DRAFT FINAL REPORT

Ref: PE2/003

Contract Title: A Study on the Factors Inhibiting Intra-Regional Travel in the OECS

Prepared for the OECS Commission and

Provided with the Support of the European Union

by El Perial Management Services

MARCH 26, 2015

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LIST OF ACRONYMS

ANU:		Antigua Airport IATA Code
AOC:		Air Operator's Certificate
APIS:		Advanced Passenger Information System
ASA:		Air Services' Agreement
ASSI:		Air Services Support International, UK Department of Transport
ATLA:		Air Transport Licensing Authority
ATLB:		Air Transport Licensing Board
AXA:		Anguilla Airport IATA Code
BGI:		Barbados Airport IATA Code
BVI:		British Virgin Islands
CARICOM:		Caribbean Community
CASSOS:		Caribbean Aviation Safety and Security Oversight System
CDB:		Caribbean Development Bank
CTO:		Caribbean Tourism Authority
DOM:		Dominica Airport IATA Code
ECCAA:		Eastern Caribbean Civil Aviation Authority
ECCB:		Eastern Caribbean Central Bank
EIS:		BVI Airport IATA Code
EU:		European Union
FCL:		Full Container Load
FDF:		Martinique Airport IATA Code
GDP:		Gross Domestic Product
GND:		Grenada Airport IATA Code
ICAO:		International Civil Aviation Organisation
IATA:		International Air Transport Association

LIST OF ACRONYMS Cont'd

LCL:		Less Container Load
LIAT:		LIAT (1974) Limited
MASA:		Multi-lateral Air Services Agreement
MDC:		More Developed Country
MIST:		Management Information System for Tourism
MNI:		Montserrat Airport IATA Code
NEV:		Nevis Airport IATA Code
NM:		Nautical Mile
O-D:		Origin-Destination
OECS:		Organisation of Eastern Caribbean States
Pax:		Passenger
POS:		Trinidad Airport IATA Code
PSS:		Passenger Service Solutions
PTP:		Guadeloupe Airport IATA Code
SKB:		St. Kitts Airport IATA Code
SLU:		St. Lucia Airport IATA Code
SVD:		St. Vincent Airport IATA Code
SXM:		St. Maarten Airport IATA Code
T&T:		Trinidad and Tobago
TFCs:		Taxes, Fees, Charges
VFR:		Visiting Friends and Relatives

EXECUTIVE SUMMARY

Work on this Study was informed by the expectations of key stakeholders that the results will offer viable, practical resolutions to the challenges related to the air transportation sector in the region. To achieve this outcome, El Perial approached the project primarily from the perspective of persons travelling or potentially travelling within the OECS Region. To inform and assist with this approach, three (3) types of surveys were conducted across the OECS Region during the Study to take account of three (3) key stakeholders:

- Tourism Authorities
- Business Organizations
- General Public

The surveys for the Tourism Authorities and Business Organizations were supplemented by interviews that probed deeper their responses to the questionnaires.

THE INTRA-OECS MARKET

Travel by residents of the OECS Group countries has been constrained by very small populations, small but slowly growing economies with high unemployment levels – foundation factors that inhibit the inherent demand for travel. Moreover, National Tourism Authorities of the OECS destination countries have by and large given the intra-OECS Stay- Over Visitor source markets relatively low priority compared to the traditional ones of the USA, UK/Europe, Canada and non-OECS Caribbean. This priority is currently not expected to change significantly over the next three (3) years.

The intra-OECS travel of business persons is constrained primarily by poor connectivity and cost of airfares, in that order. The general public is constrained by poor connectivity, high cost of accommodation (a possible reflection of the relatively low incomes in the OECS), high airfares and low immediate desire to fulfill his/her travel and vacation needs by visiting other OECS countries (a reflection of the low perceptual association between the attractors of the destinations' offering and the deeper vacation and lifestyle needs of the OECS traveler)

Although both factors – poor connectivity and high airfares - are important, poor connectivity appears to be a more significant constraint to intra-OECS travel.

