countries Chile and Peru, the Central American countries Costa Rica, El Salvador, Guatemala, Honduras (provisional), Nicaragua and Panama and the Caribbean countries Aruba and Netherlands Antilles. All but the two Caribbean countries have domiciled airlines providing both international and regional service.

To date there has been no such experience in the Caribbean since no country with a domiciled airline has implemented the ‘open skies’ regime. However it is to be noted that Chile and its major airline LAN have been strong proponents of ‘open skies’ agreements (probably even more so than the USA) and LAN has prospered in this environment. LAN is a properly capitalized non-LCC airline, with a customised business plan and effective market-driven management operating in a strong demand environment. It provides a high level of service and controls its costs. It generates record profits in the current high fuel environment at a time when the US legacy airlines and some of the key Low Cost Carriers (LCCs) have been very unprofitable. LAN’s management is on record that ‘open skies’ is beneficial to it. ‘Open Skies’ gives it the freedom to find the optimum mix of destinations to fly. COPA and TACA in Central America have had similar experiences. Moreover TACA was the result of the application of functional cooperation to a number of loss-making airlines seeking to benefit from economies of scale.

In Asia, Singapore Airlines also prospers in an ‘open skies’ environment. It is to be noted that while LAN is a private sector company, the Government of Singapore owns Singapore Airlines. In the Middle East, Emirates Airline based in Dubai and public sector owned also prospers, attracting pilots from the cash-strapped CARICOM airlines. One can conclude then that: It is not the nature of the ownership but the willingness to operate under commercial principles that matters.

4.2 INTERNATIONAL ‘OPEN SKIES’

Key Provisions of the USA international ‘open skies’ agreements include:

- No restrictions on international route rights, number of designated airlines, capacity, frequency or type of aircraft
- Double disapproval pricing and only for certain specified reasons intended to ensure competition
- Fair and equal opportunity to compete
4. Optimising the Liberalisation Mechanism

- Permission for cooperative marketing agreements such as code-sharing
- Provision for dispute settlement and consultation
- Choice by carriers to operate under the charter regulations of either country
- Observance of the highest standards of safety and security
- Optional 7th Freedom all-cargo rights

Those of the Multilateral Agreement on the Liberalisation of International Air Transportation (MALIAT) are similar. They include:

- An open route schedule
- Open traffic rights including 7th freedom cargo services
- Open capacity
- Designation based on effective control and principal place of business but protection against flag of convenience carriers
- Multiple airline designation
- Third-country code sharing
- Minimal tariff filing regime
- Retention of cabotage

A country can request to participate in MALIAT once it has acceded to the following international security agreements, the 1963 Convention on Offences and Certain other Acts Committed on Board Aircraft, the 1970 Convention for the Suppression of Unlawful Seizure of Aircraft, the 1971 Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation and the 1988 Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation.

Current signatories to MALIAT include Brunei, Chile, New Zealand, Singapore, Samoa, Tonga, and USA. The New Zealand Government is the depositary state for the Agreement. The text of the Agreement can be found on www.maliat.govt.nz/agreement. With the Agreement now in force, any state that is a party to the aviation security conventions listed above may accede to the Agreement by deposit of an instrument of accession with the Depository.

4.3 THE CARIFORUM STATUS

The Dominican Republic negotiated an ‘open skies’ agreement with the USA in December 1999. CARICOM attempted to negotiate a similar agreement as a
4. Optimising the Liberalisation Mechanism

group but negotiations have been suspended for lack of progress. The USA has since indicated that it wishes to negotiate separately with each country.

Since then Jamaica has negotiated an ‘open skies’ agreement that is still subject to ratification. It is understood that in that agreement the USA has agreed to recognise ‘community of interest’ designation of CARICOM airlines on a ‘case by case’ basis.

The OECS countries may still want to negotiate an ‘open skies’ agreement with the US as a group but it is not clear from our consultations that all members want to conclude this type of agreement. It is also apparent that Trinidad & Tobago, Barbados and Bahamas do not want to negotiate an ‘open skies’ agreement with the US in the near future.

4.3.1 Recommendation

It is recommended that CARICOM countries proceed to negotiate ‘open skies’ agreements with the USA using the MALIAT Agreement as a model and incorporating the ‘community of interest’ designation for those CARICOM airlines whose host countries are party to such Agreements. The principles used by the USA to regulate domestic predatory pricing issues can form the basis of negotiation for the inclusion of similar procedures in the ‘open skies’ agreements.

Given the contentious nature of this recommendation the CARICOM Ministers of Transport should be encouraged to meet in the 4th quarter of 2006 to review this report and at that meeting Jamaica, Chile and Panama be invited to share their experience in:

- Negotiating ‘open skies’ agreements with the USA.
- Managing such agreements to ensure both the sustainability of international airlift and improvements to the operations of their domicile airlines.

Following that meeting, the countries of CARICOM, as sovereign states, can decide whether and when they wish to proceed with implementing ‘open skies’ agreements.

4.4 INTRA-REGIONAL ‘OPEN SKIES’

The current CARICOM MASA is in reality confined to the Eastern Caribbean. The less liberal ACS version is yet to come into effect. The current MASA does not now conform to the requirements of the Revised Treaty of Chaguaramas – it is not liberal enough and must be amended. But how far should the liberalisation go?

It must be noted that the aviation corollary to the CSM would be ‘open skies’. Indeed the concept of ‘open skies’ goes hand in hand with the single markets of the USA, Canada and Europe. It is in effect in Central America and
4. Optimising the Liberalisation Mechanism

the South American countries are now pursuing it. Numerous studies have shown the positive impact of intra-regional ‘open skies’ regimes on countries in the same economic grouping. The most comprehensive to date, the June 2006 InterVISTAS ‘Economic Impact of Air Service Liberalisation’, determined that “the creation of the Single European Aviation Market in January 1993 led to an annual growth rate in traffic between 1995 and 2004 that was almost double the growth rate in the years 1990 to 1994, producing about 1.4 million new jobs”.

Further, pushed by the CTO secretariat, its members are now realizing the relative value of intra-regional tourism – it is no longer the ignored poor kin of international tourism. Its unit financial contribution is generally higher, its impact on Gross National Product (GNP) greater and it is more tolerant of natural disasters and issues such as crime. The regional visitor knows that the region is not ‘paradise’. Intra-regional tourism (and indeed the nascent multi-destination tourism) would respond positively to an ‘open skies’ environment.

4.4.1 Recommendation

It is recommended that the CARICOM MASA be amended to an ‘open skies’ agreement based on the MALIAT model but retaining designation of CARICOM airlines only. The target completion date for this revised Agreement should be December 31, 2006. The Agreement should allow for the CARICOM Competition Commission to have jurisdiction over unfair competition disputes. This will ensure full compliance with the Revised Treaty of Chaguaramas. It will also signal to the international community that the Caribbean wishes to apply to itself that which it may be prepared to negotiate with the international community.

Once the Agreement comes into force it can be open to accession by any full member of the CTO or the Association of Caribbean States.
5. **STRENGTHENING THE DOMICILE AIRLINES**

Given that the Dominican Republic currently has no airlines providing scheduled intra-regional or international service, the focus in this Study is on the airlines domiciled in CARICOM. The airlines in CARICOM are the international service airlines Air Jamaica, Bahamasair, BWIA and Suriname Airways and the intra-regional service airlines Caribbean Star and LIAT. Caribbean Star is private sector controlled while the others are controlled by the public sector – albeit reluctantly. All these airlines regularly lose money. Their owners firmly believe nevertheless that they should keep flying.

An analysis of Caribbean airlines indicates that they are generally undercapitalised and that they lack economies of scale, inclusive of demand. A review of successful airlines indicate that they are well capitalised, operate in an environment of high demand and enjoy economies of scale. It is also generally recognised that endemic loss-making airlines are unable to provide the sustainable high quality of service that tourism economies need. Since the owners of these airlines want them to contribute effectively to the socio-economic development of the tourism-driven economies of the Caribbean, it is incumbent on them to provide the environment and tools to give the airlines a reasonable chance of success.

It should be noted that Caribbean Star appears to be effectively capitalised and is attempting to generate economies of scale by expansion and by close functional cooperation with its sister airline Caribbean Sun. Air Jamaica, Bahamasair, LIAT and Suriname Airways continue to be poorly capitalised while BWIA may be about to be effectively capitalised. Certainly Air Jamaica, Bahamasair, and BWIA have had access to recent advice from consultants of international repute and are in the process of re-engineering. LIAT is in the process of re-defining itself as a low cost carrier, albeit while having to recognise that it has enhanced opportunity given the Category 1 status of the OECS to gain feed from international airlines serving the Eastern Caribbean. Generally, however, the requirements of proper capitalization lack of strong demand and diseconomies of scale remain. The lack of strong demand, worsened by the typical small island state characteristics of the region, reinforces the diseconomies of scale.

5.1 **RECOMMENDATIONS**

The recommendations presented in this section take account of these realities and are focused on the public sector controlled airlines. **It is important to stress that the recommendations be treated as a cohesive whole and not be ‘cherry-picked’**.

5.1.1 **Improving Demand**

The core demand for airlift capacity is driven by the extent to which the tourism product is of quality and relevant to the defined target markets. Creating this
demand is a function of the tourism sector and the governments of the Caribbean, including those that own the airlines. In addition demand is boosted by:

- Giving increased focus to intra-regional and multi-destination tourism since this demand can only be serviced by the Caribbean domiciled airlines

- Maintaining the International Aviation Safety Assessment (IASA) Category 1 status of the domicile airline countries and encouraging those other countries that are Category 2 to achieve Category 1 in the shortest time possible. These countries include Belize, Dominican Republic, Haiti, and Guyana. This graduation may be more easily effected if the concept of the ECCAA can be applied to CARICOM and preferably to CARIFORUM. The Revised Treaty of Chaguaramas requires the “implementation of uniform regulations and procedures in areas such as transport operations, safety, licensing and certification”. The Regional Aviation Safety Oversight System (RASOS) in which all CARICOM countries but Bahamas are members can be converted into this regional authority. With Category 1 across CARICOM/CARIFORUM the domiciled airlines will be able to fully exploit code-sharing opportunities with one another and with international airlines thereby increasing demand for their services.

- Adopting ‘open skies’ regimes across CARIFORUM for intra-regional and international service. This not only creates additional opportunities for the domiciled airlines since they are no longer route constrained but it also allows for the optimization of ‘community of interest’ designations since the ‘other parties’ would be more inclined to allow this form of designation if the country of domicile of the airline adopts the ‘open skies’ regime.

- Improving hub airport-client country relations, (see ‘Hub & Spoke’ Systems below) thus facilitating service and encouraging demand to countries without airports capable of handling passenger jet service. The regional service airlines will benefit from such an improvement since they are the ones that serve the client countries. The domicile international service airlines can also benefit to the extent that they too structure preferential marketing alliances with the regional service airlines.

### 5.1.2 Generating Economies of Scale

Responding to increased demand requires expansion of the operations of the airline thus providing the potential for internally generated economies of scale. Pursuing the following measures could further generate economies of scale:

- Functional cooperation among the domicile airlines; owners and managers of Caribbean airlines have generally not seen this concept as a useful component of airline re-engineering. Their formal position is that internal airline re-engineering must first take place before regional functional cooperation can be considered. The result of this approach is that (a) it never seems to happen (b) its contribution to internal re-engineering is at best reduced (c) it puts the staff of the airlines through two separate sets
of trauma. Its success has however been evident in Latin America and is being employed by Caribbean Star and Caribbean Sun in the Eastern Caribbean

- Strategic alliances with international airlines; this approach seems to be preferred over regional functional cooperation by Caribbean airlines even though the two (2) mechanisms are not mutually exclusive. The potential for these alliances is enhanced by the current Category 1 status of the host countries of the CARICOM airlines and can be further improved with both ‘open skies’ (allowing for more transfer airports) and improved hub airport-client country relations.

i. Hub & Spoke Systems

Airlines adopt ‘hub & spoke’ systems as one mechanism for creating economies of scale when it is in their interest to so do. However, passengers tend to prefer same plane non-stop service unless the price premium for such service is significant, loyalty programmes are not available or flight times are grossly inconvenient. Further ‘hub and spoke’ systems are complex logistical arrangements that place increased burdens on airline operations, especially the engineering and maintenance function, and subject airline schedules to increase adverse impact from forces outside the control of the airline e.g. weather and air traffic control delays.

Moreover ‘hub and spoke’ systems will accentuate the ‘peak and trough’ of service at the hub airport and may lead to a need for increased resources (higher costs) by the airport, the airline and ancillary support services (immigration and customs) that will only be used for relatively short periods of the day.

When operated efficiently ‘hub and spoke’ systems can be of financial benefit to airlines and of service benefit to passengers. When operated inefficiently, which is all too easy to do, these systems can significantly increase the operating costs of an airline and its hub airport and be powerful disincentives for passengers to use the airline. LCCs tend not to adopt ‘hub and spoke’ systems.

In the Eastern Caribbean the effective adoption of ‘hub and spoke’ systems can:

- Facilitate service to low demand generating islands
- Allow such islands to attract international visitors without the capital and operating expense of providing airports capable of supporting trans-continental service
- Generate increased service for the hub airports thus allowing capital and operating costs to be spread across a larger number of flights

This strategy demands a more effective level of planning at both the developmental and operational phases of the hub airport(s). It requires a higher level of on-time performance by the participating airlines and for inter-airline
5. Strengthening the Domicile Airlines

connecting systems (e.g. BA-LIAT) a greater degree of trust among them for the effectiveness of their security systems. It needs more efficient support systems at the hub airport(s).

Most of all there must be a sea change in behaviour, overcoming the negative impact of separation by water and sovereignty. It requires the hub airport to consciously recognise that it serves not only its host country but also its surrounding client countries and it requires the client countries in turn to recognise the hub airport as its own even though it is in another sovereign country. It may also require that the client countries contribute to the funding of the hub airport. In fact, it is all about the pooling of regional resources to the benefit of the regional community – an underlying principle of CARICOM. Success requires a rise above the parochial view, necessary in any case if the benefits of the CSM are to be optimized.

