

AIR

TRANSPORT

SECTOR

In the Caribbean Region



Improving lives

Infrastructure and Environment Sector / Transport Division

Inter-American Development Bank

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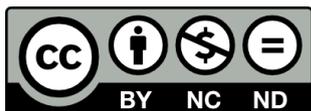
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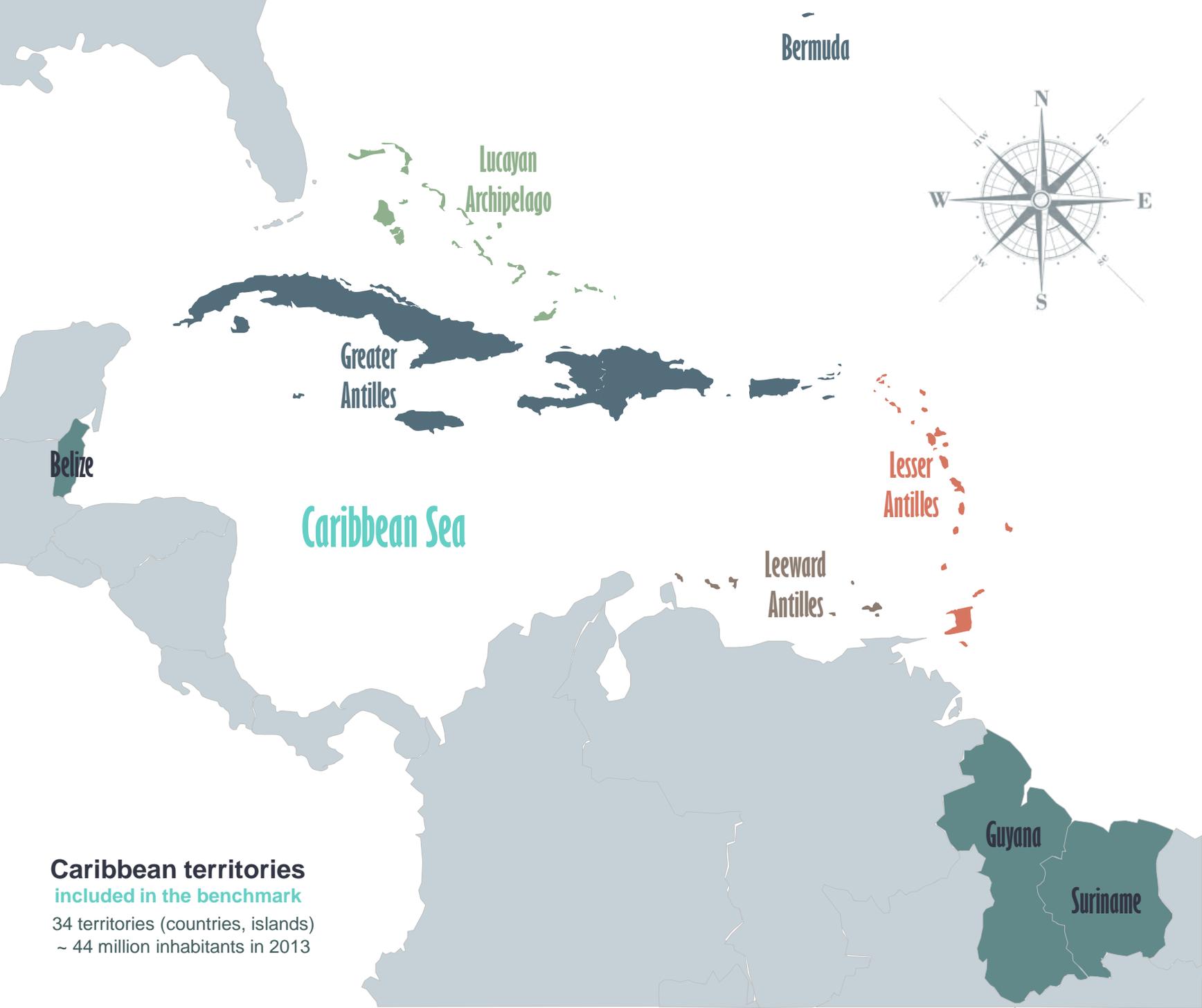
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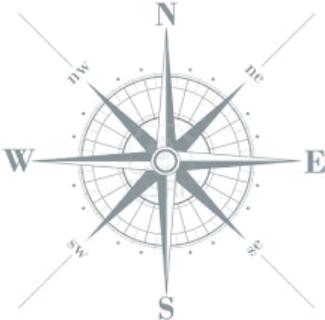
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Bermuda

Lucayan
Archipelago



Greater
Antilles

Belize

Caribbean Sea

Lesser
Antilles

Leeward
Antilles

Caribbean territories
included in the benchmark

34 territories (countries, islands)
~ 44 million inhabitants in 2013

Guyana

Suriname

Introduction

Following the 2012 Air Transport Regional Policy Dialogue, led by the Transport Division of the Inter-American Development Bank (IDB), the IDB at the request of the Caribbean countries has gathered information and performed analyses on the Air Transport Sector in the Caribbean. As a result, in 2014, the Caribbean Country Department of the Inter-American Development Bank (IDB), in collaboration with the Integration and Trade Sector and the Transport Division, developed its Strategic Agenda on Integration (SAI) - a tool used for the development of a pipeline of sovereign guaranteed and non-sovereign guaranteed operations in key thematic areas of global and regional integration. From the perspective of the client, the Caribbean SAI has been useful in clarifying IDB priorities and areas in which the Bank is deemed to have solid experience and a strong comparative advantage.

In consultation with Caribbean governments, the SAI identifies operational opportunities in four primary sectors: trade, tourism, energy and transport. In the latter sector, these include the upgrading of airports and the strengthening of regulatory frameworks in air transport to improve air transport connectivity. To determine the way forward in this thematic area, a comprehensive study of the Caribbean Air Transport market was undertaken to develop a deeper understanding of the factors that most influence the development, or lack thereof, of the regional air transport market.

The objective of this booklet is to summarize the study and create a common understanding of the key issues affecting the Caribbean air transport market for stakeholders and identify the actions that would contribute to the further development of air connectivity in the Caribbean.