Analysis of available data showed that in 2013, intra-OECS stay over visitors comprised 19% of Caribbean stay over visitors to the OECS Group countries. Antigua, St. Lucia and Dominica were the top three destinations as well as the top three source markets for intra-OECS stay over visitors. The available data (although incomplete) tended to show that intra-OECS travel comprised no more than 22% of total outbound travel by residents of OECS Group countries. When this information was shared with a number of Tourism Authorities it was noted that interest was to some extent awakened in the OECS as a source market. Given that it is easier to divert a market particularly when the greater share of the market (100% minus 22%) is not "owned" by a destination or region, rather than create new ones, and this is especially the case under conditions of relatively weak economic environment, the first challenge therefore for the

OECS Tourism Authorities will be to develop strategies aimed at attracting additional overall travel demand to OECS destinations.

While airfares and quality of air service do not fall within the control of the Tourism Authorities, enhancing the basic gravitational pull of OECS countries as leisure destinations for OECS residents as well as achieving higher value for the cost of accommodation are reasonable remits for these Authorities.

The Study recommends that the Tourism Authorities accelerate the trend towards understanding the behaviours, lifestyles and need states of their core and growth markets, thus transcending geographical boundaries as they seek to align their product offerings with these needs. In this way the OECS resident is no longer seen as part of a small geographic market but rather as part of a larger lifestyle/need state niche market that can be reached by the same digital communication media.

IMPACT OF AIRFARES

While the impact of airfares on intra-OECS travel is not as high as that of the quality of network connectivity, improvement in the latter takes significantly longer to implement and hence the possible speed of implementation of airfare changes increases its relative impact.

The Study shows that the geography of the OECS region leads to inherently high airfares with the final cost to the passenger further increasing given the quantum and structure of government taxes, fees and charges (TFCs) attached to the ticket cost. Moreover, given the structure of these TFCs, airline schedules that are characterised by high levels of connecting flights and high number or connecting one-way airfares rather than through-airfares can further increase the airfares paid by passengers as one-way fares attract taxes and charges associated with the intermediate stops while through-fares do not. The most recent data available on airfares in the OECS region, following a change in the airfare structure by LIAT as it reduced the number of one-way connecting fares and introduced a higher number of through-fares for certain city pairs reduced significantly the final airfares paid by passengers and showed that the mean:

- TFCs paid by passengers across the region was c.a. US$102 for a return trip
- TFCs as a percentage of the airfare paid by passengers was c.a. 20%

Prior to the change the mean:

- TFCs paid by passengers across the region was c.a. US$135 for a return trip
- TFCs as a percentage of the airfare paid by passengers was c.a. 23%

However, the revenue collected by OECS Group countries from intra-OECS travel was only c.a. US$5.8M, an 11% decline from what it may have been before the airfare restructure by LIAT. Since these airfare changes only recently came into effect, it is too early to measure their impact, on the number of persons travelling and on actual government revenues collected that may result from changes in passenger and visitor numbers. The analysis and examination of the price elasticity undertaken for the region however is intended to offer some guidance in this regard.

The online consumer survey that was conducted sought to track willingness by OECS residents to travel to selected OECS countries of their choice at different airfare levels. Analysis of the consumer responses for fifteen (15) city pairs show route price elasticity falling within the range of -0.78 to -1.72 with a likely regional intra-OECS price elasticity for airfares of -1.03.

The route price elasticities are such that from a regional perspective, total passenger revenue generated from airfares fell with a decrease in airfares as the stimulation in passenger volumes purely from the price effect was inadequate to compensate for the price decreases. Hence such a strategy would not benefit the airlines' sector. However if the price decrease does not affect the airline base fare and surcharges then the impact of the related increase in travel volumes on airline revenues is positive. This situation can be achieved if the price decreases occur only on the government imposed TFCs.