Given the current status of the hub airports at Antigua and Barbados, the Transport Ministers of the OECS countries, Barbados and Trinidad & Tobago should convene a meeting in October 2006, if not sooner, to determine whether they wish to adopt this sea change in behaviour. If the decision is positive this meeting should be followed immediately thereafter by one comprising the various airport authorities and the airlines serving the Eastern Caribbean to advance the concept.

5.1.3 Proper Capitalisation

This is probably the area of greatest challenge to owners of CARICOM airlines whether they are from the public or private sector. For government owners the competing demands for limited funds have continually restrained their ability to adequately capitalise their airlines. Yet it is necessary if the airline has to make reduced (preferably none) on-going demands on the public purse and achieve its service mandate of providing sustainable high quality service at acceptable prices to customers.

There is now an influential body of opinion that says that a CARICOM government-owned airline can be likened to a bridge. It is an analogy that has some merit if:

- An effective design is seen as a pre-condition to the proper construction of a bridge
- The effective design of the bridge is seen to be akin to a credible business plan
- The proper construction of the bridge is also recognised as being akin to the proper capitalisation of the airline
- International/regional financial institutions funding of infrastructure would apply to both bridges and airlines.
5. Strengthening the Domicile Airlines

It appears that the World Bank, the Inter-American Development Bank (IDB) and the Caribbean Development Bank (CDB) have all recognised the importance of effective airlift capacity to the socio-economic development of the Caribbean region.

It is also to be noted that government taxes are a significant portion of the passenger airfare and are therefore the antithesis of the low airfares that the tourism sector says it needs.

It is therefore proposed that on the basis of a credible business plan that has been subject to thorough scrutiny the development financial institution(s) lend the government owners the funds to provide proper equity capital for the airlines, such loans to be repaid from the government ticket taxes collected from the airlines. It must be emphasized that the funds will be loaned to the shareholder government(s) and not directly to the airline(s).

5.1.4 Maintaining a Commercial Culture

All too often, an environment of continuing government subsidies does not generate effective performance by staff thus leading to lack of creativity and drive. This in turn produces inefficient operations leading to reduced financial outturn. In order to maintain the commercial drive within the airline it is recommended that:

- The airline be mandated to develop a financially viable business plan that meets agreed criteria; board and management would be judged against this plan

- To the extent that the shareholder(s) wish additional flights to be performed the level of funding and the related service expectations would be agreed and once again board and management would also be judged against this agreement

- It is expected therefore that the airline(s) would seek competent market-driven management and that tenure and compensation of all staff would be performance based.
Appendix A
CTO/Caribbean Regional Sustainable Tourism Development Programme/World Bank

Preliminary Report
The Current Aviation Environment in the Caribbean

9 October 2005
CTO/Caribbean Regional Sustainable Tourism Development Programme / World Bank

9 October 2005

© PA Knowledge Limited 2006

Prepared by: Ian Bertrand
Air Transportation Consultant, CRSTDP
A.1 FOREWORD

The consultant, Ian Bertrand, Principal El Perial Management Studies, met with Mr. McHale Andrew, PA Research & Development Consultant/ Adviser at CTO/CRSTDP and Messrs Luther Miller and Arley Sobers of the Caribbean Tourism Organisation (CTO) on October 04, 2005 to discuss the most effective approach to the conduct of the assignment. This was deemed essential given the formal client approval of the recommendations of similar studies conducted over the period 1993-2001 but the subsequent failure to implement such recommendations.

At that meeting, the consultant also agreed to the request to prepare this preliminary report for submission to the CTO Board of Directors. The report is being prepared within the 1st week of the engagement and is by no means fully inclusive. It does however attempt to describe the current aviation environment in the region and identify some of the issues that need further discussion.

A.2 REMOVING IMPLEMENTATION INERTIA

If historical implementation inertia continues (formal approval of the report but failure to implement) this project would be another waste of financial and human resources. The consultant suggested therefore that gaining stakeholder commitment be the core component of the approach to the Study. The following has been proposed for approval by the CTO:

- recognise that while the project client is the CTO, the stakeholders with power to implement operate primarily outside of that organisation. Not all ministers of tourism have responsibility for air transport. Hence at the start of the Study, CTO and the consultant to jointly agree on the air transport sector stakeholders with national and regional influence that should participate in the Study.

- The consultant to prepare background and issue papers for discussion at stakeholder workshop sessions across the region. The topics to be covered in these papers will be agreed between the CTO and the consultant but should focus on issues on major contention in the region. At these workshops would be senior representatives from different countries and organisations. Participation would vary with the nature of the topics to be discussed. The breadth, level of representation and quality of participation at the workshops would be good indicators of commitment – a precondition for effective implementation. The expected outcome of these sessions would be development of agreed policies and strategies to advance the objective of this project.

- Marketing (as opposed to submission) of the report by the CTO to the validating stakeholders across the region.

If this approach is accepted, CTO member countries may wish to assist in facilitating these workshops. It is not expected that any of the workshops will exceed 1.5 days and can therefore be held over weekends so as to minimise diversion of the participants’ time. Given the use of weekends, it would be appropriate that the workshops be held in current Eastern Caribbean hub countries so as to facilitate efficient access.
A.3 STUDY OBJECTIVE

The overall objective of this Study as defined by the Terms of Reference (TOR) “is to assist CARIFORUM and CTO member countries in rationalizing their international and regional air transportation operations as a means of ensuring the sustainable development of their tourism sector”. For the review of international airline services that “Caribbean” is restricted to the member countries of CARIFORUM; for the intra-regional aspects of the Study the focus is on the Eastern Caribbean sub-region.

An analysis of the TOR of the Study reveals that the CTO has the following beliefs:

- there is a ‘best practices’ model for operation of the region’s air transportation sector and that this model is based on the essential characteristics of the Low Cost Carriers (LCCs).
- regional governments are forced to provide on-going financial support to both regional and external airlines and the role of government in ensuring adequate airlift into and within the region needs to be rationalized.
- the Caribbean’s economic and business interests are particularly vulnerable both to the decisions of external carriers and to the precariousness of regional airlines but the existence of regional airlines providing international service somewhat mitigates the overdependence of the region on external airlines.
- functional cooperation if not full integration of the operations of regional airlines can significantly improve the prospects for profitability.
- there should be a commonality and alignment of regional air transport taxes and infrastructure services’ prices paid by airlines and passengers with the need to stimulate increased international and regional passenger traffic
- a more effective ‘hub and spoke’ system for the Eastern Caribbean would reduce the cost of airline service

A.4 UNDERLYING STUDY ASSUMPTIONS

The consultant’s approach to the Study is underpinned by the following realities:

The provision of sustainable airline service, both regional and international, whether by external or regional airlines is primarily driven by competitive demand to visit. In the context of this Study this means that air service will be driven by ensuring the competitive quality and effective marketing of the regional tourism product, the effective diversification of the regional economy and the opportunities made available by the full implementation of the Caribbean Single Market and Economy (CSME). However these essential pre-conditions are outside the scope of this Study which focuses on supplementary but important requirements for sustainable airline service.

- People expect air transport, inclusive of taxes, to be the lowest cost component of a visit, regardless of purpose, hence airlines must be able to achieve be profitability at the lowest competitive cost for the type of service offered.
- Competitive demand to visit and effective affordable air transportation are mutually supportive but the starting point in the relationship is the competitive demand
Non-profitability is the common characteristic of the history of regional airlines regardless of ownership structure, previous management reputation and scope of operations (BWIA was once the de facto CARICOM regional airline albeit as a subsidiary of a state-owned airline British Overseas Airways Corporation).

Unprofitable airlines are incapable of providing sustainable high quality service or effectively diversifying the markets necessary for a sustainable tourism industry.

A national airline is not an essential pre-condition to a successful tourism industry within the Caribbean – witness Aruba, Anguilla, Barbados, Dominican Republic.

Of the fifteen (15) CARIFORUM countries only four (4) currently have regionally owned airlines providing international service, and of these two (2) provide service only to Florida. All are state owned.

Within the Eastern Caribbean, as defined in the TOR, there are five (5) airlines providing intra-regional service, two (2) are based in Antigua, two (2) in Puerto Rico and one (1) in Martinique. Only one (1) is state owned.

Proper capitalization is an essential precondition of a successful airline; regionally owned airlines have traditionally been significantly undercapitalized. At present, among the regionally owned airlines, only the proposed restructured BWIA so far is likely to approach proper capitalization.

The common characteristics of successful LCCs (there have been many failures in trying to establish such airlines) are proper capitalization and effectively meeting the core needs of both their passengers and their employees. From a passenger perspective, flying LCCs is now seen as the smart thing to do.

A.5 SUSTAINABLE INTERNATIONAL SERVICE

To emphasise, the essential precondition of sustainable international service to a country is the provision of competitive demand to visit that country.

A.5.1 External Airlines

That having been said, the Caribbean has traditionally been served by the now unprofitable, currently undercapitalized legacy carrier sector and by charters. The region is currently receiving increased international service from these external scheduled carriers, be they pre, post or in the process of being re-engineered. This increase in service is largely due to these airlines focusing on the more lucrative international service as they retreat from increased competition in their domestic markets by LCCs that are rapidly increasing market share in North America, Europe and now Latin America. Being legacy carriers their survivability, other than for those domiciled in Europe, is not readily assured. With the change in bankruptcy laws in the United States, later in October 2005 this is probably the last opportunity for these carriers to re-engineer themselves while being legally protected.

Even in service to the Caribbean these legacy carriers are beginning to face competition from the LCCs although constrained at this time to those Northern Caribbean countries with large VFR and tourism markets. It is expected however that as the North American based LCCs gain confidence in the provision of international service and as domestic competition among the LCCs increase, there will be further expansion across the
Caribbean thus impacting on the viability of Caribbean service by the legacy airlines. The major constraint may be the unwillingness of these LCCs to invest in aircraft fleets with ‘over water’ capability. (Aircraft with ‘over water’ capability are higher priced and have higher operating costs than aircraft that do not have this characteristic.)

In Europe there are a small number of LCCs providing transatlantic service to Latin America. With the significant Spanish investment in Jamaica’s tourism sector, it is expected that the Spanish LCCs will in time be flying to that country.

A.5.2 Regionally Owned Airlines

There are only four (4) regional airlines currently providing international service and all are part of the legacy airline sector. A fifth, Universal Airlines of Guyana, has evolved from a charter operator to a significantly undercapitalized LCC and has recently suspended service. Given the history of this sector and the current economic environment, it is highly unlikely that additional regionally owned airlines would be formed in the foreseeable future.

While the current four (4) are being restructured, apparently using the LCC model as a guide, two are still poorly capitalised (Air Jamaica, Suriname Airways), one is approaching proper capitalisation (BWIA) and the re-engineering of the last has been delayed, leading to doubts about the ability to arrange proper capitalisation (Bahamasair). Two of these airlines (Air Jamaica, Bahamasair) will be facing increased LCC and legacy carrier competition from their largest source markets from Winter 2005/06. LCC competition for BWIA and Suriname Airways that operate out of the Southern Caribbean will be muted since the LCCs do not currently have ‘over water’ resources. However BWIA will be facing increased legacy carrier competition. BWIA is likely to be the major competitor of Suriname Airways. It will be a significant feat for these airlines to achieve viability in this operating environment.

A.5.3 Impact of Fuel Prices

To compound matters, it is expected that while the current fuel prices will abate somewhat, the world economy will be entering a prolonged period of high fuel prices. This will have a negative impact on discretionary travel demand and the cost of inputs to the tourism and airline sectors. It will more likely make the legacy carriers inclusive of the four (4) regional airlines, even if re-engineered, less able to withstand the competition of the LCCs. Some will however survive and even prosper. The challenge will be to pick the likely winners and establish effective partnerships with them.

Higher fuel prices will also further reduce the ability of Caribbean governments to financially support or attract private sector investment to national airlines operating in a more competitive environment. The legacy carriers will therefore likely continue to demand support for specific services as they continue with risk adverse behaviour and once such support is provided then it would be expected that both the LCCs and the regionally-owned airlines would demand similar support.

In summary the sustainability of international air service is not readily assured in the medium-term unless regional governments and tourism stakeholders adopt pro-active policies.
A.5.4 A Possible Strategy – ‘Open Skies’

On the assumption that the governments and the tourism sector will be aggressively creating competitive demand, then the primary supplementary strategy for the provision of sustainable international service will be the creation of a highly competitive environment through the adoption of international ‘open skies’ policies. Governments and tourism authorities must ensure that the likely legacy airline survivors provide service to the region.

These policies must be extended to the regional airlines, taking advantage of the Community of Interest principles, and liberalised CARICOM and ACS Multilateral Agreements on Air Services. The likely contribution of an ‘open skies’ policy will need to be discussed in the stakeholder sessions.

A.5.5 Functional Cooperation

It is highly unlikely that the shareholder governments of the regional airlines providing international service will immediately close them. This will be an admission of the recent adoption of ineffective policies. The current re-engineering programmes will be allowed to continue for maybe a minimum of twenty-four months. Every effort must therefore be made to improve the chances of success of these programmes during this period while maintaining if not enhancing a competitive environment.

The regional airlines are all restructuring, using to different degrees the LCC model. Those that are poorly capitalized are less likely to be successful.

The one re-engineering strategy that these airlines refuse to adopt is functional cooperation in parallel with current efforts. Non-Caribbean airlines are turning more and more to this strategy. KLM and Air France have successfully done it; British Airways and American Airlines have just announced that they will once again seek regulatory approval for closer integration of operations. But the strategy continues not to appeal to the shareholders, boards of directors and members of executive management of Caribbean airlines. This non-acceptance is an issue that needs to be candidly addressed in one of the proposed project workshops.