Overview

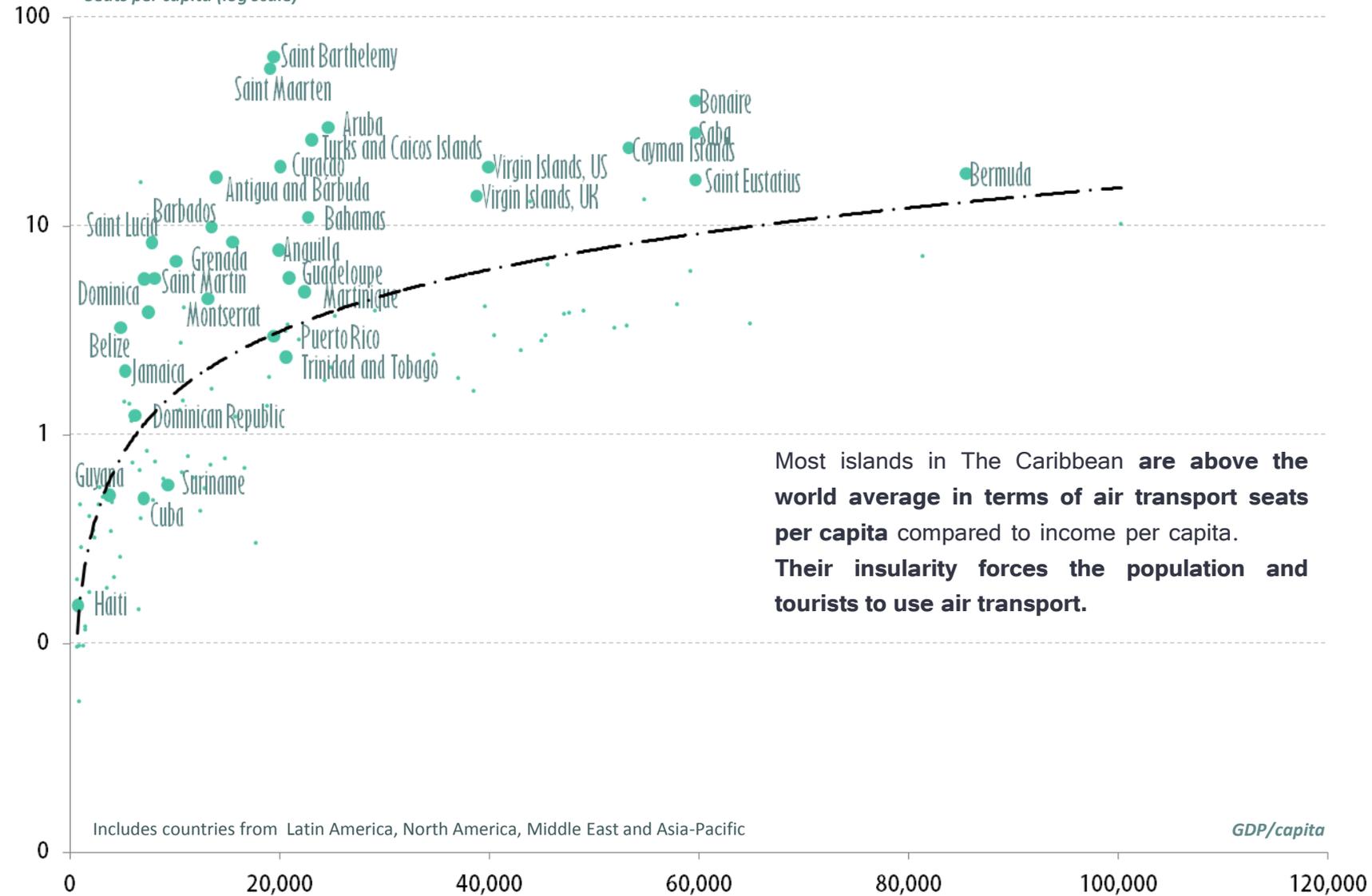
The small and isolated nature and tourism dependency of Caribbean countries strongly shapes and influences the regional air transport market.

The following pages give an overview of the air transport market and how these factors make the regional market unique.

Caribbean countries due to their isolation are highly dependent on air transport for international travel.

Propensity to fly (domestic + international seats 2013)

Seats per capita (log scale)



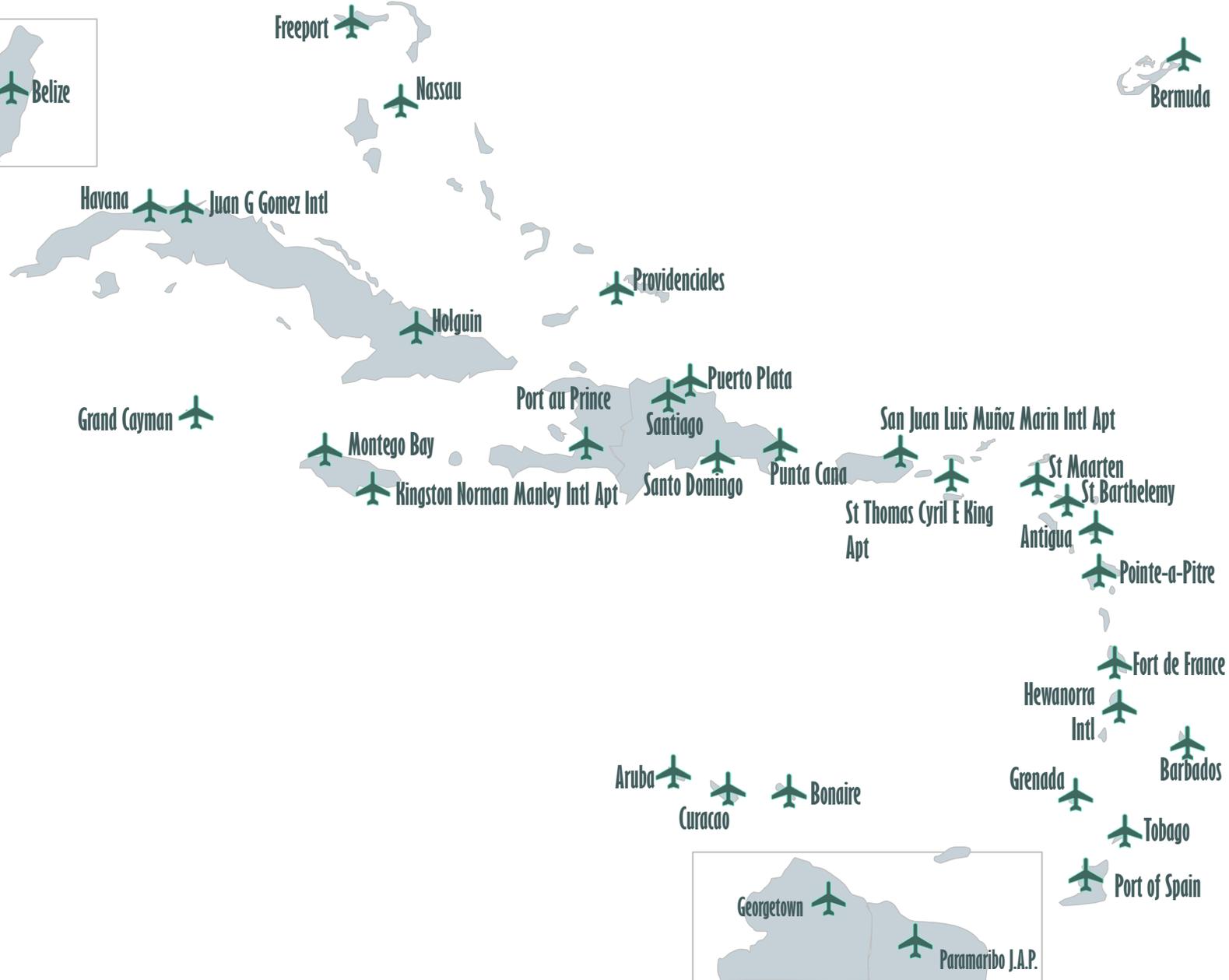
Most islands in The Caribbean are above the world average in terms of air transport seats per capita compared to income per capita. Their insularity forces the population and tourists to use air transport.