On the basis of limited available visitor spend information in OECS countries, the analysis shows positive regional benefit/cost ratios for government revenues when TFCs are decreased by 20%, 50% and 100%. However given the specific characteristics of individual city pairs it was noted that of the fifteen (15) city pairs analysed, two (2) appear to generate negative cost ratios.

While the trend is therefore encouraging, before final decisions are taken, it is incumbent that the OECS countries undertake further work on their visitor spend information to ensure a comfortable degree of accuracy of visitor spend data by source country to determine the benefits and costs to government revenues on a city pair basis and then aggregating to a country level to determine whether any countries suffer any negative benefit/cost ratios. Should this be the case, there may have to be inter-country allocation of revenues so as to achieve regional consensus on the way forward.

IMPROVING NETWORK CONNECTIVITY

Intra-OECS air travel is monopolised by LIAT whose aircraft size can be described as being in significant misalignment with the travel demand associated with a significant number of intra-OECS city pairs. As a result, the intra-OECS network can be further characterised by a large number of connecting multi-stop flights that lead to multiple physical passenger security checks at connecting airports, the latter because of current civil aviation safety and security practices. This structure leads to long travel times between geographically close airports; a situation that is made much worse when there are flight delays negatively affecting the perceptual value and convenience associated with Intra-Regional travel.

Based on the survey results, the market is clearly saying that poor network connectivity is the major constraint to intra-OECS travel and is urgently seeking more non-stop flights and higher frequency of flights between city pairs.

The primary solution seems to be to better align aircraft resources (increasing the numbers of operating aircraft with lower seating capacity) with seat demand so as to profitably meet the needs of the travelling public. The Study examines a more optimal mix of aircraft capacity across the region. A review of available capacity shows that in addition to the LIAT capacity, there are

a reasonably large number of 9-30 seat aircraft (3rd tier) operating in the Eastern Caribbean but a relatively small number are ECCAA registered.

A recommended solution of the Study is to allow/encourage LIAT to fly those Eastern Caribbean routes that better align with its aircraft resources and thereby increase its chances of earning a sustainable profit while freeing up those routes that are not profitable to LIAT to be operated competitively by regional 3rd tier airlines. This move would create the opportunity for the Eastern Caribbean 3rd tier carriers to step in and seek to provide improved network connectivity, hopefully profitably, to a travelling public that is hurting.

The proposed connectivity model operates effectively in the northern sector of the Eastern Caribbean and on the Trinidad-Tobago Air-Bridge.

A precondition for success however, is the creation of a legal and regulatory environment that will facilitate such operations within the OECS by Eastern Caribbean registered airlines.

IMPROVING THE LEGAL AND REGULATORY ENVIRONMENT

There are a number of separate Civil Aviation Authorities across the OECS countries. Some of these countries are administered by ECCAA, others by ASSI and now an additional group by the French Authorities. While there is effective harmony of technical safety and security issues across these jurisdictions, there are still variations that relate to commercial issues.

In order to resolve these as well as to facilitate the use of Eastern Caribbean aircraft resources to meet the legitimate connectivity demands of OECS residents the Study recommends:

- Urgent development and ratification of an open sky Multilateral Air Service Agreement (MASA) among the ECCAA countries such as to create a single commercial airspace
- The ECCAA countries jointly negotiate open sky agreements with their OECS partners that fall under the ASSI and French jurisdictions as well as Barbados, St. Maarten, Trinidad, Guyana, Suriname and the US jurisdiction for the United States Virgin Islands and Puerto Rico
- Establish an Air Services Development Fund in conjunction with interested funding agencies, primarily to provide financial assistance to bona fide groups based in the OECS member states that wish to acquire Air Operating Certificates
- Increase/deepen the resources of ECCAA to better allow it to meet the increased demand for its services that implementation of these recommendations will require.

RELATED ACTION PLAN

Increasing intra-OECS travel is a complex challenge that requires the synergistic impact of the key recommendation concepts defined in this Study. Cherry picking of recommendation concepts will significantly increase the risk of failure in achieving the overall objective of the Study.