A.6 SUSTAINABLE REGIONAL SERVICE

The primary providers of intra-regional service in the defined Eastern Caribbean sub-region are Air Caraibes, American Eagle, Caribbean Star, Caribbean Sun and LIAT. They are supported by the ‘forgotten’ providers of sub-regional service, the 3rd tier airlines that operate out of airports with short runways. Caribbean Star and Caribbean Sun have the same owner and Chief Executive Officer and practice a high degree of functional cooperation inclusive of operating a common aircraft fleet. From a service perspective they can be considered a single airline.

Air Caraibes serves primarily the French countries, American Eagle operates extensive ‘point to point’ service to countries in the sub-region out of San Juan, Caribbean Sun, based in Puerto Rico serves the northern part of the sub-region and Caribbean Star and LIAT both based in Antigua operate throughout the sub-region. Caribbean Star and LIAT are therefore the backbone of intra-regional service. The quick demise of Carib Express, EC Express and Helenair all point to the CARICOM Eastern Caribbean at this stage in its
A: Preliminary Report - The Current Aviation Environment in the Caribbean

economic development being able to support two (2) primary intra-regional airlines. This however does not mean that either Caribbean Star or LIAT has an inherent right to survival.

Both Caribbean Star and LIAT have traditionally lost money and despite being based on the same island and operating similar aircraft have refused to practice any level of functional cooperation. (Surely both airlines can share a common major maintenance base!) The result is that with the failure to implement collaborative competition, both airlines have higher cost structures than are necessary; this works to the financial disadvantage of taxpayers and customers.

Caribbean Star appeared to have somewhat lost its way over the last twelve (12) months but the recent appointment of a CEO for Star/Sun appears to be bringing a new focus to the airline. Capital continues not to be an issue.

A.7 LIAT

LIAT has now become very pro-active in the marketplace as it re-engineers itself with the support of its staff and using the LCC model, for survival and growth in a competitive environment. Unlike Star/Sun however capital continues to be a challenge to LIAT. However management and staff at LIAT have done much in recent times to gain shareholder confidence but more still needs to be done especially in this new high fuel price environment. Shareholders may therefore wish to adopt a positive approach to the proper capitalisation of the airline assuming an updated justification by its Board of Directors.

The most recent source of capital may once again be a viable option. Once completed however LIAT should be told that it is on its own with any additional capital having to be justifiable financially and to be sought from the private sector. With proper capitalization it is recommended that LIAT be seen as a company in which shareholders, who happen to be governments, have invested. To emphasise this point, this investment in LIAT should now be the responsibility of the Ministries of Finance in its shareholder governments.

A.8 THE ENABLING ENVIRONMENT

Eastern Caribbean Governments, through their air transport and tourism authorities have a responsibility to provide an enabling competitive environment for the airlines providing intra-regional service.

A significant contribution would be the acceleration of Category 1 status for the OECS countries. Much has now been accomplished but many deadlines have been missed. The required legislation has been passed in all member states but Dominica, which is expected to comply by the end of 2005. FAA pre-audits are being conducted and it is expected the last will be successfully conducted by the end of October 2005 leading to a recommendation for a final audit. With this timetable it is expected that the OECS will be granted Cat 1 status by the end of 1st quarter 2006 at the latest.

Achievement of Cat 1 status will facilitate code sharing between the intra-regional carriers and those providing international service including Air Jamaica and BWIA thus providing the opportunity for increased visitor arrivals to the OECS countries and increased passenger revenue for the regional airlines.
As the regional airlines fully internalize the reality that they are market driven and need to stimulate and respond to the market, it is imperative that they have full authority to quickly establish and adjust prices without being second guessed by persons who have no responsibility for airline financial performance. The relevant air services agreements and national policies should, where necessary, be adjusted to accommodate this requirement.

A.9 CORE CHARACTERISTICS OF SUCCESSFUL LCCS

Successful LCCs regardless of geographic location seem to have the following common characteristics:

- Proper capitalisation to facilitate lower prices and improved credit terms from suppliers and to provide a cushion to accommodate the vagaries of the airline business inclusive of fuel price hedging all of which lead to lower operating and financial costs and easier access to finance.

- Consistently meeting the core travel needs of a well-defined market. This leads to emphasis on excellent on-time performance, longer seat pitch in aircraft and point-to-point flights.

- Consistently meeting the needs of employees operating under liberal work rules and given related empowerment, with performance based contracts thus ensuring effective customer service and higher productivity.

- Employee compensation packages that minimise long term liabilities to the company thus leading to reduced overhead costs.

- Flattened organisation structures to facilitate easy interface between senior management and customers and to reduce overhead costs.

- A common fleet of new aircraft with wide seat pitch and updated in-flight entertainment systems. The common fleet of new aircraft allows for low maintenance costs and more efficient fuel burn; proper capitalisation allows for aircraft purchase discounts.

- Use of distribution systems that both encourage direct customer interaction and are low cost, thus leading to the use of internet based systems.

- Simplified low cost airfare structures that are non-refundable for the provision of core services together with a menu of prices for additional services thus removing the need for high cost, customer antagonistic administrative systems.

- Optimized outsourcing of operations other than finance and customer service but especially maintenance operations together with effective outsource management contracts and systems leading to lower operating costs, lower overheads and lower financial requirements.

- Preference for operating out of lower cost 2nd tier airports with shorter drive times for passengers.

- Focused on relatively short-haul service using aircraft that do not possess ‘over water’ capability.
These characteristics are the foundation upon which customized characteristics are developed by the successful LCCs to meet the specific needs of their identified markets. It will be seen that most of these characteristics apply to all successful airlines and are not unique to the LCCs. Successful non-LCCs such as LAN and British Airways are adapting most of these principles to their operations as they cost effectively provide value-added service to well defined market segment text here...
Appendix B
Interim Report No 1
Assessment of the Air Transport Sector in CARIFORUM
20 April 2006
CTO/Caribbean Regional Sustainable Tourism Development Programme / World Bank

20 April 2006

© PA Knowledge Limited 2006

Prepared by: Ian Bertrand
Air Transportation Consultant, CRSTDP

PA Consulting Group
123 Buckingham Palace Road
London SW1W 9SR
Tel: +44 20 7730 9000
Fax: +44 20 7333 5050
www.paconsulting.com
Version: 1.0
This interim report has been prepared to help inform the conduct of the workshop dealing with the Air Transport Sector in CARIFORUM. It is to be read in conjunction with the Preliminary Report of October 09, 2005 that was accepted by the CTO Ministers of Tourism. The paper recognises that CARIFORUM is:

- A grouping of micro and small sovereign countries subject to a relative lack of economies of scale with all but one, the largest, the Dominican Republic being members of CARICOM

- Characterised by separation by water other than the common borders between Guyana and Suriname in South America and Haiti and the Dominican Republic (which is separated by culture and a wide disparity in development) all of which seem to negatively impact cooperative attitudes and behaviour with respect to air transport

- A large geographic area, the distance between Suriname in South America and Belize in Central America is c.a. 2081 nautical miles or a flying time of c.a. 4hrs 20mins by jet aircraft.

- Regularly afflicted by hurricanes that adversely impact infrastructure, primary industries (tourism and agriculture) and already limited government resources

- Is heavily dependent upon air transport as the Year 2004 visitor arrival statistics in Appendix A shows

- In the early stages of implementing the CARICOM Single Market (CSM) and the CARICOM-Dominican Republic liberalized Trade Agreement
B.2 AN OVERVIEW OF CARIFORUM AIR TRANSPORT

From an air transport perspective, CARIFORUM may be divided into three (3) sub regions:

- North West comprising Belize, Bahamas (not a member of the CSM), Jamaica, Haiti, Dominican Republic
- East comprising Antigua/Barbuda, Montserrat, Dominica, St. Kitts/Nevis, St. Lucia, Barbados, St Vincent/Grenadines, Grenada, Trinidad/Tobago
- South comprising Guyana, Suriname, the only two (2) CARICOM countries that share a common border

All countries but Barbuda, Montserrat, Dominica, Nevis, St Vincent/Grenadines can facilitate direct international air service. Major airport hubs are Miami and Puerto Rico, outside of CARIFORUM and Barbados, Antigua within East CARIFORUM. Air Jamaica, as part of its recent restructuring programme, has significantly downsized its Montego Bay, Jamaica hub. The constraint of Puerto Rico as a hub is its limited service from Canada, UK and Europe.

As Appendix B shows, there is no direct service between Belize, Haiti and the remainder of CARIFORUM. Only the hubs, Antigua (60%) and Barbados (50%) had 50% and more of possible intra-CARIFORUM direct (same plane) service connections.

Appendix C broadly outlines direct international scheduled service to CARIFORUM countries with international airport facilities. All countries had service from the USA but only two (Dominican Republic and Trinidad) had service from South America.

There has been a drive to upgrade the airport infrastructure in CARIFORUM especially in Dominican Republic, Barbados, Jamaica (Montego Bay and soon Kingston) and both Trinidad and Tobago. Antigua and Bahamas expect to start major upgrades soon.

B.2.1 Regional Airlines

There are seven (7) regionally domiciled airlines, Bahamasair, Air Jamaica, Caribbean Star, LIAT, BWIA, Tobago Express and Suriname Airways (see Appendix D). An airline domiciled in the Dominican Republic, funded with German capital is expected to start operations in the near future. Six (6) of the current airlines are domiciled in countries that enjoy the FAA International Aviation Safety Assessment Programme (IASA) Category 1 status. (Suriname Airways is the only one that does not.) Five (5) of the airlines are public sector controlled and all are unprofitable. Only Caribbean Star, which is privately owned, is properly capitalized but it is expected that BWIA will soon be.

Two other airlines, Caribbean Sun and American Eagle, both domiciled in Puerto Rico, serve the Region and especially the former, are beginning to exploit 5th Freedom rights within the East CARIFORUM. Caribbean Sun is the sister airline of Caribbean Star. Amerijet, based in Fort Lauderdale, Florida is the primary air cargo carrier serving the region.

It should be noted that regionally domiciled airlines have been traditionally unprofitable whether owned by the public sector, private sector or a combination of both. Regional business persons, successful in other fields, have not to date been able to make these airlines profitable. The privatization wave of the mid-late 1990s, the assumed panacea for financial success for the individual national airlines, did not effectively capitalize the airlines, did not attempt to mitigate the lack of economies of scale and was in fact a failure.
B: Interim Report No 1 - Assessment of the Air Transport Sector in CARIFORUM. . .

There appear to be therefore fundamental structural problems with Caribbean regional airlines centred on poor capitalisation and the lack of economies of scale. The latter is demonstrated by very small home markets, acute seasonality of traffic, non-competitive aircraft costs and relatively high operating costs. The only comparative advantages are lower personnel costs and a higher level of cabin service.

Bahamasair: There was a recent, expensive, failed attempt to privatise Bahamasair, which is facing increasing competition from US based Low Cost Carriers, Spirit and Jet Blue. A new business model, drawing on the core characteristics of a Low Cost Carrier, was developed as part of the preparatory work for the privatization attempt. The airline is in the process of implementing this model.

Bahamasair has largely outsourced its domestic operations and flies to four (4) points on Florida’s Atlantic Coast (Miami, Ft. Lauderdale, West Palm Beach, Orlando) using vintage B-737 aircraft. Bahamasair code shares with USAir.

Air Jamaica: This airline has the most extensive network and the largest fleet of aircraft (A-320s and A-340s) among the regionally owned airlines. It flies to ten (10) destinations across the US, (Atlanta, Baltimore, Chicago, Ft. Lauderdale, Miami, Newark, New York, Orlando, Philadelphia) as well as to Toronto, London and three East CARICOM countries, namely Grenada, Barbados and St. Lucia. Air Jamaica code shares with Delta Airlines.

Within the last 15 months Air Jamaica has reverted to public sector ownership as the local private sector controlling shareholders were no longer willing to fund the on-going and increasing losses of the airline. Despite a recent restructuring based on a reduction of the operating schedule, losses further increased in the last financial year, far exceeding the US$30M annual support commitment of the Government of Jamaica. A new board and CEO have been appointed and a revised restructuring programme based on an expansion of the operating schedule is being developed.

Jamaica has enjoyed in the last twelve (12) months an increase in service largely from Legacy and Low Cost Carriers (LCC) based in the US in competition with Air Jamaica.

BWIA: Like Air Jamaica, the airline too has reverted to public sector ownership as the foreign and local private sector controlling shareholders refused to fund on-going losses. Government of Trinidad & Tobago (GOTT) support has comprised loan guarantees and limited equity injection pending the submission of a restructuring plan from its new board of directors comprising local businesspersons with successful track records. A new CEO has been appointed and is being assisted by external consultants in accelerating the completion of the restructuring plan. GOTT has committed to a recapitalization fund of US$250M once it approves the restructuring plan. This is expected in 2nd quarter 2006. This will be the first attempt to properly capitalize any regional public sector owned airline.

The airline uses a fleet of A340 and modern B-737 aircraft to fly to London, Manchester, three points in the US (Miami, New York, Washington), Jamaica, major UK supported Eastern Caribbean tourism destinations and Guyana. Most flights originate in Trinidad.

Suriname Airways: This small public sector loss-making airline flies to Amsterdam in a joint service with KLM, as well as to Miami, Curacao and, within CARICOM, to Trinidad.

LIAT: This airline, based in Antigua, serves primarily the Eastern Caribbean using a fleet of Dash-8 - 100s and 300s that needs a major replacement programme. It too has reverted to public sector ownership as regional private sector controlling shareholders have refused to fund on-going losses. Moreover the public sector shareholder has now been concentrated among three (3) countries, Barbados, Antigua and St Vincent and the Grenadines (a combined 77.7%)
as other government shareholders have adopted the same attitude as the private sector shareholders. The airline in late 2005 adopted an LCC strategy but initial implementation in the critical Christmas period was poorly executed, leading to significant market displeasure and creating a marketing opportunity for Caribbean Star, which the latter has exploited, given its much better capitalisation. LIAT is currently searching for a new CEO and a Chief Marketing Officer.