Includes countries from Latin America, North America, Middle East and Asia-Pacific

GDP/capita

Source: OAG, Airbus, IMF, Caribbean Governments

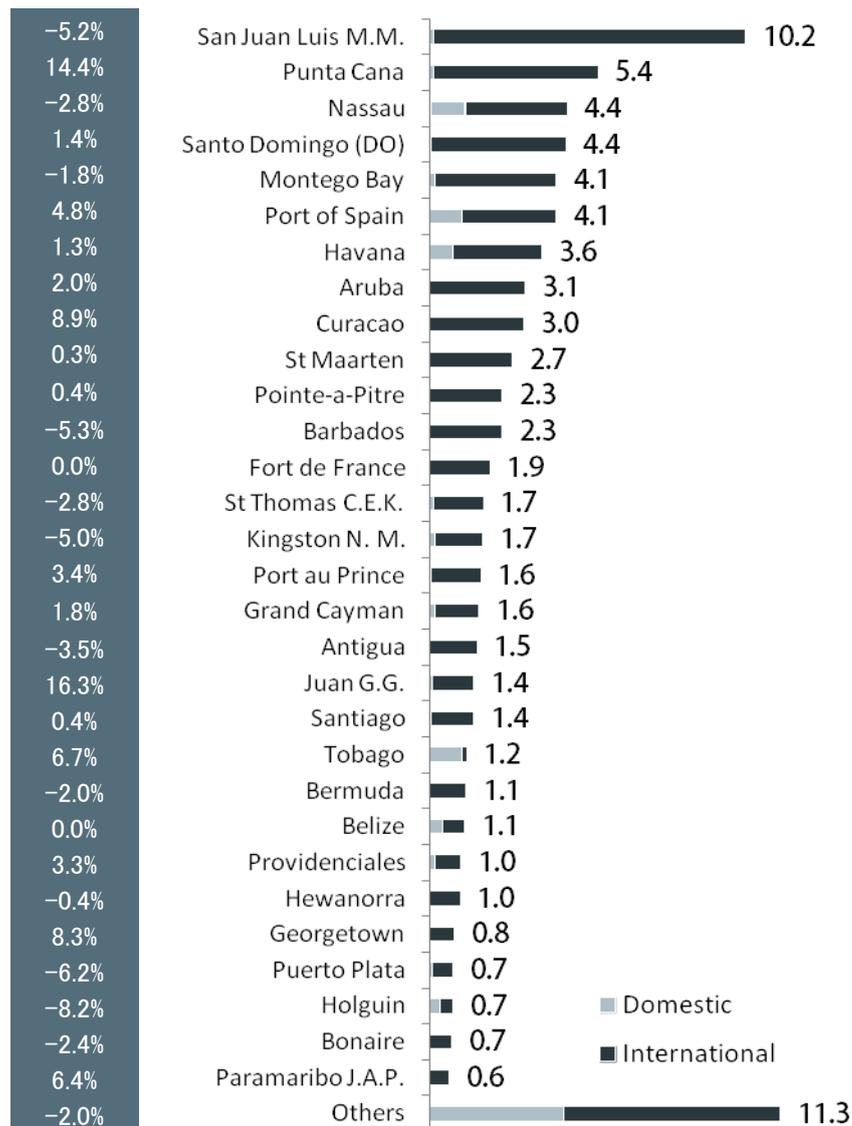
The Caribbean has many airports and routes providing reasonable levels of service to large origin hubs for tourism (mainly in North America and Europe) but poor levels of service between islands.



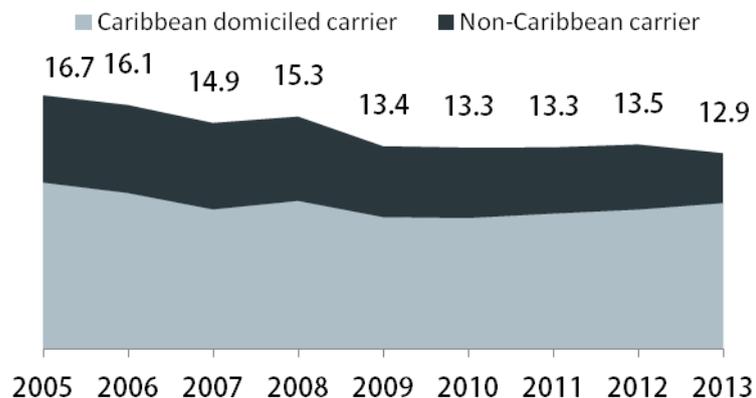
The small size of most Caribbean islands makes domestic flights non-existent and most international traffic is oriented towards North America and Europe, the origin of most tourists and home to large diasporas of Caribbean expatriates.

CAGR '05-'13

Top 30 Caribbean airports – Million seats, 2013



Evolution of Intra-Caribbean market
Million seats 2005-13



The Intra-Caribbean market is mostly shrinking.

There is a low concentration of air traffic and no large airport hubs in the region.

The top 10 airports account for 54% of the region's capacity and 75% is concentrated in the top 20.

Over 70 airports in the region have more than one weekly international flight.

The strong dependence of Caribbean economies on tourism creates an air transport system that is highly seasonal and primarily driven by inbound traffic to the region.



The Caribbean region receives

21.9 million

tourist arrivals (excludes cruise ship passengers), accounting for a 2% share of world tourist arrivals



The air transport offer in most Caribbean territories is well above the world average, due to its insularity and the strong dependence of its economies on tourism.



Most traffic for Caribbean territories is inbound (tourists visiting the countries). Outbound traffic is weak from most of the territories.