There are a number of key preconditions at the political level that are necessary for success.

- Do the OECS member states accept that they do not have the aircraft resources to effectively meet the fundamental needs of intra-OECS air travel and that to do so they will need to give competent Eastern Caribbean airlines free access to their joint air space?
- Are the Ministers of Finance of member states prepared to jointly take the risk of removing the TFCs on intra-OECS airfares in order to stimulate intra-OECS traffic leading to the real potential of higher government revenues?
- Are the National Tourism Authorities prepared to give a higher priority to the OECS source market, to significantly reduce geographical silos in a revised approach to marketing, share information on the intra-OECS source market and clearly differentiate their product offerings so as to facilitate joint approaches to their target markets?

Full success requires resounding positive responses to these questions. The responses provide the basis for the effectiveness of any Action Plan that is developed.

Any effective Action Plan arising out of this Study is therefore predicated on the early approval of the Study recommendations and gaining and maintaining the commitment throughout the implementation period of influential sponsors at the political and administrative levels in the related organisations in each member state. Clear responsibilities with concomitant accountabilities must be defined and honoured.

This activity is a major challenge that the OECS Commission must be resourced and prepared to assume.

It is estimated that full implementation of the recommendations will take three (3) years with the legal and regulatory as well as the national connectivity recommendations defining the critical path.

CHAPTER I
INTRODUCTION

In its conduct of this Study, the El Perial team kept to the forefront the expectation of the OECS Commission and its stakeholders that the outcome will:

- add critical value to work already undertaken on the air transportation sector in the region
- offer viable, practical resolutions to the challenges related to the air transportation sector in the region

Further El Perial took account of the requirement in the Study Terms of Reference that it was to "Employ the findings of the OECS-commissioned World Bank study assessing the challenges and opportunities of air transportation in the OECS undertaken in November, 2012 as a point of departure to evaluate the air service needs of the OECS region." El Perial is in broad agreement with the key findings of this study even if not always in agreement with the recommendations. More importantly however, these findings support/feed into the approach employed in the Study even as the data for analyses were updated and a more stakeholder-oriented approach was adopted to further get to the root of the challenges facing intra-OECS travel.

Accordingly, the team approached the Study primarily from the perspective of persons travelling or potentially travelling within the OECS Region, continuously asking "how can they be encouraged to travel more within the Region". Key tools and input elements that provided the basis for this approach, were three (3) surveys across the OECS Region separately covering:

- Tourism Authorities
- Business Organisations
- General Public

The surveys for the Tourism Authorities and Business Organisations were supplemented by interviews that probed deeper their responses to the questionnaires. Discussions with airlines together with intensive use of online booking and flights tools were used to address the questions of airfares and connectivity whilst discussions with Civil Aviation Authorities and review of current regulations provided the basis for the analyses and recommendations related to regulatory challenges.

UNDERSTANDING THE CHALLENGES

The surveys revealed the key components of the core problem that require resolution:

- Basic gravitational pull (inherent desire/demand) of OECS destination countries to residents in other OECS countries is muted or dampened by other supply factors (including schedule integrity, convenience and reliability)
- Low expectation by the OECS Tourism Industry of overall tourism revenues from OECS visitors and hence low priority given to encouraging intra-OECS travel

- Major concerns by OECS residents, business persons and the OECS Tourism Industry about the inconvenience of intra-OECS airline schedules, compounded by all to frequent unreliable service resulting in even more inconvenient schedules
- The ingrained perception that unduly high airfares are charged and that government taxes and fees are major contributors to the level of airfares.