Caribbean Star: This airline is the major competitor to LIAT. It has not been profitable but is well funded by its single private sector shareholder, Allen Stanford. The airline is based in Antigua and also flies Dash-8 – 100s and 300s. Caribbean Star also has a new CEO who is also the CEO of Caribbean Sun. The airline is moving aggressively to take advantage of the opportunities presented by the OECS Cat1 achievement since it will allow code sharing at the Antigua, Barbados and Puerto Rico hubs.

Tobago Express: This airline is owned 49% BWIA and 51% Trinidad & Tobago private sector interests. It flies between Trinidad and Tobago using Dash-8 – 300 aircraft. It too has been generating losses; largely due to the signal reluctance of the Government of Trinidad & Tobago to increase airfares on the route despite a marked increase in fuel prices.

B.2.2 International Regulatory Policy

CARIFORUM countries, driven largely by tourism needs, operate de facto liberal international regulatory regimes. However their intra-regional regulatory regimes are more restrictive primarily with respect to market access, tariffs and traffic rights because the economic pressures for liberalization are significantly less.

While formal international air service agreements (ASAs) are not always in place in a number of the countries and licensing of airlines may be required, the underlying practical policy is to try to attract as many carriers as possible once international safety requirements are met. The designation and pricing policies are thus liberal and are not a constraint to international air access. The constraint is the competitive quality and sustainability of demand.

The CARICOM Secretariat has been coordinating a CARICOM regional approach to an ‘Open Sky’ ASA with the USA. A regional negotiating brief has been adopted but there was no consensus on a ‘model’ agreement. In the interim Jamaica further liberalised its existing ASA with the USA (although it has not yet been implemented) and recently the USA has signalled that it wishes to revert to the negotiation of bilateral ASAs with the CARICOM countries. The OECS countries however are still working with the CARICOM Secretariat in the pursuit of a multilateral agreement with the USA. The Dominican Republic manages its ASAs outside of this multi-lateral structure.

The liberal international regulatory posture and the aggressive stance of Ministers of Tourism to increase international airlift ensure a high degree of competition on international routes. Such service is determined by demand (especially demand for a country’s tourism product), comparative profitability of routes to CARIFORUM countries within the airline’s overall route network and the willingness of CARIFORUM countries to share (guarantee) route risk with airlines. Generally there is competitive scheduled service from the US but less so from the UK. Scheduled service competition is limited from Canada and Europe and to an even lesser extent from Central and South America.

B.2.3 Regional Regulatory Policy

Air services within the region are governed by bilateral ASAs, licensing regimes and the CARICOM Multi-lateral Air Services Agreement (MASA). These ASAs have restrictive pricing clauses that are not consistent with current airline marketing behaviour. Recently, however, the
countries, inclusive of Barbados, which historically operated the most conservative pricing regime, have given greater pricing flexibility to airlines providing intra-regional service.

There has been an attempt to try to establish CARICOM (as opposed to CARIFORUM) as a quasi-cabotage region, where service would be restricted to regionally owned and controlled carriers, but grandfather rights to international airlines and individual country international ASAs have diluted this objective.

The MASA entered into force on November 17, 1998 subject to the provision in Article 18 that “it shall not affect any bilateral, multilateral or other contractual agreement or arrangement; or operating licences or other documents evidencing similar authorization already in force between Member States or between a Member State and a non Member State”. The understanding is that contractual agreements or arrangements, which were already operational at the time of entry into force of the Multilateral Air Services Agreement, will continue in operation until such time as they expire or terminate, and thereafter the provisions of the MASA shall apply.

Subject to the constraining proviso defined above, the Agreement allows for ‘CARICOM Air Carriers’ to fly unlimited 3rd & 4th Freedom services (direct flights between the airline’s domicile country and any other signatory CARICOM country) within the Region with full traffic rights (i.e. to embark and disembark passengers, mail and cargo). Multi-carrier designations, where a country wishes to designate more than one airline to fly a specific route, are however constrained by the perceived “characteristics of the market and the likely impact of new operators on the operation of existing carriers” (i.e. the bureaucrat’s perception of the market place can prevent such a designation). The governing tariff regime is ‘single disapproval’ whereby an airfare does not come into Force if either party (any one of the two countries that comprise the route) disapproves. Current non-signatories include Bahamas, Jamaica, and Montserrat, who have retained the more restrictive ‘double approval’ tariff regime in their intra-regional regulatory regimes.

Intra-regionally low demand (or at least perceived low demand) and a more restrictive regulatory regime have reduced competition. As the MASA reflects, there are potential regulatory barriers to entry, airline managements are not to be fully trusted to make correct pricing decisions and 5th Freedom rights need to be grandfathered. It is possible that Barbados’ new role as the single largest shareholder in LIAT may further hinder any new entrants (though none are expected in the near future) into the East CARIFORUM market. Traditionally a third (3rd) intra-regional airline has never survived (Carib Express, EC Express and Bwee Express are prominent examples) and there is a strong perception that the regional private sector will not wish to compete with Allen Stanford given his extensive financial resources.
B: Interim Report No 1 - Assessment of the Air Transport Sector in CARIFORUM.

B.3 INTEGRATION/COORDINATION

The CARICOM Secretariat is the primary regional institution for integration and coordination of the air transport sector. (The impact of the ACS to date has been negligible.) The Revised Treaty of Chaguaramas, which really only came into effect in January 2006, creates the enabling environment for “the development of a comprehensive, safe and seamless transportation system” within the CARICOM Community. The Revised Treaty requires among others:

- The coordination of the national transportation policies of member states
- The implementation of uniform regulations and procedures in areas such as transport operations, safety, licensing and certification
- The removal of obstacles to the provision of transport services by CARICOM nationals anywhere within the Community”.

In this regard it should be noted that the provisions of MASA are inconsistent with the Revised Treaty of Chaguaramas and steps are being taken by the CARICOM Secretariat to liberalise the MASA to ensure compatibility with the Treaty.

Regional Aviation Safety Oversight System (RASOS): The Directors of Civil Aviation of all the CARICOM Member States, except The Bahamas, have formed an Association of Civil Aviation Authorities of the Caribbean (ACAAC) and established the formal structure of RASOS for the ACAAC membership, which could be the forerunner to a Regional Authority. RASOS is to date the most effective regional aviation body, enjoys the full support of the CARICOM Secretariat and was approved by the CARICOM Council for Trade & Economic Development. RASOS is managed by a Regional Coordinator, based in Jamaica at the Civil Aviation Directorate, reporting to a board of Directors comprising a representative of each of the participating Civil Aviation Directorates. The CARICOM Secretariat participates in board meetings as an observer. Through training and the pooling of skills, RASOS assists member states in the discharge of their safety oversight obligations and enhances aviation safety and security.

Each RASOS Member State has updated its Civil Aviation Acts and Regulations and now all are based on adaptations of the International Civil Aviation Organisation (ICAO) Model Civil Aviation Regulations, thus paving the way for further development of common regional regulations. A common enforcement manual is being developed. Such uniformity will reduce the cost of airline compliance across the CARICOM Community.

CARICOM Airline Designations: The adoption of the ‘Community of Interest’ Designation Principle through ICAO (ICAO Assembly Resolution A24-12) allows CARICOM member states that do not have domiciled airlines to designate in their international ASAs airlines of another member state where such carriers are ‘substantially owned and effectively controlled by one or more of the member states and/or nationals thereof’. Through this non-binding ICAO resolution BWIA is designated by Antigua and St. Lucia in their ASAs with the UK and Air Jamaica by Barbados in its ASA with the USA.
B.4 COMPETITIVENESS

This report identifies two practical definitions of competitiveness, air access and regional airline sustainability.

International Competitiveness (Access): International access is aggressively pursued and facilitated, leading to recent increases in scheduled service to Bahamas, Jamaica, Dominican Republic, Antigua, Barbados, St Lucia and Tobago. Increase in international service to Trinidad has been low, that to Guyana and Suriname has stagnated and service to Grenada has been adversely affected by the impact of recent severe hurricane hits in consecutive years.

The major contributors (constraints) to competitiveness are size and competitive sustainability of demand, driven by the geographic characteristics of the region identified at the beginning of this report, the performance of individual country economies and the quality and supportive marketing effort of the primary regional industry – tourism. Initial attraction of air service is dependent on the anticipated profitability of potential demand and the quality and quantity of route risk sharing by the host country. Maintenance of this service is dependent on the competitive profitable performance of the route within the overall corporate strategies of the airline at any given time.

Access to international markets by countries (mainly in the OECS) that are dependent on hubs is limited not only by the factors identified above but also generally by relatively poor facilitation at hub airports, aggravated by an unwillingness of client countries to provide tangible support to those hub airports that are in fact their international gateways even though not located in their territories.

Regional Competitiveness (Access): CARIFORUM countries have traditionally approached intra-regional air access differently from their approach to international air access. (Compare MASA with the de facto international regulatory regimes of CARIFORUM countries). Intra-regional markets were viewed as being of much lesser importance than international ones. North West CARIFORUM continues to be much more interested in the USA than in the East and South CARIFORUM. Within the East & South CARIFORUM, Jamaica has been to date the only country of real significance in the North West CARIFORUM.

Intra-Regional air traffic demand has been largely focused on the East CARIFORUM and Guyana and the prevailing attitude was that government ownership of, and the related service demands on endemically unprofitable and poorly capitalized LIAT and BWIA was the appropriate approach to intra-regional air access.

Further, the intra-regional traveller was not perceived as being as important as the international visitor and therefore the related impact of inadequate air access was not seen. This attitude is however changing as it is now being recognized that:

- On average the regional visitor spend is at least as comparable to the international visitor spend and the impact on the economy is more direct and deeper
- Visitor numbers are comparable especially if international numbers are disaggregated. (In 2002, Trinidad was the 4th largest market to Barbados after, Greater London, New York State and the Province of Ontario)
- The CSM has arrived

This change in attitude is likely to lead to an acceptance of a more liberal intra-regional regulatory regime (MASA) by CARICOM governments while reinforcing the belief that regionally owned and controlled airlines are necessary.
Regional Airline Sustainability: The traditional perception is that despite the experience of Aruba and the Dominican Republic air access is too important to CARICOM countries to be left completely to non-regionally owned airlines that have no domicile commitment to the region. This perception is particularly so for intra-regional access. Indeed the fear by OECS governments of a private sector monopoly by Caribbean Star (an airline owned by a wealthy, strong-willed individual who is a US citizen albeit resident in Antigua) is a key motivator for continued financial support for LIAT. However regionally domiciled airlines have not been profitable regardless of ownership structure and eventually support for them is provided from limited tax revenues. Gradually regional governments are finding such support intolerable. Guyana no longer supports a national airline, and in LIAT eight (8) governments, inclusive of Trinidad & Tobago, own only a combined 3.3 % equity.

One major contributor to regional airlines’ losses is the lack of economies of scale. Yet the implementation of a regional airline or even committed functional cooperation has not been accepted despite supportive studies and successful examples in the industry outside of the region. This lack of interest was reinforced at a recent seminar on a ‘Caribbean Regional Airline’ held in Trinidad. The Caribbean Association of Industry & Commerce (CAIC), Caribbean Tourism Organisation (CTO) and Caribbean Hotel Association (CHA) support a single regional carrier as a replacement for the current national loss making carriers at best or functional cooperation among these airlines at a minimum.

Further the governments of the region state that they wish to have private sector funding for the regional (s) airlines but given the recent history of major loss generation of the individual national airlines under private sector control, private investment (both regional and international) has indicated that such interest is unlikely unless a regional airline replaces the current national loss generators.

Perennially unprofitable airlines cannot effectively perform the role the region assigns to them. They do not have the capitalization and low cost structures to withstand aggressive competition and expand their networks and therefore they make a sub-optimal contribution to competitiveness.

B.4.1 Current Responses to Competitive Constraints

Both Trinidad & Tobago and the OECS have now achieved IASA Category 1 status thus allowing improved access to US markets and the opportunity for domiciled airlines to code share with carriers of other Cat 1 countries.

The government owned regional airlines are restructuring, trying to reduce costs in an attempt to reduce losses even if this means a shrinking of route structures. However, given the resources available to the governments, only BWIA is likely to be finally properly capitalized as part of its restructuring process. Further, there has been no political will to date to drive functional cooperation as a major element of the current individual airline restructuring. If/when functional cooperation is implemented the current trauma of job losses at these carriers will therefore be repeated.

It is likely that both the restructured BWIA and the Barbados controlled LIAT will attempt to fly a profitable network and then seek specific route support from CARICOM governments if additional services are requested.

On the regional front, the Regional Aviation Safety Oversight System (RASOS), which is funded directly by its member states, is possibly the most successful regional initiative to date and this is driven by the international requirement to perform or be penalized. In 2006 RASOS expects approval from the Heads of Government of CARICOM to be upgraded to the Caribbean
B: Interim Report No 1 - Assessment of the Air Transport Sector in CARIFORUM. . .
Aviation Safety and Security Oversight System (CASSOS) and be designated as an Institution of the CARICOM Community.

RASOS is now focusing more closely on harmonization and resource sharing issues. It is working to have all members gain Category 1 status by end 2007. (Haiti and Suriname are still in Category 2.) Working groups and standing committees have been active in the areas of aerodrome certification, personnel licensing, safety regulations, standards and compliance, foreign repair station approvals, inspection methodology and reporting forms, flight test standards, flight test examiner/check airmen guidance and flight test reporting forms. RASOS is working with the FAA (under a July 2002 Memorandum of Cooperation between the FAA and CARICOM) on a project to develop web based computerized written examinations for flight crew, dispatchers and aircraft maintenance engineers based on random selection of questions from a data base developed by the FAA and the RASOS Members. There will therefore be a common set of examinations for the RASOS Members by the end of 2006 leading to mutual recognition and acceptance of licenses within the CARICOM Community.