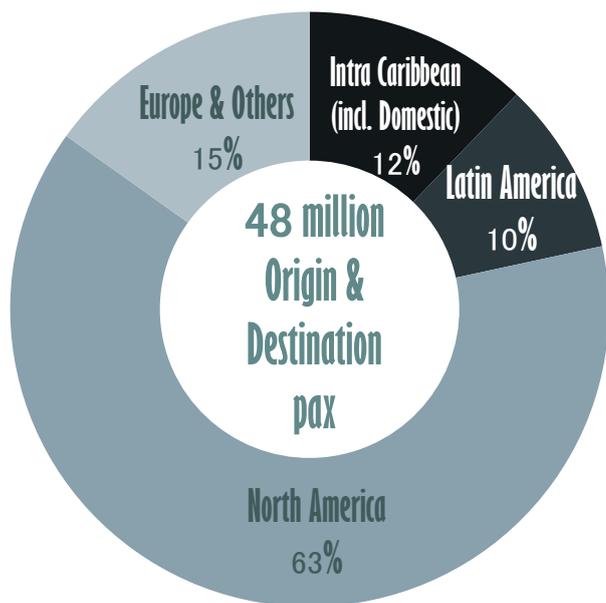


Demand is seasonal. There is more than 30% difference in seat capacity between peak months and low season.

Most inbound traffic is from North America (there is good air connectivity with tourism origin markets, but not so good with other Caribbean countries).

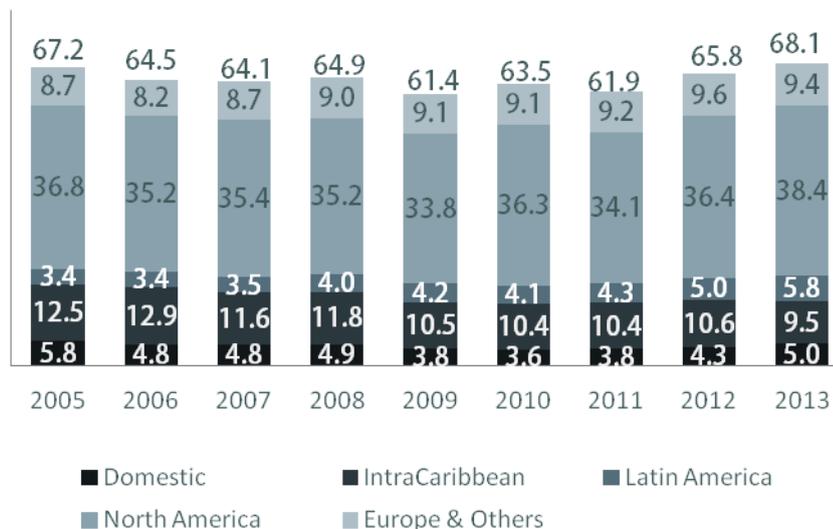
O&D passengers' split in the Caribbean – 2013

North America over 30 Million pax
Europe over 7 Million pax
Latin American 4.5 Million pax
Intra-Caribbean almost 6 Million pax



Source: ALTA, ICF-SHE

Scheduled seats evolution per market – 2005-2013



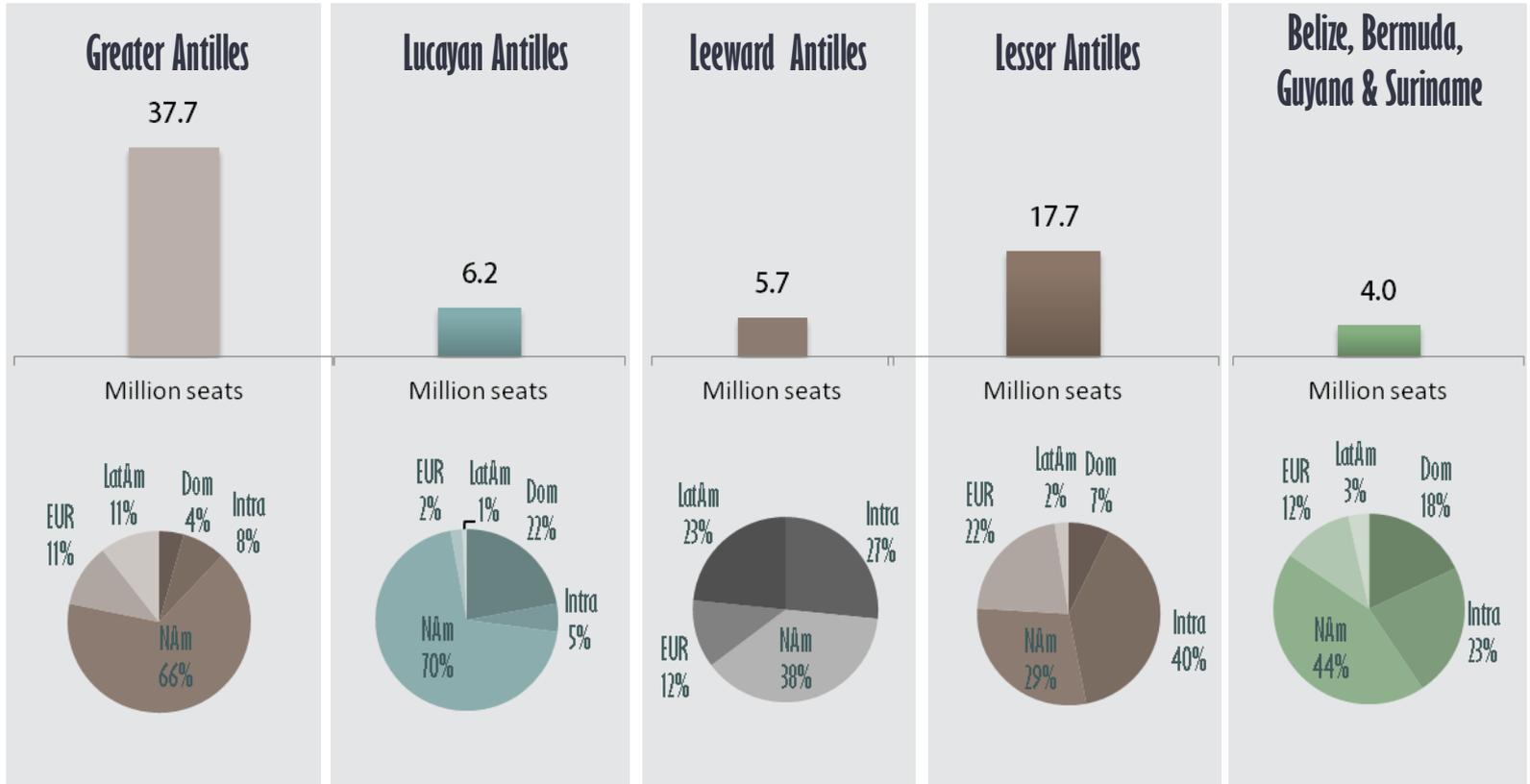
Source: OAG

Domestic & Intra-Caribbean markets have experienced continuous capacity reductions, with an average annual combined decrease of -2.9%

However, **other international markets** (Latin America, North America, Europe & Others) **had positive growth**, with an overall average annual increase of 0.2%

Seat capacity is oriented towards markets with historic and cultural ties.