The pervasive impact of **inconvenient schedules** is highlighted by the following findings from the surveys:

- A very significant majority of business travelers (80%) described intra-Regional travel as being "Challenging" or "Very Challenging"
- A significant majority of Tourism Authorities said that Visitor Arrivals to their destination was affected a "Great Deal" by the quality and frequency of intra-Regional air service; the remainder indicated that the volume of visitor arrivals was affected a "Fair Amount"
- Sixty percent (60%) of business travelers indicated that they would increase intra-OECS travel if schedules were improved, **even at the current level of airfares.**

DEFINING THE PROBLEM – FROM THE PERSPECTIVE OF TRAVELERS

According to the survey results, the main challenges associated with intra-Regional travel can be categorised as follows: Inconvenient Schedule and Unreliable Service; Relatively High Cost of intra-Regional travel;

Business Travel

The percentage of business travelers, based on multiple responses obtained from the business surveys affected by each of these three (3) stress items is shown as follows:

	High Costs/Fares	**Inconvenient Schedule**	**Unreliable Service**
Business Traveller	50%	60%	80%

100% of business respondents were affected by two or more of these stress factors on a regular basis.

In describing the inconvenience of the current schedule the following were frequently mentioned:

- "Long time it takes to get to destination; you can get to the US in about the same time"
- "Long wait at airport for connecting flights"
- "Too many connections to get to final destination"
- "Inability to do a day trip whether for business, meetings or obtaining visas"
- "Frequent security checks including the embarking and disembarking"
- "Limited number of flights – inability to choose later or earlier options depending on preference"
- "Limited number of flights – delay in an international flight coming into the Caribbean – unable to catch another regional flight until following day"

Travel by the General Public

The consumer survey results provide very interesting insights and corroborate many of the understandings that have been gathered anecdotally regarding the limitations and behaviours associated with intra-Regional travel.

With respect to the primary subject at hand - factors inhibiting intra-OECS travel – very consistent with a priori expectations, are the reasons for not visiting an OECS destination/s:

- "Air Fares" were selected as a reason for not visiting an OECS destination/s the respondents "were interested in visiting" 20% of the time
- Factors relating to basic gravitation pull of the destinations – 20%
- "Poor and Inconvenient Schedule and Connectivity" was selected 30% of the times
- "Cost of Accommodation" was another main reason for not selecting an OECS destination/s and was selected 30% of the times by the survey respondents.

"The Lack of Things to Do" at OECS destinations was one of the main reasons for the poor gravitational pull. Moreover one interpretation of the "Cost of Accommodation" outcome is that it reflects the relatively low incomes of the OECS community. If true, the main factors inhibiting intra-OECS travel would be income limitations and poor network connectivity followed by relatively weak gravitational pull and high airfares.

Not surprisingly however "Poor and Inconvenient Schedule and Connectivity" was selected only 20% of the times by respondents wanting to visit Antigua a main LIAT hub with a relatively high number of direct flights; while "Airfare" increased to 30% as a reason for not visiting Anguilla.

These responses capture the angst of the intra-OECS traveller, provide in effect a "health-check" on the condition and state of Intra-OECS travel and indicate that the system is highly stressed.

Understanding Traveller's Cost Equation and the Stress Factors Affecting it

The research revealed that persons travelling have the following cost equation:

Total Cost of Travel = Financial Outlay + Emotional and Psychological Costs + Incidental Costs

And the poor "health" of the system, with its stress points, affects the traveller in different ways and to varying degrees.

When it comes to the Financial Outlay for Intra-OECS travel, for the leisure traveller in particular, fares are relative and are commonly compared to the cost of traveling to Miami and New York as travelers perceptually take into account the relative longer distance to these points in their assessment of the "value" of a fare; for the business person the fare adds to the cost of doing business and can make such costs too high or, in a few instances, even uncompetitive. For the business traveller for whom there is the opportunity cost of wasted time, inconvenient schedules that are further aggravated by delays, generate very real costs over and above the actual cost of the airfare.

Interestingly, for both the leisure and business travelers, the relatively high fare seem to be attributed more to the high taxes and less to the actual airline fares (the ability to see the fare breakdown using the internet may in large part be responsible for this perception).

The psychological/emotional and incidental costs were largely associated with the limited travel options or lack of choice; inconvenient schedule and the stress associated with frequent delays and cancellations of flights as well as at times poor treatment at Immigration and Customs.

