

As Prepared for Delivery



**REMARKS**

**By**

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**at the**

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**HILTON BARBADOS RESORT**

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***INTRODUCTION***

I extend a special welcome to Barbados for those who are visiting. I hope your journey has been seamless; and that you are enjoying your stay on this beautiful island.

I mentioned seamless journeys because that is an important element of what I want to talk about today. Seamless journeys require good connectivity. Our Region is relatively well connected, especially with the international markets; but there is still considerable room for enhanced connectivity to all of our destinations.

Today, my remarks to this conference are entitled, '*A New Paradigm in Caribbean Air Travel*'. In this proposed new arrangement, intra-regional and extra-

regional air travel is defined by connectivity which is convenient, flexible, and reasonably priced. Where possible, it is integrated with other modes of transport to curtail journey times and to improve the overall travel experience.

The new paradigm should help to support an integrated Caribbean tourism product that includes a larger volume of multi-destination vacations and can be enjoyed by a wider variety of tourists coming from existing and new source markets.

Business activity should also expand as it becomes relatively easier and cheaper to establish and maintain contacts with potential clients. Importantly also, Caribbean people should have better and more affordable access to friends and families and to the proliferation of cultural and sporting events now available across our Region.

What is the significance of pursuing this new paradigm? Where does it fit in the plethora of challenges facing the Caribbean?

At the Annual Meeting of the Board of Governors of the Caribbean Development Bank (CDB), last month in Grenada, I suggested that a major challenge facing the small, open economies of our Region is the need to build a multi-faceted bulwark of resilience as a defense against our vulnerability to climate change and external economic shocks.

The extreme weather events, which our Region experienced in 2017, were painful reminders of this reality. They underscored, for us, the urgency of embracing policies which include building climate-resilient infrastructure; establishing adequate fiscal buffers against economic and climate-related shocks; and, in the context of our archipelagic region, having a resilient and reliable inter-island air transport system.

### ***Role of Aviation in Economic Development***

Sixteen of the 19 Borrowing Member Countries of the CDB are island states. For these countries, in particular, air transport is the main mode of connectivity with the rest of the world and a major contributor to economic activity, especially tourism. A 2011 study by Oxford Economics estimates that aviation directly contributes USD 2.5 billion to Gross Domestic Product (GDP) (1.4%) and 112,000 jobs (0.8%) to the Region. Through spin-off benefits to tourism, aviation accounts for an additional USD 12.6 billion of GDP (7.2%) and 845,000 jobs (5.7%).

I will argue that there is scope for aviation to make an even bigger contribution to regional economic activity. Tourism is evolving rapidly. Discerning travelers are being offered more options and take budget and time constraints into account when making their travel decisions.

Our aim then should be to maximise tourism expenditure in the local economy by offering visitors a unique, high quality and memorable regional experience. The yardstick of our success will be sustained increases in repeat as well as overall visitor arrivals.

To realise this objective in the increasingly competitive tourism sector, regional governments must be prepared to take actions and make changes that will encourage key industry players to become more agile and more creative in their responses to market demands.

Other industries can similarly benefit from improved aviation services. Many Caribbean countries are, for example, major exporters of agricultural products. The availability of efficient air freight services can ensure quick market access for many of these goods which are also highly perishable; and better connectivity can expand geographical coverage by bringing additional markets into range.

Speedy delivery, backed by reliable and reasonably priced air services, can also play a critical role in helping investors to penetrate the advanced manufacturing sector; to further diversify the regional production base; and to potentially play a more substantial role in the global supply chain.

Bearing in mind the concept I described earlier of a Caribbean aviation industry that is convenient, flexible and cost competitive, I wish this morning to do two things. First, I want to outline, very briefly, the current state of the industry in the Region. And second, I want to propose several key actions to uplift the contribution of the aviation industry to regional development.

### ***State of Regional Aviation Industry***

How would I describe the current state of the regional aviation industry?

As has happened in other parts of the world, increased competition, innovative technologies and new business models have transformed the regional aviation industry by lowering fares and expanding connectivity. As a result, airlift from our

main tourism source markets in North America and Europe has been robust. Traditional airlines have added more flights and new routes; and new markets have created more choice and increased travel flexibility.

The picture is much less impressive for intra-regional travel. A recent study commissioned by CDB, in collaboration with IATA, pointed to the contrasting fortunes of intra-Caribbean and extra-Caribbean air travel. Between 2007 and 2017, extra-regional traffic rose by 76% to roughly 23 million, while intra-regional traffic fell by 2% to 2.7 million. Similarly, connections and frequencies from outside the Region rose; but the number of intra-regional routes stagnated and frequencies fell. These losses in connectivity were due, in part, to consolidation by some operators and the complete exit from the market by others. Within the Eastern Caribbean, declining air traffic coincided with a reduction in Caribbean-sourced tourists, and pointed to limited opportunities for multi-destination travel.

The state of intra-regional air travel is a well-worn topic for conversation in the Region. A November 14, 2012 article in *Travel Weekly* described the situation very well. Entitled '*Caribbean Turbulence*', the article chronicled the experiences of hotel executives travelling to attend a meeting in St. Kitts and Nevis. One executive took 12 hours to travel from Bonaire to St. Kitts. He left his home at 7 a.m. and required four flights on three airlines before arriving at his hotel at 9.20 p.m. According to the article, the Executive declared that he could have flown directly to Amsterdam in half of that time!