Total scheduled capacity and market distribution by Caribbean archipelago and % Split by Region



Traffic Composition: North America represents more than two thirds of the traffic in the Greater Antilles, Lucayan & Bermuda, whereas the market is more evenly distributed in the Lesser and Leeward Antilles.

Barbados is dominated by seats to Great Britain and the US; Martinique is oriented towards France; and Jamaica, to the US, Canada, and Great Britain.

Some reasons there are positive growth with the North American and European markets.



North America is the origin and destination for almost **2/3 the passengers**



The **Caribbean region has a high degree of liberalization with North American and European markets...**

There are numerous Open Skies Agreements in force (e.g., St Kitts & Nevis (2011), Trinidad & Tobago (2010), Barbados (2010), Jamaica (2002), Dominican Republic (2001), and Netherland Antilles (1998))

There are numerous airline incentive schemes aimed at promoting Caribbean air traffic development

...but, on the other hand, the Intra- Caribbean market is still fairly regulated...

Existence of restrictive bilateral Air Service Agreements (ASAs)

Multilateral ASA signed by members of the CARICOM guarantees 3rd and 4th freedoms, but fails to provide 7th or cabotage freedoms, multi-carrier designation and free pricing.

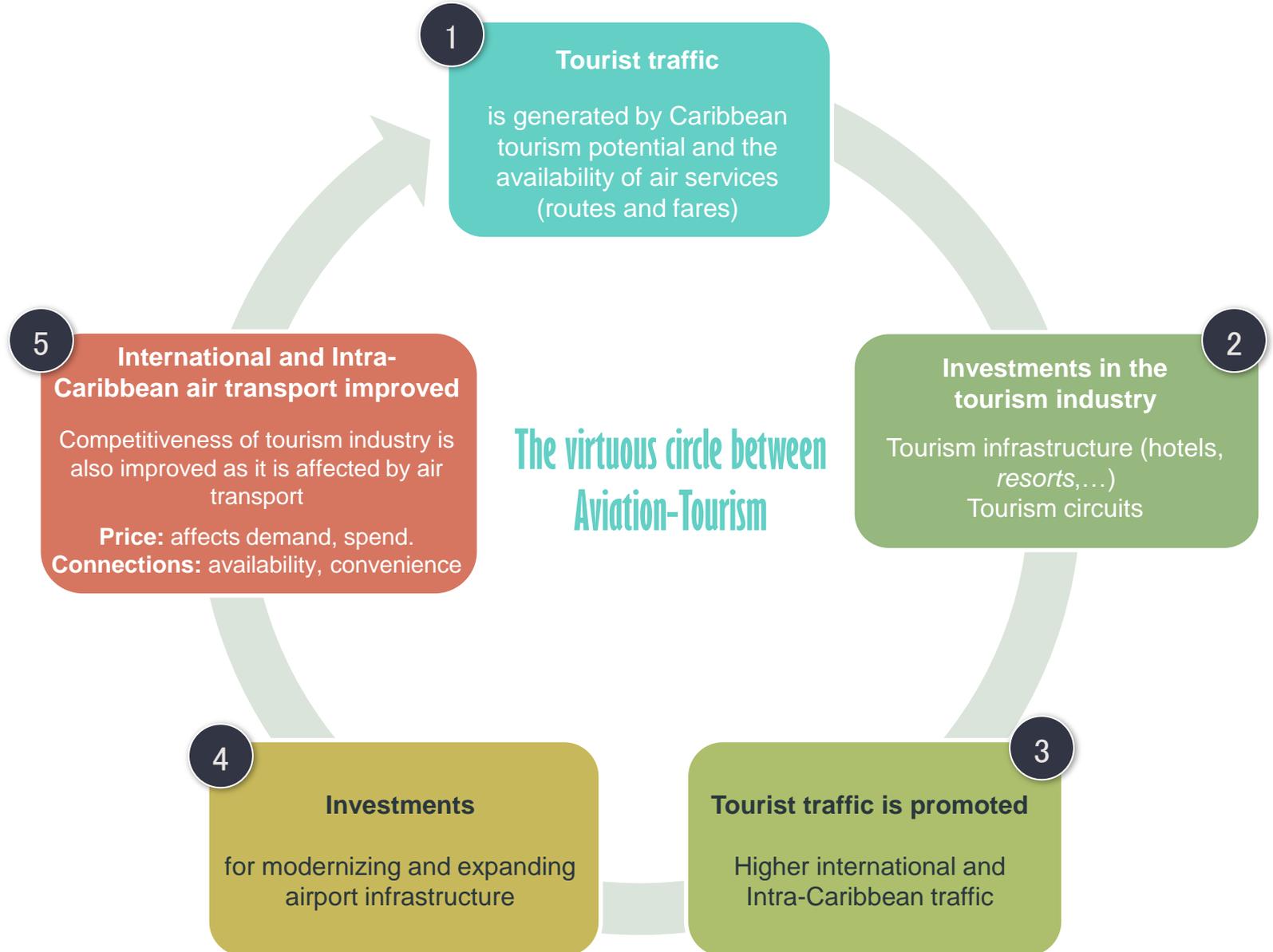
“The policy of liberalization has been effective in securing cost effective, reliable and quality air transport services, whereas air service agreements (ASAs) that are too restrictive can hinder the development of air transport”

The Caribbean is growing slowly compared to other LAC air transport markets.