Impact/Outcome

The cumulative costs for travelers have resulted in cut-backs in intra-OECS travel, for some travelers – "unless absolutely necessary". For the leisure traveller it is much "easier" (convenient), less worrying and less costly to travel "North" for a "vacation and also get some shopping done"; for the majority of business persons, travel is minimised and for some, where possible it is replaced by technology (Skype).

The falloff in intra-Regional travel and corresponding visitor arrival numbers therefore are the end result of what appear to be systemic health problems which are further impacted by the structural limitations as identified by the business community when it comes to intra-Regional business travel.

Below lists a few of the comments which capture the majority opinion/s in this regard:

- "With Cricket World Cup they had hassle free travel, which was no different as Immigration and customs took no heed to their own agreements. We talk about this free movement but nothing has changed. Last time I travelled to St. Lucia they photographed me for a day stop. Due to this Immigration was slow and lengthy."
- "The non-harmonization of legislation, e.g. Income tax Laws"
- "Harmonization of Standards across the OECS"
- "Shipping options especially with regards LCL cargo – many of the interisland schooners have now stopped trading and FCL is the only type of cargo movement readily available"
- "The requirements of the Government Agencies which tends to make the processes of shipping and clearing very time consuming and complicated"
- "Limited manufacturing"
- "Lack of education about Treaty of Chaguaramas"
- "Bureaucracy"

The OECS Economic Union

When asked if they have heard about the Economic Union (EU) all business respondents indicated that they have heard about the Economic Union; however 90% were "Unsure" whether it will increase their need to travel intra-Regionally; 5% said that it would and the other 5% indicated that it will not.

The results from the Consumer Survey show somewhat different results regarding knowledge of and impact of the EU. A majority of persons (60%) indicated that they had "heard nothing

about the EU" with 38% indicating that they had heard "a lot about the EU"; the remaining 2% had "heard a little". Unlike the majority of business respondents who indicated that they were "Unsure" about the impact of the EU (90%), 68% of consumers who had heard about the EU believed that it will have an impact on intra-Regional travel; a significant minority however (32%) disagreed that it will impact intra-Regional travel.

FURTHER RESULTS OF THE ONLINE CONSUMER SURVEY

Respondents to the Consumer Survey were asked to state the reason for their last visit to an OECS destination:

- 30% travelled to Visit Friends and Relatives (VFR)
- another 30% for Business
- 38% travelled for Leisure – indicating reasonable interest in Leisure and Vacation travel among outbound OECS travelers.

Of those travelling for Leisure, 52% wanted a Getaway or to Pamper oneself; 25% for concerts and parties; 14% for Soft Adventure.

Consistent with the concepts of "Getaway" travel and Business travel, 60% of persons overnighted between 2-5 nights; whilst 12% stayed for 6 to 7 nights.

OECS persons also travel reasonably frequently – 30% indicated that they travelled 2 to 3 times per year; whilst 25% travelled between 4 to 6 times per year; less than 10% travelled just once. As anticipated the majority (84%) travelled on LIAT. 43% travelled with 1 other person; 28% travelled with 2 persons.

CITY PAIR MATRIX

According to the Terms of Reference, the focus of the Study is the OECS Countries, Anguilla, Antigua & Barbuda, British Virgin Islands (BVI), Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & Grenadines. However in terms of improved network connectivity development, Guadeloupe and Martinique are included. For the purpose of this Study, where Martinique and Guadeloupe are included, the expanded group will be referred to as "The Study Countries" or the Study Group.

The Study did not address cabotage routes, inclusive of Guadeloupe (PTP) - Martinique (FDF) v.v. which is well served by a minimum of fifteen (15) round trips (R/T) daily.

As a result, the City Pair matrix which largely defines the key analyses for the Study is shown in Table I-1 **below**.