These initiatives will all assist in reducing the regulatory bottlenecks in the CARICOM air transport sector and related costs to the airlines while ensuring the adoption of international standards of safety and security oversight.
B.5 IMPLICATIONS FOR THE PROJECT WORKSHOP

On the basis of the above analysis the project workshop should focus on policy covering the following areas:

- Enhancement and sustainability of international air access
- Enhancement and sustainability of regional air access
- Improved host country-client country for hub effectiveness
- Improving economies of scale at regional airlines
### B.6 VISITOR STATISTICS 2004

Visitor Statistics 2004 (K)

<table>
<thead>
<tr>
<th>Country</th>
<th>Air Arrivals</th>
<th>Population</th>
<th>Arr/Pop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belize</td>
<td>230.8</td>
<td>273.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Bahamas</td>
<td>1450.0</td>
<td>316</td>
<td>4.6</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1414.8</td>
<td>2635.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Haití</td>
<td>n/a</td>
<td>8131.5</td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>3443.2</td>
<td>8716.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Antigua/Barbuda</td>
<td>245.8</td>
<td>78.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Montserrat</td>
<td>10.1</td>
<td>4.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Dominica</td>
<td>79.4</td>
<td>71.2</td>
<td>1.1</td>
</tr>
<tr>
<td>St Kitts/Nevis</td>
<td>n/a</td>
<td>47.3</td>
<td></td>
</tr>
<tr>
<td>St Lucia</td>
<td>298.4</td>
<td>160.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Barbados</td>
<td>551.5</td>
<td>271.6</td>
<td>2.0</td>
</tr>
<tr>
<td>St Vincent/Grenadines</td>
<td>86.7</td>
<td>106.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Grenada</td>
<td>133.9</td>
<td>104.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Trinidad</td>
<td>442.6</td>
<td>1282.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Guyana</td>
<td>122.0</td>
<td>767.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Suriname</td>
<td>137.8</td>
<td>441.4</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: CTO
### B.7 DIRECT SCHEDULED REGIONAL SERVICE

<table>
<thead>
<tr>
<th>Country</th>
<th>Belize</th>
<th>Bahamas</th>
<th>Jamaica</th>
<th>Haiti</th>
<th>Dom Republic</th>
<th>Antigua</th>
<th>Barbuda</th>
<th>Montserrat</th>
<th>Dominica</th>
<th>St Kitts</th>
<th>Nevis</th>
<th>St Lucia</th>
<th>Barbados</th>
<th>St Vincent</th>
<th>Grenadines</th>
<th>Grenada</th>
<th>Trinidad</th>
<th>Tobago</th>
<th>Guyana</th>
<th>Suriname</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belize</td>
<td>n/a</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Bahamas</td>
<td>No</td>
<td>n/a</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Jamaica</td>
<td>No</td>
<td>Yes</td>
<td>n/a</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Haiti</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>n/a</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Dom Republic</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Antigua</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>n/a</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Barbuda</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Montserrat</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Dominica</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>St Kitts</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Nevis</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>St Lucia</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Barbados</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>St Vincent</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Grenadines</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Grenada</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Trinidad</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Tobago</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Guyana</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Suriname</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No Connections</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>7</td>
<td>10</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>9</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Connections</td>
<td>0%</td>
<td>5%</td>
<td>30%</td>
<td>0%</td>
<td>5%</td>
<td>60%</td>
<td>5%</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
<td>35%</td>
<td>50%</td>
<td>30%</td>
<td>15%</td>
<td>25%</td>
<td>45%</td>
<td>15%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### B.8 DIRECT SCHEDULED INTERNATIONAL SERVICE

#### DIRECT SCHEDULED INTERNATIONAL SERVICE

<table>
<thead>
<tr>
<th>Country</th>
<th>USA</th>
<th>Canada</th>
<th>Central America</th>
<th>South America</th>
<th>United Kingdom</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belize</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Bahamas</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Jamaica</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Haiti</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Dom Republic</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Antigua</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>St. Kitts</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Barbados</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Grenada</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Trinidad</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Tobago</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Guyana</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Suriname</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Number</strong></td>
<td>14</td>
<td>8</td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td>100%</td>
<td>57%</td>
<td>29%</td>
<td>14%</td>
<td>64%</td>
<td>57%</td>
</tr>
</tbody>
</table>
### B.9 REGIONALLY DOMICILED AIRLINES

<table>
<thead>
<tr>
<th>Airline</th>
<th>Base</th>
<th>Ownership</th>
<th>Operations</th>
<th>Profitability</th>
<th>Base IASA Status</th>
<th>Controlling Shareholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamasair</td>
<td>Nassau, Bahamas</td>
<td>Public Sector</td>
<td>Limited International, Domestic</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>Govt of Bahamas</td>
</tr>
<tr>
<td>Air Jamaica</td>
<td>Kingston, Jamaica</td>
<td>Public Sector</td>
<td>International, Limited Regional</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>Govt of Jamaica</td>
</tr>
<tr>
<td>Caribbean Star</td>
<td>St. John’s, Antigua</td>
<td>Private Sector</td>
<td>Regional</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>Allen Stanford</td>
</tr>
<tr>
<td>LIAT</td>
<td>St. John’s, Antigua</td>
<td>Public Sector</td>
<td>Regional</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>Govts of Barbados, Antigua</td>
</tr>
<tr>
<td>BWIA</td>
<td>Port of Spain, Trinidad</td>
<td>Public Sector</td>
<td>International, Regional, Limited Domestic</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>Govt of Trinidad &amp; Tobago</td>
</tr>
<tr>
<td>Tobago Express</td>
<td>Port of Spain, Trinidad</td>
<td>Private Sector</td>
<td>Domestic</td>
<td>Unprofitable</td>
<td>Cat 1</td>
<td>None</td>
</tr>
<tr>
<td>Suriname Airways</td>
<td>Paramaribo, Suriname</td>
<td>Public Sector</td>
<td>Limited International, Limited Regional</td>
<td>Unprofitable</td>
<td>Cat 2</td>
<td>Govt of Suriname</td>
</tr>
</tbody>
</table>
APPENDIX C: STUDY OF CRITICAL ISSUES AFFECTING THE REGIONAL AIR TRANSPORT SUB-SECTOR

Appendix C
STUDY OF CRITICAL ISSUES AFFECTING
THE REGIONAL AIR TRANSPORT SUB-SECTOR

FINAL REPORT
Executive Summary
December 2001
(Updated April 2006)
C.1 INTRODUCTION

The Study Terms of Reference required that the El Perial 2001 Air Transport Sub-Sector report be reviewed for relevance in 2006. The 2001 report was approved by CARICOM Heads of Government at its meeting in the Bahamas in December 2001. The CARICOM Secretariat was mandated to establish an implementation committee to examine the recommendations in detail and to proceed to implementation.

I have reviewed the 2001 report in the context of the 2006 environment. Changes in 2006 include:

- The start of implementation of the CSM and the operational start of the Revised Treaty of Chaguaramas
- The achievement of the OECS countries and Trinidad & Tobago of the IASA Category 1 status
- The success of the Regional Aviation Safety Oversight System as it proceeds to rationalise, harmonise and upgrade the region’s safety and security systems
- The worsening of the financial state of the regional airlines as the privatization phase failed and governments resumed ownership. The airlines continue to re-engineer their operations as individual entities, showing the minimum of interest in functional co-operation as effective capitalization and meaningful economies of scale continue to elude them. As weakened entities they cannot effectively fulfil their mandates as partners in the Caribbean tourism industry and as key instruments in the development of the CSM.

The 2001 report continues to have validity in 2006 and its recommendations can form one of the background papers to the World Bank/ EU/CTO workshop on Caribbean aviation. I have therefore updated the executive summary of the 2001 report with the changes made in ‘red’. The update is attached.

Ian Bertrand

April 16, 2006
C.2 EXECUTIVE SUMMARY

The Study of the ‘Critical Issues Affecting the Regional Air Transport Sub-Sector’ is one of the important initial steps to assuring the socio-economic well-being of the Caribbean CARIFORUM countries, the majority of which are islands that comprise the Caribbean Community. Those members of CARIFORUM that do not have tourism as a critical economic sector, conduct substantial trade with those members that are so dependent and are therefore themselves, albeit at one remove, also dependent on tourism. This interdependence among the Member States will be further enhanced as the Community Single Market (CSM) and the CARICOM-Dominican Republic trade agreement are fully implemented. Hopefully the CSM will be fully operational by July 2006 when the OECS countries are scheduled to join the CSM.

There is a strong belief, shared by elements in both the private and public sectors of the Region, that airlift should be considered an important part of the public transport infrastructure of CARIFORUM countries. The Study seeks to define an appropriate role for government especially where the developmental objectives of the country and the objectives of airlines diverge. The Study seeks to minimize, if not remove, the need for on-going governmental financial support in the provision of ‘adequate’ airlift and focuses on market-driven incentives to achieve this objective. This implies the maintenance of a pro-competitive environment in which airlines will operate.

The recommendations arising from the Study rest upon a number of concepts and findings that are summarized below.

C.2.1 UNDERLYING CONCEPTS

- Airlines largely now operate to an ‘optimisation of shareholder financial value’ business objective within an environment of enhanced global competition, perceiving no primary obligation to meet the airlift needs of any particular country.

- The demand for airlift is a derived demand and hence, the provision of commercially driven airlift to a community (country) is directly dependent on both the relative competitiveness of that community (country) to attract visitors and the propensity of its residents to travel abroad.

- Airlift is both an input to and a component of the overall tourism product of a community (country). It is also a closely integrated system of regulations, services and facilities.

- Tourism is a potentially effective way of expanding and deepening economic activity through the expansion of the population of a community by short stay persons with a disposition for expenditure on services that provide value. To be ‘sustainable’, that population expansion, with its related experiences, must be of value to the tourist (as the person exercising choice) and to the host community.

- Similarly given that multi-destination tourism has been identified as a niche market for the Caribbean, Multi-Destination Tourism is a potentially effective and profitable way of expanding and deepening economic activity in more than one community through the expansion of the population of those communities by short stay persons who are on a single trip and who have a disposition for expenditure on services that provide value.

Sustainable airlift is therefore the result of the provision of consistent competitive airline shareholder value and for the Region it is dependent on the sustainability of a competitive
C: Study of Critical Issues Affecting the Regional Air Transport Sub-Sector. The tourism product that not only consistently exceeds the expectations of its potential guests but also is one that is marketed effectively to such guests. Achievement of ‘sustainability’ will require the CARIFORUM countries to reinvent their tourism product(s) on a regular basis as the expectations of potential guests change. It will also require the CARIFORUM communities to embrace tourism and the countries to assume a measured level of control of the direct communication with potential guests, which is so necessary for marketing effectiveness.

C.2.2 KEY FINDINGS – TOURISM PRODUCT

- The Region’s current core tourism product of ‘sun, sea and sand’ is not unique and faces increasing competition from countries of the wider Caribbean and those of the Indian Ocean.

- There is a wide variation in the size of the industry within the Region, in the range in 1999 (2004) of 0.01 (0.01) million arrivals (Montserrat) to 1.58 (1.45) million (Bahamas) to 3.4 million (Dominican Republic). The mean size of the industry in 1999 was 0.34 million arrivals but the mode number of arrivals was between 0.06 million to 0.08 million. The effect of this variation on Regional policy determination is magnified by the geographic structure of the Region. (The overall picture and conclusion have not changed.)

- The ‘arrivals to population’ ratio for the Region in 1999 was 0.37 within a range of 5.22 (4.59) (Bahamas) to 0.02 (n/a) (Haiti). More than 50% of the countries in the Region had a ratio greater than 1.00. The estimated average stay was 7.8 days. These figures translate to a significant ‘expansion of the population of a community by short stay persons’ and emphasise the need for inclusion of the broad resident population in key decision-making to assist in achieving sustainability of the industry. (The overall picture and conclusion have not changed.)

- The major geographic tourism markets for the Region are the USA, UK, Caribbean, mainland Europe and Canada. The UK has been the fastest growing market in the period 1995-1999; mainland Europe, especially Germany, has shown the most significant decline.

- There is significant potential for increases in trips from the USA, UK and Canada where there is already some brand recognition of the tourism product upon which to build.

- Following the decline in 2001, tourist arrivals to the Region are forecast to grow to 5.72 million in 2005 from a level of 5.17 million in 1999. (It is unlikely that CARICOM countries achieved this forecast – CTO can verify.)

- A limited analysis of current lowest airfares within and from the Eastern Caribbean sub-region shows that the airfares within the sub-region fall within the ‘band of expectation’ when compared to airfares to Miami, New York and Toronto. Airfares to London and Kingston lie outside of the band. (The World Bank Study will update.)

- Analysis of the prices of current vacation packages (inclusive of airfares) to the Eastern Caribbean sub-region and to competitive Indian Ocean destinations shows that the Eastern Caribbean is more competitive out of London but less competitive out of Germany. (The World Bank Study will update.)

C.2.3 KEY FINDINGS – AIRLIFT

The airlift of the Region is a closely integrated system operating on the basis of liberalised air services agreements and guided by internationally defined and monitored safety and
The specific airlift needs of the individual countries in the Region are influenced by the available airport facilities in each of them and the level of traffic demand that the country generates. The countries divide themselves into four (4) broad Sub-Regions:

- **Countries/islands that cannot accommodate jets and which depend solely on 2nd and 3rd tier aircraft.** These include Barbuda, Dominica, Montserrat, Nevis and St. Vincent and the Grenadines.

- **Countries that can accommodate jets but where the travel demand has to date limited the profitable use of jet airlift and where there is a significant dependence on service with 2nd tier aircraft.** These countries include Grenada, St. Kitts, St. Lucia and Tobago.

- **Countries with jet airport facilities but limited tourist arrival demand yet are served primarily by jets basically accommodating the international travel requirements of their residents.** These include Belize, Guyana, Haiti and Suriname.

- **Countries with the airport facilities and travel demand to depend primarily on jets; some of these countries being capable of functioning as Regional hubs.** These include Antigua, Bahamas, Barbados, Dominican Republic, Jamaica and Trinidad.