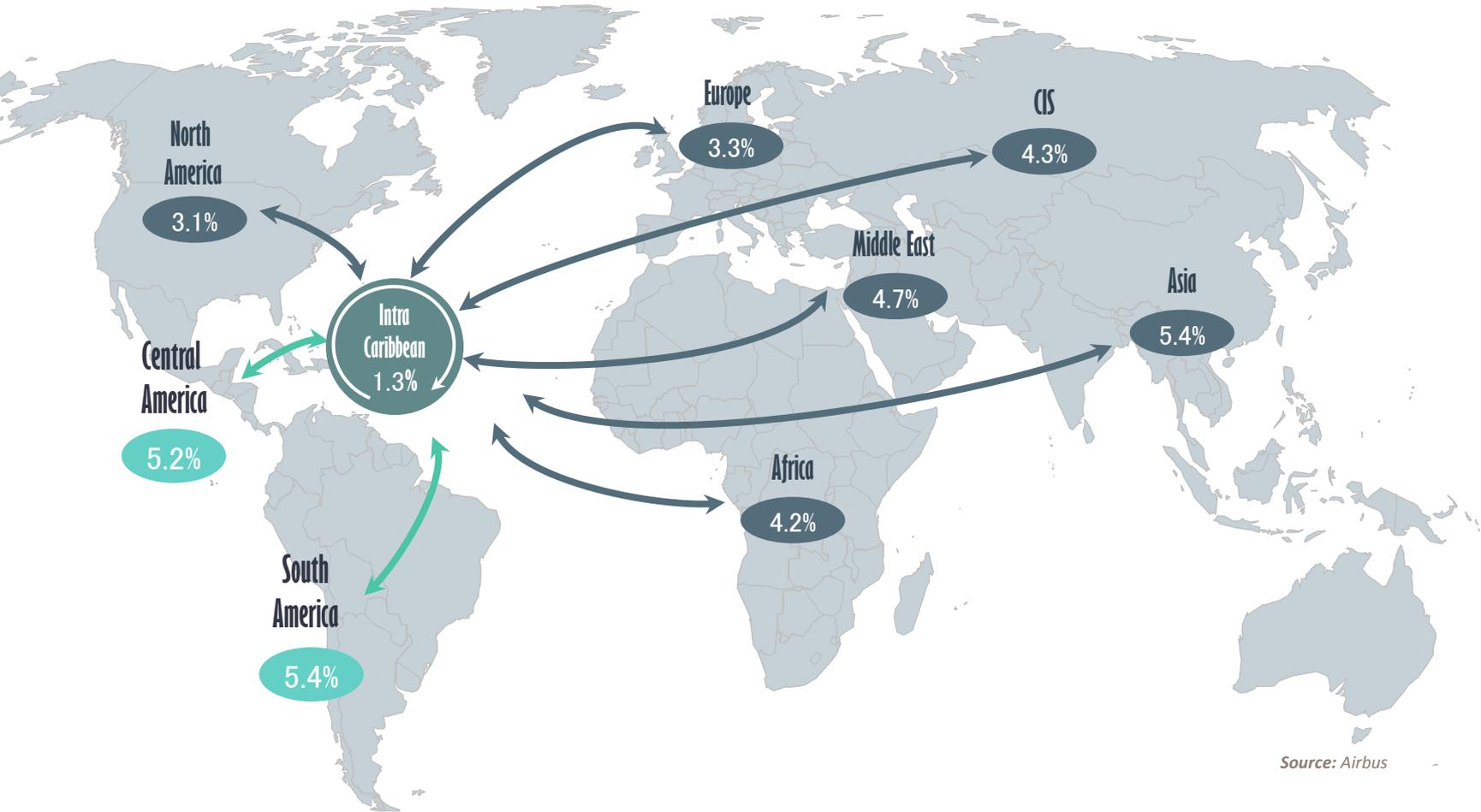
LAC has one of the fastest growing air transport markets in the world. In contrast, the Caribbean has one of the lowest growth rates.

The strong dependence of Caribbean economies on tourism strongly ties the aviation industry to the direction of the local tourism economy and vice versa.



The rapid growth forecasted for the Latin American air transport sector could be an opportunity for the Caribbean to develop stronger links with Latin America (especially with South America) and increase tourism from this region.

Airbus traffic forecast:
Average annual growth rates 2013-2032 between Caribbean (traffic growth CAGR 2013-2032, %)



The Latin American region's expected GDP growth, rising middle class, and increasing number of outbound tourists should be considered an **opportunity for tourism development in the Caribbean**. The close proximity **benefits** the Caribbean compared to other Asian or Indian Ocean destinations.





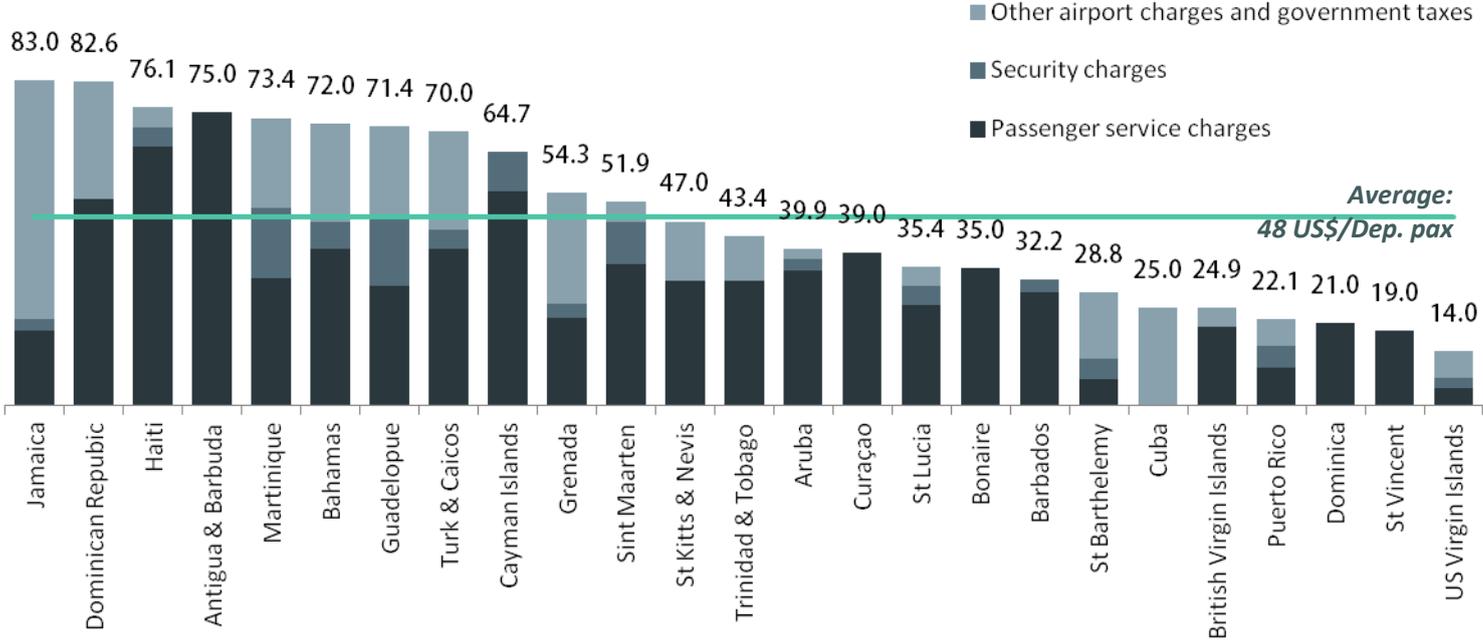
Challenges

The small and isolated nature and tourism dependency of Caribbean countries creates challenges in the air transport sector such as:

- 1** Small scale in operations
- 2** Small local airlines and airports that have limited flexibility to deal with a cyclical/seasonal tourism industry
- 3** Orientation towards a few large tourism origin economies that creates economic dependence

Small passenger loads per international airport require higher taxes to support air transport infrastructure, making a location less cost competitive with larger tourism destinations.