TABLE I-1 – CITY PAIR MATRIX

OECS STUDY
CITY PAIRS TO BE EXAMINED
December 19, 2014

	Tortola	Anguilla	St. Kitts	Nevis	Antigua	Montserrat	Guadeloupe	Dominica - MH	Martinique	St. Lucia - V	St. Vincent	Grenada
Grenada												**N/A**
St. Vincent											**N/A**	
St. Lucia - Vigie										**N/A**		
Martinique							**N/A**		**N/A**			
Dominica - Melville Hall								**N/A**				
Guadeloupe							**N/A**		**N/A**			
Montserrat						**N/A**						
Antigua					**N/A**							
Nevis			**N/A**	**N/A**								
St. Kitts			**N/A**	**N/A**								
Anguilla		**N/A**										
Tortola	**N/A**											

CHAPTER II
UNDERSTANDING THE INTRA-OECS TRAVEL MARKET

At a country or source market level, key socio-economic factors impact the demand for travel and these include population size, income levels and unemployment rates. At the individual or household level, factors such as relative cost of travel; attractiveness of destination; household incomes and cultural and other social factors such as influenced by friends/family/social media and behavioural and attitudinal factors as well as marketing and promotions would be relevant.

SOCIO-ECONOMIC FACTORS AFFECTING DEMAND FOR TRAVEL

The Study assesses the three (3) socio-economic factors that define the inherent value of a source market; size of population, size of economy, relative individual income that can be assessed by GDP per capita and unemployment rate.

On the basis of Eastern Caribbean Central Bank (ECCB) data as well as the Government of British Virgin Islands' (BVI) statistics, the OECS Group population in 2012 was estimated at 649,000, an average of 72,100 per country and ranging in size from 4,900 (Montserrat) to 169,000 (St. Lucia). The top four countries St. Lucia, Grenada, St. Vincent & Grenadines and Antigua & Barbuda provide 73% of the region's population. Based on 2012 figures, the populations of Martinique and Guadeloupe are estimated at c.a. 390,000 and 404,000, respectively bringing the population of "the Study Group" (the OECS countries plus Martinique and Guadeloupe) to 1.44M.

GDP for the OECS Group in particular is estimated at EC$17,400M based on 2012 market prices, an average of EC$1,900M per country and ranging from EC$171M (Montserrat) to EC$3,500M (St. Lucia). The top four countries St. Lucia, Antigua & Barbuda, British Virgin Islands and Grenada generated 65% of the region's GDP in 2012.

Based on ECCB data, the GDP of the OECS Group (excluding BVI) peaked in 2008 at constant 2006 prices but in 2013 was still only 93% of the 2008 figure. Using market prices, GDP in 2013 was 1% higher than that in 2008 showing some small reversal in economic fortunes following the negative impact of the Global Recession.

In 2012 GDP per Capita at market prices averaged EC$26,843 but ranged from EC$18,106 in St. Vincent & Grenadines to EC$73,941 in BVI. The top four countries were BVI, Anguilla, St. Kitts & Nevis and Montserrat. These are also the smallest four countries in terms of population, all below the average population for the OECS Group.

The most recent data gathered for unemployment within the OECS Group appear to show rates of c.a. 23% in 2013 for St. Lucia, c.a. 33% also in 2013 for Grenada, c.a. 10% in 2011 for Antigua. No additional data was available at the time of the submission of this Report – notwithstanding the review of relevant country reports inclusive of National Budgets. Discussions with relevant Authorities have however revealed that although the exact rates are not readily available, there was general agreement that the current unemployment rates across the OECS Group continue to be high.

On the basis of the available data at hand, the OECS Group of countries can therefore be characterised by very small populations, small but slowly growing economies with low income levels and high unemployment levels – factors inhibiting the inherent demand for travel. However it is possible that with a shift in perspective, previously hidden or blurred opportunities for intra-OECS travel can be revealed and through the committed implementation of appropriate strategies, this fundamental challenge can be mitigated.

SIZE OF THE INTRA-OECS TRAVEL MARKET AND PRIMARY SOURCE MARKETS

In estimating the size of the Intra-OECS market, the Study used the ECCB annual tourism statistics for the period 2000-2013 and its monthly tourism statistics 2001-2013.