Significant findings include:

- **All airlines currently providing international airlift to the Region will report either significantly reduced profits or losses in financial year 2001. (Generally, European and Canadian airlines will report profits in 2005; US and Regional airlines will report losses.)**

- **All but one of the Regionally domiciled airlines will report significantly increased losses in financial year 2001; BWIA expects to report a breakeven result. (All will report losses in 2005)**

- **Regional 3rd tier airlines that provide the only means of air-transport to the smaller islands within the Region have largely been ignored in the development of Regional airlift policy and strategy.**

- **Bahamas, Guyana and Jamaica (in 2006 Bahamas, Jamaica, OECS, Trinidad & Tobago, a significant increase) are the only countries in the Region that currently meet the International Civil Aviation Organization (ICAO) safety oversight standards according to the United States Federal Aviation Administration (FAA) and have been assigned a Category 1 rating on the basis of its International Aviation Safety Assessment Programme. A major penalty for non-compliance with the ICAO standards is the inability of any airline of a Category 1 country that serves the USA to put its designator code on flights of airlines of Category 2 countries in any part of the world even where the specific flights of the airline of the Category 1 country do not serve the USA. This penalty therefore significantly limits the airlift capacity and marketing effectiveness of the countries in Sub-Regions I and II and reduces the ability of the Regionally domiciled airlines to achieve profitability. (This penalty is removed with the OECS achieving Cat 1 status in 2006)**
Regional governments, while long accepting in principle the operating and cost saving benefits of Safety and Security Oversight Co-operation, especially the achievement of Category 1 status across the Region, have not been able to date to determine the required policies and strategies and implement the required programmes. However as at November 23, 2001 the Civil Aviation Directorates of Haiti and all the CARICOM States, except The Bahamas, have signed a Memorandum of Understanding providing a formal framework for a Regional safety oversight mechanism, which could be the forerunner of a Regional Authority. (While there is still not a Regional Authority, the Regional Aviation Safety Oversight System (RASOS) has made significant progress and its work deserves increased support.)

The countries in the Region have traditionally adopted a more liberal stance to international services than to Regional services by scheduled airlines. However the Multilateral Agreement Concerning the Operation of Air Services within the Caribbean Community, which entered into force on November 17, 1998 and to which nine (9) Member States are parties, has the potential to significantly liberalize the Regional aviation environment. (This Agreement is subject to further liberalization to make it consistent with the Revised Treaty of Chaguaramas)

The Region has also traditionally adopted a more restrictive stance to charter services than it does to scheduled services, a posture significantly at variance with that adopted by the Region’s major tourism markets and from where most charters originate. (Trinidad & Tobago is exploring ways to tighten its charter regime to protect a re-engineered BWIA from such competition.)

To date, domestic and ‘Regional cabotage’ is still largely protected. The concept of ‘Regional cabotage’, while not recognised to date by ICAO, applies to traffic moving between two states in the same region of states or economic union of states, when the region or union decides to reserves such traffic for its own air carriers.

Functional co-operation has been heavily promoted by the Region’s tourism industry as a major contributor to the achievement of Regional airline profitability while ensuring the level of service the industry demands. However despite attempts at co-ordination over the period 1993-1999 (2004) as well as formal commitment to the process and approval of detailed recommendations by the Chief Executives Officers of the airlines, the implementation of functional co-operation recommendations has never been a priority for the airlines or their shareholders and thus significant opportunities for cost reduction through functional cooperation have been lost. The current focus by the airlines on revenue generating alliances with non-Regional airlines is however not incompatible with the functional cooperation focus on cost reduction. Indeed the two (2) approaches, one concentrating on revenue enhancement and the other on cost reduction, synergistically address the vexed problem of Regional airline non-profitability giving these airlines the scope to make a profitable yet greater contribution to the Regional airlift challenge. (Functional Cooperation can be an integral component of the current re-engineering of the regional airlines since it will assist in generating some degree of economies of scale that have been eluding these airlines.)

Airlines are finding multi-stop flights and less-than-daily services expensive to operate. The situation worsens with trans-Atlantic flights. With the mean volume of tourist arrivals in the Region at 0.34 million and the mode in the range of 0.06 million to 0.08 million, not many countries in the Region meet the criterion of daily international service from an international gateway leading to the greater adoption of a ‘hub and spoke’ system for international services.
The countries of the Region all accept that both the land and airside facilities of their airports have to be significantly upgraded. The cost of upgrading is high and in a number of the smaller countries the potential payback period is indefinite for upgrades to accommodate jet services. It is more commercially feasible to develop the non-hub airports to accept air-bridge type schedules from the Regional hub airports. (There has been a concerted effort by countries to upgrade airport facilities but except for the Dominican Republic, no new jet facilities have been provided.)

The Region is served by two mature airports hubs (Miami, San Juan) from outside the Region and three, possibly four, hubs in different stages of development within the Region. At present, the two US hubs are by far the more important to the Region. It is important, given the realities of the size structure of the tourism industry in the Region that Regional hubs, complementary to those at Miami and San Juan, be developed. The Air Jamaica controlled hub at Montego Bay can provide effective support for the Region’s tourism industry out of the USA market. (The Montego Bay hub was largely dismantled in 2005.) Countries vying for hub status in the Eastern Caribbean Sub-Region are Antigua, Barbados and Trinidad. Barbados is probably the country best placed to provide hub operations in the Eastern Caribbean Sub-Region. It has the highest level of both international and Sub-Regional service and it has/plans to have airport facilities that can optimize hub operations.

C.2.4 KEY RECOMMENDATIONS

The overarching strategy, for adoption by the Region to achieve sustainable airlift, should be to create and maintain the environment for the profitability of the Regional airlines and the route profitability of the international airlines serving the Region. Any financial support given to both categories of airlines should be short-term and based on a realistic plan for viability within an acceptable time frame. (Support continues to be given to the regional airlines but except for BWIA one of the essential requirements for success - effective capitalisation has not been achieved.)

a. PRO-COMPETITIVE ENVIRONMENT

It is important however that the Governments should not step back into operating control of airlines, indeed the process of privatization should be hastened; nor should they promote monopolies under the guise of ‘rationalisation’. The two certain outcomes of monopolies are poor service and high prices to the customer. The governments of the Region should therefore create a pro-competition environment to allow the airlift system to thrive. The degree of success of achieving de facto competition would dependent on all players, including the governments in stimulating demand while maintaining the theoretical ‘level playing field’. (The Regional airline privatisation phase has not been successful, not surprising given that one of the essential requirements for success - effective capitalisation was not achieved in any of the privatisation programmes. The airlines are back in government ownership and it is to be hoped that they will not be tempted into operational control.)

b. CHARTER SERVICES

Critical to the creation of a pro-competitive environment would be the provision of equal opportunity for charter services especially ‘scheduled charter services’. Detailed recommendations for the related revised approach to charter service regulation have been developed and are outlined in Appendix VII of the Report of the Study.
Another tangible way to demonstrate equal opportunity for charter services would be for the Caribbean Tourism Organization to immediately open full membership in its Aviation Committee to charter airlines and indeed to 3rd tier carriers.

c. **THE CARICOM MULTILATERAL AGREEMENT**

As a minimum The limiting proviso on ‘Existing Agreements’ in the Multilateral Agreement Concerning the Operation of Air Services within the Caribbean Community should be removed and a ‘double disapproval’ tariff regime adopted.

Bahamas, Jamaica, Montserrat, St. Vincent & Grenadines and Suriname (Haiti) should take the appropriate steps to become parties to the Agreement thus ensuring a common pro-competition position across the Region. Dom. Republic also needs to do the same.

d. **STIMULATION OF SUSTAINABLE DEMAND**

Since sustainable airlift is dependent on airline profitability, which in turn is dependent on demand, the fundamental concern must be the provision of demand for travel that is profitable for the airlines and beneficial to the economy and resident communities.

e. **COMMUNITY CENTRED TOURISM**

In the Region that demand is driven by the attractiveness of the tourism industry. There are two primary groups that need to be attracted to/by the industry, the tourists and the resident community. The interrelatedness of that attraction must be recognised by the political decision-makers and tourism authorities and it must inform improvement strategies.

A pre-condition is that the resident community needs to be embraced and to be involved in the decision-making, not just taught ‘to be nice to the tourist’.

Fundamental concepts that require internalisation include:

- The tourist is an *individual* not a market segment
- Visitors are *guests* of the community, not consumers, invited *as equals* to share the environment, culture, attractions et cetera
- Visitors should therefore be welcomed into the community not isolated from it
- The quality of the one-to-one interaction with visitors by members of the community is a defining component of the tourism product
- The community should therefore be made aware of the nature and value of its environment, culture, etc and be encouraged to nurture them. This can be effectively done by promoting domestic and intra-Regional tourism and by targeting the Caribbean diaspora as an important market segment. The added benefit of this approach is that in the latter two instances, the demand for airlift is stimulated especially for the Regional airlines, the ones that most need this assistance.
- Governments need to cease stating they are (and ensure that they are not perceived to be by the community) developing infrastructure for the tourist. These are things that the community needs and deserves; in turn they facilitate the enjoyment of the tourist in the community.
- Events and festivals should have a primary attraction to the community rather than be imposed upon it for the tourist; the visitor is then invited to participate with members of the community in the activities that they enjoy.
f. **COMMUNICATION WITH POTENTIAL ‘GUESTS’**

Sustainability of demand also requires some degree of control by the Region’s tourism industry stakeholders over the communication with the potential ‘guest’. The Region can learn to so do as it targets domestic, intra-Regional and diaspora tourism.

The Region needs to accelerate its use of the Internet technology to cost effectively communicate with the potential ‘guest’ and to invest in more detailed and more regular research about the potential targeted visitor, creating effective databases that are easily interrogated to ensure that appropriate strategies, products and programmes are developed as ‘guest’ needs change. More detailed analysis of performance needs to be conducted with the emphasis shifting from tourism arrivals’ numbers to tourism earnings and contribution to both GDP and GNP.

‘Word of mouth’ communication is still highly effective and costs little. The individual members of the population in the Region, in the diaspora and in the repeat visitor community should be encouraged and supported in issuing personal invitations to the potential tourist ‘to come visit with us’.

g. **INTEGRATED MARKETING**

All beneficiaries of the tourism industry must contribute to the marketing and promotion effort. This therefore includes the entire business community that does indeed benefit from ‘this increase in population by persons with a propensity to spend’. The effort must be a joint one, integrated across the Region and the individual country with complementary themes to ensure synergy and improve cost-effectiveness.

*Any financial support for airlines should be part of and not treated separately from this marketing and promotional programme, competing with other sub-programmes for its share of the budget on the basis of effectiveness.*

A detailed analysis of the flight schedules at the Miami and San Juan hubs and also the London Heathrow and Gatwick hubs should be conducted on a regular basis and distributed to the tourism authorities of the Region to assist in the marketing effort.

h. **IMPROVING AIRPORT INFRASTRUCTURE AND SERVICES**

Airport infrastructure and services are both an important part of the overall tourism product and a critical support for that product. It is imperative that airport infrastructure and services continue to match the quantum and nature of the demand with the improvements marketed and be perceived to be for the benefit of the residents who are thereafter sharing the facilities with tourists. Key recommendations include:

- All airports authorities should focus on exploiting the commercial potential of their facilities so as to stabilise/reduce user charges.
- Treat airports as commercial entities; departure taxes to be revenue to the airports which in turn will be taxed as corporations, even if they are subject to special tax regimes.
- Non-jet airports to immediately focus on upgrading landside facilities, customs and immigration services and navigational aids so as to improve the experience of users...


• All airports to permit both ‘incoming’ and ‘outgoing’ duty free facilities to stimulate revenue and again to improve the experience of users. (This policy change is moving slowly across the region and needs to be accelerated.)

• Airline facilitation meetings to include all airlines using the airports, not just the scheduled services. The requirement of 3rd tier airlines should no longer be ignored since they play a critical role in inter-line services.

• Acceptance by the Eastern Caribbean Sub-Region that the commercially viable way for the provision of sustainable airlift is an effective, integrated ‘hub and spoke’ structure with the provision of an air-bridge service along the spokes using appropriately sized aircraft. The Regional airlines operating the non-jet aircraft be encouraged, through financial incentives if necessary, to operate air-bridge type schedules along the Regional ‘spokes’.

• The Regional hub airports need to each establish a special ‘Interline Committee’ drawn from hub and client country airport managements, customs and immigration services, airlines and handling agents, air traffic control to improve the quality of interline services. Special attention needs to be paid to the effectiveness of baggage transfers. Such improvement will likely require policy decisions at the political level to establish the agreed balance between security and service.

• Tourism authorities of countries that are dependent on Regional hubs may wish to locate customer service personnel at these airport hubs to greet their country’s guests and to facilitate smooth transfers. Regional airlines can participate by sharing the provision of reduced rate seats on the first and last flights of the day between the destination (client) country and the hub.

• Airport authorities to use a system of incentives and penalties to better utilize airport facilities and improve the timing of flights across the day. Airport fees charged to the airlines could vary with demand by time of day, day of the week and even season of the year. They could also vary with the volume of services by airlines. The tourism authorities can participate, if necessary, by providing marketing contributions to encourage airlines to operate at specific times of the day if these times are deemed to improve the quality of airlift.

• Antigua and Barbados need to accelerate the overall upgrade of their airports, and in so doing to give full recognition of their responsibilities as hub airports and to the revenue potential of effectively fulfilling such responsibilities. The Barbados upgrade is well underway; in Antigua it is yet to start.

• The 2007 World Cup Cricket sunset legislation should be continued after that tournament so as to improve facilitation at regional airports.