Business travelers in 2018 are still encountering the experiences described in that 2012 article. Often, they must overnight, and sometimes spend as many as two nights in a country, when better connections would have facilitated a same-day return.

Other factors also compromise the quality of the travel experience. Take for example, the health certificate requirement which can cause lengthy delays on the tarmac when the aircraft lands; or the multiple screenings of intransit passengers even though they have not exited the designated sterile zones. The long delays at Passport Control or at Customs at some airports add to the frustration for regional and international travelers.

In addition to being inconvenient, intra-regional travel is very expensive. High costs have constrained connectivity. The lack of scale economies does make some costs unavoidable. But there are other costs which can be avoided if more attention is paid to enhancing the overall business environment and improving

airline efficiency.

Turning to the business environment, high taxes on airline tickets and airport-related fees and other charges have, in many instances, raised fares to uncompetitive levels, especially for intra-regional travel. Intra-regional travelers also bear a disproportionate amount of the costs associated with underutilised airport infrastructure.

Intra-regional fares have risen steadily to the point where it is often cheaper to fly to the Eastern Seaboard of the United States than it is to fly to neighbouring Caribbean islands.

In the Eastern Caribbean, in particular, air transportation connectivity challenges also stem from operational inefficiencies within the principal air carrier, LIAT, and issues in the business environment within which it operates. The inadequate arrangements for funding LIAT; weaknesses in its internal governance framework; and an antiquated industrial relations environment add to its difficulties and militate against the attainment of better connectivity in the Eastern Caribbean sub-region. An inevitable outcome of this situation is the fall-off in passenger numbers.

### ***Transforming Aviation in the Caribbean***

Against this backdrop, how do we transform the aviation industry within the Caribbean to improve connectivity, reliability and competitiveness?

Let us consider first the matter of Open Skies, which is, in effect, the practice of deregulation and free-trade in the industry. This one action has the potential to bring about major enhancements in travel convenience, efficiency and cost.

Regrettably, the intra-regional market is not yet fully open. Despite a plethora of bilateral air service agreements, point-to-point flying outside of these agreements is not permitted. A comprehensive Open Skies agreement would encourage innovation and competition. It would also facilitate greater cooperation among airlines, allowing routes to be served by carriers with the most suitable fleet. Such action would expand the number of available routes, increase frequencies, lower fares, and stimulate growth in the number of passengers and the volume of freight.

In this regard, the success of the European Union Open Skies Agreement, which has led to a highly competitive landscape in European aviation, might offer

some important lessons.

I am encouraged that CARICOM Heads of Government, at its 29th Inter-Sessional Meeting in February 2018, signed on to the new CARICOM Multilateral Air Services Agreement (MASA), and called for it to be adopted. To maximise the benefits of Open Skies, however, fair competition must be encouraged, even when government-owned carriers are present in the market, to allow for new players to participate effectively within the space.

The next initiative to transform the regional aviation industry must speak to the cost of travel. The debate around taxes, fees and charges will doubtless persist in various fora. Studies commissioned by CDB, nevertheless, confirm that air travel is price elastic, so that reductions in these imposts should lead to increased travel, which in turn, should lead to additional tax revenue flow to replace some of the revenues foregone. Additionally, one should expect secondary benefits to government revenue arising from the in-country spend associated with the larger number of visitors.

The third consideration is that of regulation, which needs to be harmonised across the Caribbean aviation space. With the exception of the Eastern Caribbean Civil Aviation Authority, which controls the OECS air space, regulatory harmonisation in the wider Caribbean is not common, thereby adding another layer of complexity and cost to airline operations in the region.

The International Civil Aviation Organization has recommended standardisation in the approaches to regional safety oversight in areas such as licensing, aviation security, certification, inspection and surveillance. I am also aware that the Caribbean Aviation Safety and Security Oversight System has been taking steps in this direction. Any measure that reduces operating costs, without compromising safety, will benefit passengers in a competitive market.

Finally, to enable enhancements in connectivity, reliability and competitiveness, Caribbean airlines will need to strengthen their own internal operations. In the Eastern Caribbean sub-region, CDB has, over a period of many years, assisted the shareholders of LIAT with financial support and technical assistance, because we recognise its importance in the current market. Further assistance from CDB will, however, be conditional on a far-reaching transformation of the business environment within which LIAT and other airlines operate in the sub-region, and clear evidence of the adoption of wide-ranging governance and other internal reforms by LIAT. The recapitalisation of the airline will also be contingent

on these reforms being implemented.

## ***CONCLUSION***

Ladies and gentlemen, in my remarks this morning, I have called for a new paradigm for regional aviation in the Caribbean. This would be underpinned by a menu of reforms to achieve comprehensive improvement in the Caribbean airline industry's performance and in the customer travel experience.

This is an agenda which promises much, and one whose time has surely come.

The CDB, in collaboration with the shareholders of LIAT, has commissioned a study which outlines a credible strategy for transforming the quality of air services in the Eastern Caribbean sub-region. It calls for far-reaching changes by all of the major stakeholders – governments, industry regulators, representatives of workers, and the management and staff of the airline.

The actions required are well defined and pressing. Time is not on our side. Stakeholders need to do what is right, not what is easy. At CDB, we remain committed to ensuring that, this time around, we will get it right.

Thank you.