Benchmark of passenger-related charges (passenger service, security and others) in Caribbean airports - 2014



In general, **levels of demand, passenger load factor and levels of competition in Intra-Caribbean routes are low, compared with those of more mature markets.**

The Caribbean region has high airport charges as a consequence of a lack of economies of scale. The average departing passenger charge is US\$ 48.

High airport charges & taxes for outbound traffic can represent a large proportion of ticket prices for **intra-Caribbean traffic.**

The small and isolated nature of Caribbean economies makes the cost of fuel and other commodities more expensive as quantities purchased are small and distances traveled from refiners are great, hurting cost competitiveness.

FUEL prices

Airport Fuel Prices 21 Mar 2014	Jet fuel price cts/gal	Index Value 2000=100
Asia & Oceania	285.2	342.2
Europe & CIS	289.6	327.7
Middle East & Africa	280.6	351.9
North America	285.6	318.9
LAC	298.1	346.8

Source: IATA

Airport fuel prices in LAC are, on average, **higher than in other regions.**

Fuel costs are the highest single cost line for operating a long-haul service.

IATA estimates that **fuel expenses across the Caribbean are around 14% higher than the world average.**

High fuel prices contribute to **making Caribbean territories a costly destination** to operate.

The small volumes of passengers per route at most Caribbean airports disproportionately places the maintenance of essential air services on the public sector.



Intra-Caribbean fares are higher

than those of more mature and larger markets
(such as the intra-European or intra-US)



Caribbean-domiciled airlines have

small passenger volumes



NONE of these airlines are members of
international airline alliances

and there is not an extensive use of
commercial agreements (code share
agreements)

Besides airport and fuel costs, **there are other expenses generated in the Caribbean** when launching an international route, such as:

Airport handling, the cost of air navigation, the administrative staff in the country, expenses in hotel for on-board staff, sales commissions, etc.

Such costs can impact the competitiveness of a country.

Airports are numerous in the Caribbean with low traffic, meaning they usually are subsidized.

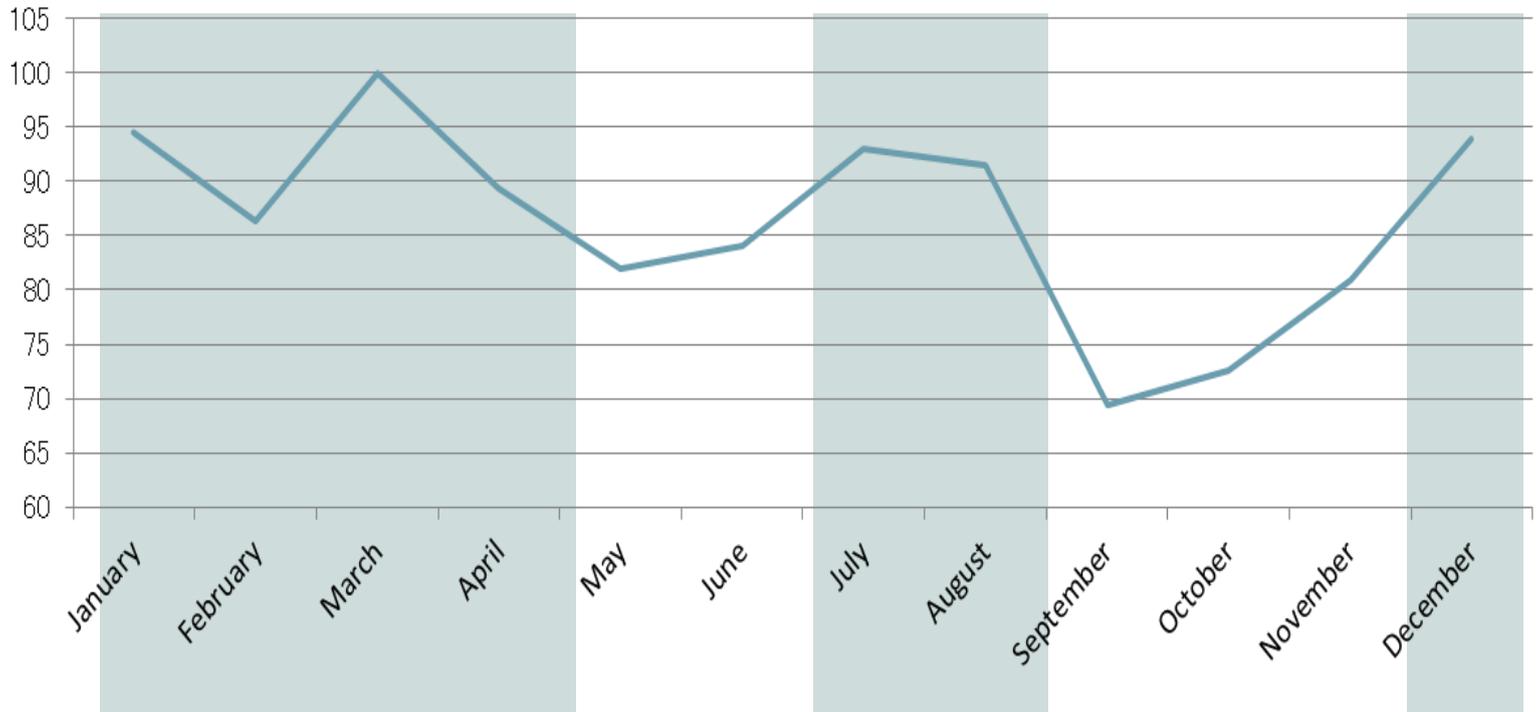
There are also many routes to small destinations, it means, few passengers on most routes: use of less efficient planes.

Efficiency in managing costs is the key factor to ensure competitiveness for airlines:

In general, operations in the Caribbean islands will have higher costs than larger markets as a consequence of small volumes.

The seasonality of air transport demand as a result of the tourism cycle requires flexible airlines and airports, which is challenging for the small airlines and airports of the Caribbean.