• CTO together with the CARICOM Secretariat should undertake a study on the possible impact of reduced departure and airfare taxes on passenger demand and its related impact on government revenues. If the impact appears to be positive this results of the study should be marketed to regional Ministers of Finance.

i. VIABILITY OF REGIONAL AIRLINES

While the countries must be concerned with the viability of all airlines serving them, there should be special focus on the viability of the Regional airline industry but always within a competitive environment since the security of the tourism industry demands it. This focus
C: Study of Critical Issues Affecting the Regional Air Transport Sub-Sector. . . should be on the Regional airline industry, not any specific player within it. In this context, the following recommendations are proposed:

- Implement the ‘Demand’ and ‘Airport’ recommendations outlined above.
- Integrate the airlines and their customer services into the Region’s tourism product.
- Encourage/facilitate increases in operational productivity once safety and security are not compromised but even if it means retrenchment of staff and/or relocation of the airlines’ facilities and services within the Region.
- Improve the quality of Safety and Security Oversight across the Region, immediately ensuring that all members achieve and maintain the IASA Category 1 status. There should preferably be a Regional Aviation Safety Oversight Authority but at the minimum the legislation, inclusive of the regulations should be similar across the Region so that the Regional airlines would be able to operate under a common set of rules, thus facilitating operational efficiency. In this regard the Member States should build speedily on the recent initiatives of their Directorates of Civil Aviation, even as they try to convince the Bahamas to join this Regional venture. This has been one of the few areas of significant progress since December 2001.
- The Regional carriers, especially Air Jamaica, BWIA, Caribbean Star and LIAT should immediately get together to agree on security and safety measures so as to facilitate improved interlining processes among themselves. The carriers should establish a joint monitoring group to ensure full compliance with agreed programmes.
- Maintain the de facto ‘cabotage’ status of the Region.
- For as long as Trinidad and Tobago has the same IASA Category status as the OECS countries, BWIA should enter into marketing agreements with Caribbean Star, LIAT and the TIA 2000 Group whereby BWIA puts its flight code on specific flights of these carriers that connect with its long haul flights at Antigua, Barbados, St. Lucia (Hewannora) and Trinidad. At Barbados and Trinidad, the connections will be those not supplied by BWIA Express.
- Regional governments to link on-going financial support for continuing operations of Regional airlines to the implementation of appropriate functional cooperation programmes. The previous related studies should be quickly reviewed, especially those that were approved in the past by the Chief Executive Officers of the airlines for implementation. An updated priority list of programmes should be developed for urgent implementation.
- As an initial bridge-building exercise, Air Jamaica to enter into a contract with BWIA to maintain its A-340 aircraft when BWIA acquires their own.
- Remove duties and taxes from all cost inputs to airlines, replacing the revenue lost to the governments by an appropriate levy on revenue, the details and timing to be worked out, preferably on a coordinated basis.

Model for Attracting Appropriate Airlift

While this Study focuses on regional policy and strategy, the reality is that airlift is country, and not regionally centred. A generic model has therefore been developed that a tourism dependent CARICOM country may wish to customize for its own use to attract and retain the appropriate level of airlift. The details are documented in the Report.
C: Study of Critical Issues Affecting the Regional Air Transport Sub-Sector. . .
The initial step in the model is the identification of the required annual quantitative contribution of the tourism industry to the country's economy for a defined multi-year period. This requirement is converted into the realistic annual target ‘stay-over’ visitor arrivals by geographic market and market segment for the defined multi-year forecast period. This target is further adjusted primarily on the basis of the assessed airport capability to handle demand and is used as an input to the development of customized marketing programmes to airlines that will focus on the target market segments, the competitiveness of the tourism product and the effectiveness of the destination marketing, the quality and cost effectiveness of the airport facilities.

*In adopting these recommendations it must be emphasised that there is significant synergy among them. They are designed to ensure that the Region faces frontally the challenge of achieving sustainable airlift. Recent events have confirmed the need for a fundamental change in approach to this issue. The Region, both government and industry, must now confront the challenge even if some of the required decisions may not be popular.*
CARIBBEAN REGIONAL AIRLINES

FUNCTIONAL COOPERATION STUDY

This Report is financed by
The European Communities and Prepared by:

El Perial Management Services
Of Port of Spain, Trinidad and Tobago
And
Aviation Management Services
Miami, Florida, USA

Executive Summary
June 1993
Updated April 17, 2006

For
The Caribbean Tourism Organization
The opinions expressed in this study are those of the authors and do not necessarily represent those of the Caribbean Tourism Organization or of the European Communities.
D.1 EXECUTIVE SUMMARY

This report, responding to the specific questions raised in the Request For Proposal from the Caribbean Tourism Organization (CTO). Completion was only achieved in the short time available, through the considerable participation of the CEOs of nine (9) Caribbean carriers, “THE GROUP”, namely, Air Jamaica, ALM Antillean Airlines, Air Aruba, Bahamasair, BWIA International, Cayman Airways, Guyana Airways, LIAT (1974) Ltd. and Surinam Airways. The Caribbean territories being considered, “THE GROUP AREA” are the shareholder territories of THE GROUP airlines. These include Aruba, Bahamas, Barbados, Bonaire, Cayman, Curacao, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts, St. Lucia and St. Maarten, St. Vincent, Surinam, Trinidad & Tobago. (ALM, Air Aruba, Guyana Airways no longer exist, Cayman is not part of CARIFORUM.)

The competition faced by individual members of THE GROUP is acute. Each faces major capacity differentials and tremendous marketing strength by extra-regional carriers, the most aggressive of whom is American Airlines. Moreover, with the implementation of NAFTA the region will be subject to increased economic competition, thus probably placing even greater burdens on the Tourism Sector. (Since then there is additional competition from both additional legacy (Continental, Delta, US Air and low cost airlines.)

This competitive aggression is all part of the rapidly changing nature and image of the airline industry worldwide; moving from a public service to a cutthroat, survival of the fittest, hard nosed business. Privatization, the result of government unwillingness to subsidise airlines, is sweeping Latin America and creating new cross border strategic alliances and equity participation agreements. It is forcing carrier managements to be more concerned with profitability as the new private sector owners hold managers accountable for financial returns. The TACA led strategy in Central America, AeroMexico’s acquisition of Mexicana and AeroPeru, the possible merger of LAN Chile and Ladeco are examples of carriers seeking new alignments and alliances in order to survive. (LAN, Copa, and Low Cost Carrier GOL are now highly profitable)

Does this mean that THE GROUP is slated for extinction? Not necessarily. (Some have already expired and the others are totally dependent on taxpayer support through government subventions.)

There are sufficient examples of carriers that have not only survived but also thrived during the past 13 years of deregulation despite the problems surrounding them. By and large these are niche carriers that have some special features, which make them stand out. An example, in the United States, is Southwest Airlines. It has lower unit costs than any other carrier in the U.S. industry and is its most profitable. It does not provide many of the services that traditional carriers feel they must provide, such as interlining, advance check in, seat assignments, choice of meals and other amenities. More importantly however the airline is a point-to-point, short haul airline.

Other examples, in the U.S. are the regional commuter carriers, many of which have aligned themselves with one or more of the major carriers, but which have managed to grow profitably nevertheless.

The key to THE Group’s survival is defined by two critical success factors

- Achieving critical mass and economies of scale in order to reduce unit costs, and
- Exploiting the combined marketing strengths and advantages that are unique to the carriers of the region so as to compete with the large external carriers.
ALM believes that an additional critical success factor is having strong government support. (This can be translated to proper capitalization of the airline.)

The first can be achieved to a significant extent by functional co-operation without the need for equity participation in the basic airline operations. The second is made possible by combining efforts on the revenue side to more effectively compete with the extra-regional carriers.

Achievement means that THE GROUP needs to create the environment to enjoy some of the key advantages of large carriers without losing the nimbleness of being small. Functional co-operation across the spectrum of airline activity is the strategy recommended in the short and medium term to be implemented in parallel with the strategy of in-house effectiveness improvement programs of the individual airlines. These strategies are not alternatives; they are complementary and therefore synergistic. The requirement would be the individual airlines buying into the plans of THE GROUP. But if the benefits are major, does anyone really care! (Nothing has changed in thirteen (13) years)

We believe that The Miami Opportunity provides the key launching pad for THE GROUP’s ability to seize both cost reduction and market development synergies. While other common gateways exist for the carriers, Miami stands out as the place to begin because:

- It is the single largest gateway for U.S. Caribbean air travel
- It is neutral ground on which to experiment with the concept of functional co-operation across a wide range of cost containment, service improvement and revenue enhancement activities.
- Eight of THE GROUP serve Miami, while the ninth (LIAT) can also benefit if there is timely and effective implementation of its bi-lateral co-operative agreements with BWIA. Thus Miami provides the best opportunity for functional co-operation leading to the biggest, short-term return on investment. (At present only LIAT does not serve Miami)
The study identifies, in general terms, 30 specific actions (see Appendix A), divided into four (4) major areas: The Miami Opportunity, Marketing, Technical, Operations & Aircraft and Regulatory Affairs. In sum, these specific actions are estimated to generate $65 million in either cost containment or revenue enhancement. (This figure needs to be updated since it is thirteen (13) years old.) The breakdown is:

- Cost Containment: $34 million
- Revenue Enhancement: $31 million

In addition to specific dollar benefits, the recommended actions will greatly enhance the overall product and services provided by THE GROUP, providing as necessary an opportunity for private sector involvement in specific profit centres and subsidiary business activities. (This private sector opportunity still exists) Moreover, these actions will also enhance the value of each of THE GROUP and make them more attractive for private sector investment and for strategic alliances with extra regional carriers. (The argument is still valid.)

The key, as in any study, will be the implementation. Even though the recommendations are not all new, additional study and research will be necessary, in a number of instances, prior to full implementation. Based on the level of participation to date, the commitment of the CEOs of THE GROUP is assured. The question is the degree of availability of resources from within THE GROUP given the day-to-day pressures they face against increasingly intense competition while being currently cash short.

Internal improvement programs must be carried out in parallel with those functional co-operation programs that are accepted. A key implementation strategy is for THE GROUP to create jointly owned or controlled corporate entities, where appropriate, that would operate as profit centres producing an improved level of service to customers.

These entities in which private sector participation may be invited must effectively managed professional highly qualified executives or management groups who will be compensated primarily by profit sharing incentives.

El Perial Management Services (EL Perial) and Aviation Management Services (Avman) are prepared to work with THE GROUP to conduct the additional research at cost, and to be involved in these profit centres that are eventually created. (Although the CEOs approved the recommendations they refused offers of external assistance. Implementation in thirteen (13) years has been minimal at best.)

Finally we are sure that the nine members of THE GROUP would welcome participation in different areas of functional co-operation from other carriers domiciled in the Caribbean Basin.
D.2 1993 FUNCTIONAL COOPERATION ACTION ITEMS (** INDICATES POTENTIAL IN 2006)

I. The Miami Opportunity
Central Reservations**
Miami Airport Consolidation**
Stand Alone Cargo Operation**
Catering**
Fuelling**
Pooling Line Maintenance**

II. Marketing
Intra-Caribbean Schedule Rationalisation and Pooling**
Centralised Charter Operations**
Common “Brand” Approach
Multi-Carrier Frequent Flyer Programme**
Co-ordinated Sales**
Joint Negotiation of all Inclusive Products**
Common CRS and Distribution**
Common Yield Management**
Common Duty Free Programme**

III. Technical, Operations & Aircraft
Joint Fleet Planning**
Aircraft Acquisition Consortium
Fuel Purchasing**
Crew HOTAC**
Joint Insurance Placement**
Engine Overhaul
Joint Purchasing Aircraft Spares & Commercial Items
Shared Maintenance
Joint Catering Atlanta & New York
Consolidated Airport Services, New York
Common Simulators
Basic Training Resources**
Common Accounting Systems**

IV. Regulatory Affairs
Washington DOT Affairs
Appendix E
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

AVIATION REALITIES IN CARIFORUM
BARBADOS
June 01-02, 2006

Ian Bertrand
Air Transportation Consultant, CRSTDP
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

GEOGRAPHIC REALITIES

- Belize in C. America to Suriname in S. America
- 4hrs 30 mins direct jet flight end to end
- 15 countries; two pairs with common borders
- Sovereign countries – lacking economies of scale
- Regularly afflicted by hurricanes

CARIFORUM NEEDS EFFECTIVE AIRLINE SERVICE
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

ECONOMIC REALITIES

- CSM has started
- CARICOM-DR Trade Agreement in place
- Services the largest economic sector
- Regional tourism increasing in importance
- Multi-destination tourism being examined

CARIFORUM NEEDS EFFECTIVE AIRLINE SERVICE
### CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

#### AVIATION REALITIES (1)

- Four domiciled international airlines – all public
- Three domiciled regional airlines – one private
- All are endemic $$$ losers
- Only five domicile countries (30%)
- Seven major government shareholders
  - Three in one airline

**SUCCESSFUL TOURISM DOES NOT REQUIRE OWN AIRLINE**
### CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

#### AVIATION REALITIES (2)

- C’bean Govts cannot afford major $$$ losers
- $$$ losers can’t provide sustained quality service
- Service economies require sustained quality service
- In’tl C’bean service dependent on foreign airlines
- AA, BA – One World
- Minimal service across the Caribbean Sea

**C’BEAN AIRLINES – LIMITED INSURANCE COVER AT HIGH PREMIA**
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

THE CHALLENGES

HOW TO:
GET EFFECTIVE REGIONAL SERVICE
ENCOURAGE FOREIGN AIRLINES TO FLY TO THE CARIBBEAN
MAKE REGIONAL AIRLINES Viable
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

CARIFORUM DOMICILED AIRLINES – ISSUES & OPPORTUNITIES
BARBADOS
June 01-02, 2006

Ian Bertrand
Air Transportation Consultant, CRSTDP
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

CARIFORUM – THE ENVIRONMENT

- 2100 nautical miles; 4hrs 30 mins direct jet flight end to end
- 15 countries; two pairs with common borders
- Sovereign countries – small populations
- Airports have small catchment areas

STRUCTURE AN AVIATION CHALLENGE

BUT

CARIFORUM NEEDS EFFECTIVE AIRLINE SERVICE
CARIFORUM – THE ECONOMY

- Primarily services based – tourism, financial services
- Export oriented; dynamic; change is the constant
- Regional tourism under exploited
- Multi-destination tourism untapped
- Exploring regional economic synergies – striving for economies of scale

REQUIREMENT

CARIFORUM NEEDS EFFECTIVE AIRLINE SERVICE
BOTH INTRA AND TO/FROM
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

CARIFORUM AIRLINES - A BRIEF HISTORY

- Long perceived but declining need
- Endemic $$$ losers – public or private
- Historically undercapitalised
- Unable to generate economies of scale
- Traditionally low personnel cost, good cabin service
- Unsustainable quality service
- Governments financiers of last resort
- Private sector now gun-shy

BUT

CARIFORUM NEEDS EFFECTIVE AIRLINE SERVICE
<table>
<thead>
<tr>
<th>CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIKELY AVIATION ENVIRONMENT</td>
</tr>
<tr>
<td>➢ Very liberal international aviation regime</td>
</tr>
<tr>
<td>➢ Liberal CARICOM MASA – last resort foreign carriers</td>
</tr>
<tr>
<td>➢ Increasing competitive environment</td>
</tr>
<tr>
<td>➢ LCCS, charters and invigorated legacy carriers</td>
</tr>
<tr>
<td>➢ On-going requirement for ‘hub &amp; spoke’</td>
</tr>
<tr>
<td>➢ Minimum – community of interest principle</td>
</tr>
<tr>
<td>➢ Governments no longer financiers of last resort</td>
</tr>
<tr>
<td>➢ Greater need for intra-Caribbean service</td>
</tr>
</tbody>
</table>
### CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

**SUPPORTIVE SYSTEMS (1)**

- Effective capital structure
- Purely commercial mandate
- Competent market-driven management
- Performance-based staffing
- Fly international from any CARIFORUM airport
- Fly between any airports in CARIFORUM
- Cat 1 status across CARIFORUM
- Common safety oversight systems across CARIFORUM
<table>
<thead>
<tr>
<th>CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUPPORTIVE SYSTEMS (2)</td>
</tr>
<tr>
<td>➢ Optimise strategic alliances – regional &amp; international</td>
</tr>
<tr>
<td>➢ Improve tourism product competitiveness</td>
</tr>
<tr>
<td>➢ Optimise regional &amp; multi-destination tourism</td>
</tr>
<tr>
<td>➢ Improve hub airport-client country relations</td>
</tr>
</tbody>
</table>

NO MAGIC BULLET; HOLISTIC; CANNOT CHERRY PICK
BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES

THE OPEN SKIES AGREEMENT & THE MAINTENANCE OF REGIONAL AIRLIFT CAPACITY
NASSAU, BAHAMAS
June 07-09, 2006

Ian Bertrand
EL PERIAL MANAGEMENT SERVICES
**BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES**

### INTERPRETATION OF THE TOPIC

- **Region** = CARICOM Island States
- **Both the geography and economic structure of the region**
- **DEMANDS EFFECTIVE AIRLINE SERVICE**
- **Maintenance of Regional Airlift Capacity** = *Effective Risk Management*
- **Diversification and Ownership of Airline Capacity** would be two acceptable risk mitigation mechanisms provided
  - they are complementary
  - the benefit/cost is correctly defined and acceptable
CARIBBEAN AIR TRANSPORT SERVICES SYMPOSIUM

AIRLINES

- They are usually a business
- Major assets are mobile
- Seek to fly profitable routes
- Unless directed (subsidised) to do otherwise
- Profitability determined by
  - Quality and quantity of demand

  In regional terms the quality and relevance of the tourism product
  - Effectiveness of airline strategy and efficiency of operations
<table>
<thead>
<tr>
<th><strong>BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>THE OPEN SKIES AGREEMENT (1)</strong></td>
</tr>
<tr>
<td>➢ Will Use the Generic MALIAT Model</td>
</tr>
<tr>
<td>➢ Multilateral Agreement on the Liberalisation of International Air Transportation</td>
</tr>
<tr>
<td>➢ Un-limited airline designation</td>
</tr>
<tr>
<td>➢ No route/capacity restrictions</td>
</tr>
<tr>
<td>➢ No price control</td>
</tr>
<tr>
<td>➢ Cabotage retained</td>
</tr>
<tr>
<td>➢ Accession to international security agreement</td>
</tr>
</tbody>
</table>
## Building Tourism Resilience in Small Island Developing States

### The Open Skies Agreement (2)

- Can certainly provide for effective diversification
- May impact the ownership mechanism
- Can be effective as the only risk mitigation mechanism
  - Aruba, DR
- Will not work with a poor tourism product
- Applicable to capacity
  - to/from the region
  - Within the region
## BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES

### LIBERALISATION vs ‘OPEN SKIES’

- Tourism requires effective partnerships with airlines
- ASAs mere gateways to allow access to airlines
- ‘Open Skies’ sends a very positive welcoming signal to airlines
- Creates an environment for effective and multiple airline partnerships
BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES

THE OWNERSHIP MECHANISM – THE REGIONAL EXPERIENCE (1)

- Long perceived but declining need
- Endemic $$$ losers – public or private
- $$$ losers both pre and post liberalisation/’open skies’
- $$$ losers can’t provide sustained quality service
- Service economies require sustained quality service
- In’tl C’bean service dependent on foreign airlines
  - AA, BA – One World
## Building Tourism Resilience in Small Island Developing States

### The Ownership Mechanism – The Regional Experience (2)

- Minimal service across the Caribbean Sea
- Governments financiers of last resort
- Private sector now gun-shy
- Can C’bean Govts afford major $$$ losers?
  - C’BEAN AIRLINES – LIMITED INSURANCE COVER AT HIGH PREMIA
### Building Tourism Resilience in Small Island Developing States

**The Ownership Mechanism – Improving the Outcome (1)**

- Improve tourism product competitiveness
- Optimise regional & multi-destination tourism
- Fly international from any CARICOM airport
- Fly between any airports in CARICOM – Open Skies MASA
- Improve hub airport-client country relations
- Cat 1 status across CARICOM
- Common safety oversight systems across CARICOM
BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES

THE OWNERSHIP MECHANISM – IMPROVING THE OUTCOME (2)

- Effective capital structure
- Purely commercial mandate
- Competent market-driven management
- Performance-based staffing
- Optimize strategic alliances – regional & international

NO MAGIC BULLET; HOLISTIC; CANNOT CHERRY PICK
BUILDING TOURISM RESILIENCE IN SMALL ISLAND DEVELOPING STATES

AN EFFECTIVE CAPITAL STRUCTURE

- The most challenging of the requirements
- Proviso – a credible business plan
- CDB, International Institutional Funding to Govt Shareholder
- Repay thru the specific airline ticket tax
- Approach may attract private sector shareholding

REPEAT

NO MAGIC BULLET; HOLISTIC; CANNOT CHERRY PICK
Appendix G
Caribbean air transportation sustainability study

Report to Caribbean Tourism Organisation
Ministers’ Caucus
New York

June 15, 2006
The project objective

Assist the region in rationalizing international and intra-regional air transport as a means of ensuring the sustainable development of the tourism sector.
Project deliverables

- Provide critical information to assist air transport policy development
- Identify measures for the development of a sustainable regional air transport sector
- Propose a workable business model(s) for the successful operation of regional airlines and air transportation, on a low cost, high quality basis
- Recommend, where necessary, actual implementation plan(s)
- Using in particular the 2001 study on ‘Critical Issues affecting the Regional Air Transport Sector’
  (i) explore the possibilities of a regional approach to air transport development
  (ii) propose a realistic recommendation on the role of the state in sustaining regional airlift capacity
Core characteristics of successful LCCs (1)

- Proper capitalisation – lower prices; improved credit terms lead to lower operating and financial costs and easier access to finance
- Consistently meeting the core travel needs of a well defined market – emphasize excellent on-time performance; longer seat pitch; point to point flights; updated in-flight entertainment systems
- Consistently meeting the needs of employees – liberal work rules; related empowerment; performance based contracts thus ensuring high productivity and effective customer service
- Employee compensation packages – minimise long term liabilities
- Flattened organisation structures – easy interface between senior management and customers and to reduce overhead costs
- A common fleet of new aircraft – low maintenance costs and more efficient fuel burn
Core characteristics of successful LCCs (2)

- Use of distribution systems that both encourage direct customer interaction and are low cost; use of internet based systems
- Simplified low cost airfare structures; non-refundable for core services; menu of prices for additional services thus removing the need for high cost, customer antagonistic administrative systems
- Optimized outsourcing of operations other than finance and customer service; maintenance operations; effective outsource management contracts and systems leading to lower operating costs, and financial requirements
- Preference for operating out of lower cost 2nd tier airports with shorter drive times for passengers
- Focused on relatively short-haul service using aircraft that do not possess ‘over water’ capability (but JetBlue to Aruba)
Core characteristics of successful LCCs (3)

- Customized to meet specific market needs
- No longer unique to LCCs
- LAN, Avianca, COPA, BA adapting these principles on selective basis – provide value added service
- But not a panacea – many casualties
- Cannot overcome poor business plan, poor management, low demand

Caribbean air transportation sustainability study
The Caricom M.A.S.A.

- Finalised in 1996
- Entered into force in 1998
- Still to sign Bahamas, Jamaica, Montserrat
- Still to ratify St. Vincent, Suriname
- Less liberal than the region’s int’l ASAs
- Need to be consistent with Revised Treaty of Chaguaramas
- Suggest ‘open skies’ MALIAT model – within 12 months
- Include D.R.
- Open to other ACS countries
The El Perial 2001 study

- Formally approved by Heads of Government in December 2001
- Focused on strengthening tourism-airline partnership
- Highlighted role of quality, relevant tourism product in airlift expansion, sustainability
- Suggested implementation of functional cooperation as condition of Government investment
- Implementation Committee appointed
- T&T, OECS Cat 1 only discernable activity to date
- Airlines lost even more money; private sector out; Governments in
- MoBay hub downgraded
Regional airline functional cooperation

- Regional concept developed only 11 yrs ago – short in Caribbean time
- Airline CEOs approved detailed recommendations that year
- CEOs rejected external implementation assistance
- Minimal results to date – always 2nd stage of airline re-engineering
- Shareholders, boards and exec m’ments unwilling to implement // with internal re-engineering
- 1995 study reviewed – concept, broad recommendations still valid; details need updating
- Still no implementation interest – 1st stage re-engineering continues to be recycled
Back to first principles

- Caribbean = CARIFORUM States
- Both the geography and economic structure of the region
- DEMANDS EFFECTIVE AIRLINE SERVICE
- Sustainable Airlift Capacity = Effective Risk Management
- Diversification and Ownership of Airline Capacity would be two acceptable risk mitigation mechanisms provided
  - they are complementary
  - the benefit/cost is correctly defined and acceptable
The fundamental issues

- How far to diversify air service
- How to strengthen domiciled airlines
Airlines

- They are usually a business
- Major assets are mobile
- Seek to fly profitable routes
- Unless directed (subsidized) to do otherwise
- Profitability determined by
  - Quality and quantity of demand
    In this case the quality and relevance of the tourism product
  - Effectiveness of airline strategy and efficiency of operations
The ‘Open skies’ agreement (1)

- Will use the generic MALIAT Model
- Multilateral Agreement on the Liberalisation of International Air Transportation
  - Un-limited airline designation
  - No route/capacity restrictions
  - No price control
  - Cabotage retained
  - Accession to international security agreements
The ‘Open skies’ agreement (2)

- Can certainly provide for effective diversification
- May impact the ownership mechanism
- Can be effective as the only risk mitigation mechanism
  - Aruba, D.R
- Will not work with a poor tourism product
- Applicable to capacity
  - to/from the region
  - Within the region
Liberalisation vs. ‘Open Skies’

- Tourism requires effective partnerships with airlines
- ASAs mere gateways to allow access to airlines
- ‘Open skies’ sends a very positive welcoming signal to airlines
- Creates an environment for effective and multiple airline partnerships
The ownership mechanism – The regional experience (1)

- Long perceived but declining need
  - Consistently compared to a bridge
  - But only domiciled in 5 states
  - Only 7 government shareholders
- Endemic $$$ losers – public or private
- $$$ losers both pre and post liberalization/open skies'
  - Seeks justification among the losers
The ownership mechanism – The regional experience (2)

- $$$ losers can’t provide sustained quality service
- Tourism economies require sustained quality service
- International Caribbean service dependent on foreign airlines
  - AA, BA – One World
- Minimal service across the Caribbean Sea
The ownership mechanism – The regional experience (3)

- Governments financiers of last resort
- Private sector now gun-shy
- Can Caribbean Governments afford major $$$ losers?

Caribbean airlines – limited insurance cover at high premia
The ownership mechanism – Improving the outcome (1)

- Improve tourism product competitiveness
- Optimize regional and multi-destination tourism
- Fly international from any CARIFORUM airport
- Fly between any airports in CARIFORUM – Open skies MASA
- Implement Competition Law
- Improve hub airport-client country relations
- Cat 1 status across CARIFORUM
- Common safety oversight systems across CARIFORUM
The ownership mechanism – Improving the outcome (2)

- Effective capitalisation
  - Even a bridge requires it
- Purely commercial mandate
  - Any subsidy – route/service specific
- Competent market-driven management
- Performance-based staffing
- Optimize strategic alliances – regional and international

No magic bullet; Holistic; Cannot cherry pick
Effective capitalisation

- The most challenging of the requirements
- Proviso – a credible business plan
- CDB, International Institutional Funding to Government Shareholder
- Repay thru the specific airline ticket tax
- Approach may attract private sector shareholding

No magic bullet; Holistic; Cannot cherry pick
Recommendations

- Convert the CARICOM MASA into a full ‘open skies’ agreement within 12 months
- Negotiate international ‘open skies’ ASAs using the MALIAT model
- Develop and implement Competition Law
- Implement the airline strengthening recommendations