Caribbean departing seating capacity per month (2013)



Base 100: March

Sources: OAG

Seasonality could have a high impact on tourism: **Tour operators and airlines find it difficult to meet demand during high season;** tour operators are not able to fully accommodate high season demand.

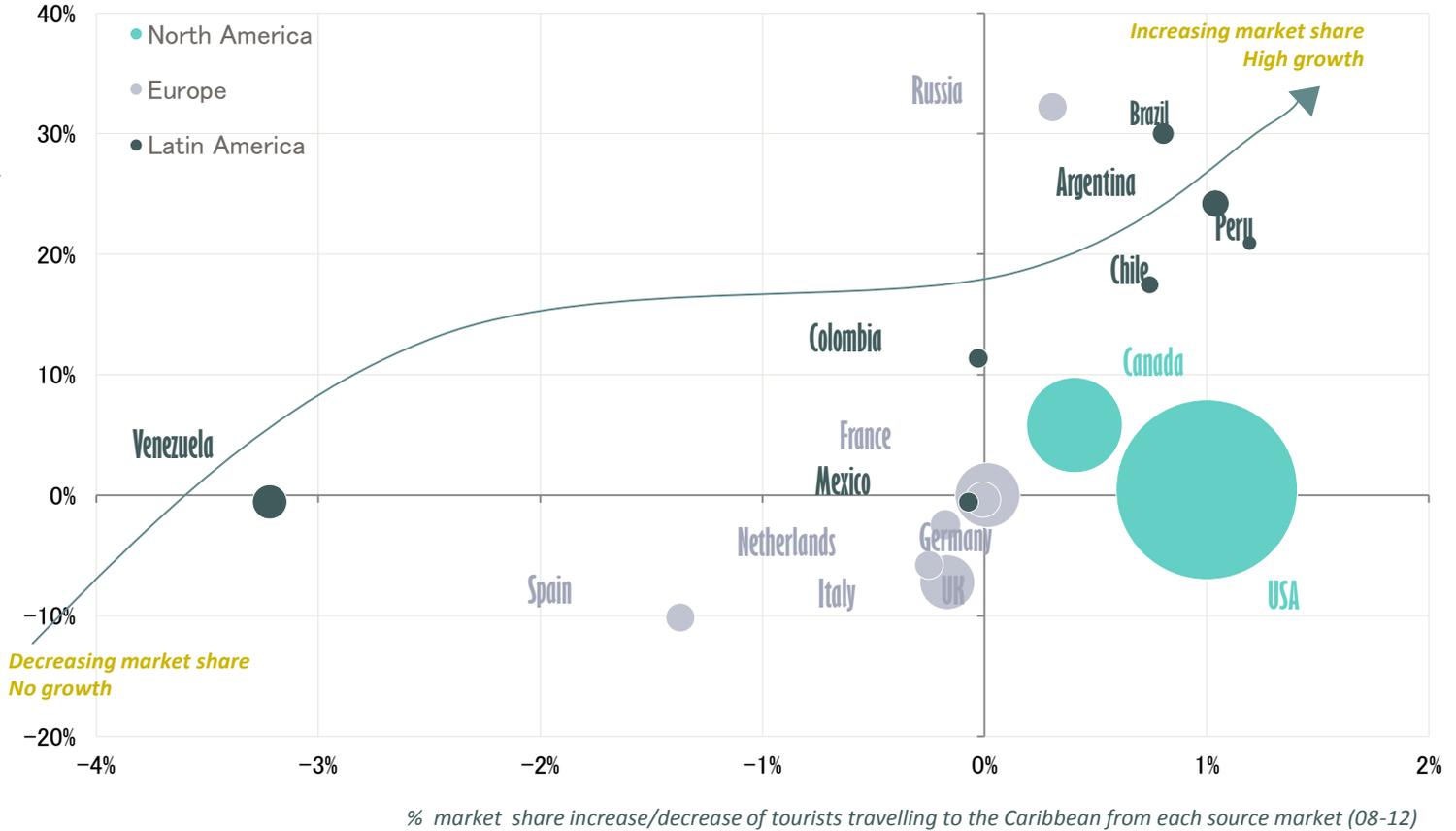
Airlines find it difficult to reduce capacity during low season, which causes losses during this period.

Orientation towards a few tourism markets makes local air markets/economies dependent on the tourism origin markets.

Evolution of main tourist origin countries to the Caribbean (2008-2012)

(Bubble size indicates number of tourists to the Caribbean)

Growth in numbers of tourists to the Caribbean from each source market (CAGR 08-12)



In general, the Caribbean is losing importance among international outbound European tourists and tourist numbers have decreased. The Caribbean is maintaining its market share for international outbound tourists from USA and Canada but absolute tourist numbers are almost flat for the USA.

South America (primarily Brazil, Argentina, Chile and Peru) has the most dynamic sources of tourism growth for the Caribbean.

Usually tourism is one of the first expenses cut when the economy worsens.



Recommendations

INTERNATIONAL MARKET

Promote new route launches and traffic growth

REGIONAL MARKET

Create profitable and financially sustainable regional airlines

INTERNATIONAL MARKET

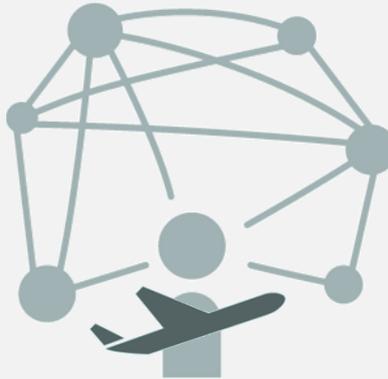
Promote new route launches and traffic growth.

1 Avoid creating barriers to air transport



Provide a level of openness (legal and regulatory framework) and adequate infrastructure that will not limit the development of air transport

2 Promote the development of air connectivity & Air Transport Growth



Promote the development of air connectivity so that it benefits the country

3 Demand is the key element – Supported by appropriate tourism strategies



Strengthen tourism demand. Demand is the key factor for developing air transport

Attract international airlines and promote new route launches and traffic growth. Air route development requires a number of actions in air transport and tourism sectors: **Development of tourist destinations and the attraction of airlines to create new routes.**

Air transport will not develop if tourism products & development strategies are not **appropriate for its target markets.**

REGIONAL MARKET

Profitable and financially sustainable REGIONAL AIRLINES.

1 Regional market integration



2 Regional airlines: functional cooperation, alliances or integration



3 Regional airlines: alliances with international airlines



4 Mechanism to support Intra-Caribbean essential air services



5 Strengthening Regional airlines



6 Demand is the key element – Supported by appropriate tourism strategies



In order to provide efficient air transport for nationals and visitors, **regional airlines providing services need to be able to compete & become profitable.**

One large market is more attractive for airlines than several small markets.

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