While these statistics show the Caribbean as a source market for the OECS, they do not reveal the figures for intra-OECS travel, which is the focus of this Study. A review however shows that:

- Total Stay-Over Visitors peaked in 2006; 2013 was 93% of the peak
- Caribbean Visitors peaked in 2006; 2013 was 67% of the peak
- Caribbean Visitors as % Stay-Over peaked at 29% in 2005. 2013 was 21%
- Non Caribbean Stay-Over Visitors peaked in 2013, just exceeding the previous peak in 2007.

The above data does not include BVI statistics given that it is not a member of the ECCB; that country's data was not available for the full period under review.

While Non-Caribbean Visitor numbers to the OECS seem to be showing signs of a stable recovery following the Global Recession, Caribbean Visitors continued to decline into 2013.

It is however to be noted that despite the decline in Caribbean travel to the OECS, this source market continues to be the second largest for the OECS Group for Stay-Over Visitors after the USA market. If this downward trend continues however, the UK may soon replace the Caribbean as the second most important source market for the OECS, given the relative size and strengths of these source markets.

In terms of its relative contribution to total visitor numbers, OECS visitors in 2013 (see below) ranked 6th (or the least important) as a source market for the OECS; after Canada (using the ECCB ranking of source markets).

The Analysis of Origin-Destination (O-D) passenger data available through reviews of Eastern Caribbean aviation gathered by El Perial over the recent years as well as individual country responses to the Tourism Authority surveys, indicate that as a ball park, intra-OECS travel is c.a. **22%** of total Caribbean visitor arrivals to OECS countries.

This data further showed that air travel between the Study Group Countries (the OECS plus Martinique and Guadeloupe) and Non Study Group Eastern Caribbean Countries (such countries from Puerto Rico down to Guyana) is c.a. **3.5** times travel among the Study Group Countries.

ANALYSIS OF THE INTRA-OECS MARKET BY ORIGIN-DESTINATION (O-D)

While the majority of the Tourism Authorities had access to and was able to provide detailed tourism statistics, for a few the disaggregation for the OECS countries was not readily available for the period under review. The Study therefore focused on collecting intra-OECS travel data for 2013, the latest year when revisions to preliminary numbers would have been made for all the OECS countries. Note however that Montserrat was still unable to provide disaggregated visitor statistics by OECS country. However the intra-OECS travel numbers to/from that country are small relative to the other OECS countries and hence that lack of data is unlikely to influence the broad conclusions of the Study. The OECS O-D Visitor Data is summarized in Tables II-1 and II-2 **below**.

TABLE II-1 – NUMBER OF OECS VISITORS BY OECS COUNTRY BY ORIGIN AND DESTINATION – 2013

FROM	TO	Anguilla	Antigua	British V I	Dominica	Grenada	Montserrat	St. Kitts	St. Lucia	St Vincent	Total	% OECS Gp	% Study Gp
Anguilla			648	413	294	32		1021	146	149	2703	5%	2.6%
Antigua & Barbuda		531		921	2793	257		1430	1858	895	8685	15%	8.4%
British Virgin Islands		186	1371		1075	69		1185	370	1418	5674	10%	5.5%
Dominica		1270	2960	1061		728		456	1959	520	8954	15%	8.7%
Grenada		128	719	648	317			256	1434	977	4479	8%	4.3%
Montserrat		79	1577	22	120	20		105	98	42	2063	4%	2.0%
St. Kitts & Nevis		1577	2753	1788	426	304			764	340	7952	14%	7.7%
St. Lucia		508	1984	695	1918	1468		653		1796	9022	15%	8.7%
St. Vincent & Grenadines		276	887	819	431	1376		381	2280		6450	11%	6.2%
OECS Group		**4555**	**12899**	**6367**	**7374**	**4254**	**2338**	**5487**	**8909**	**6137**	**58320**		**56.5%**
% of OECS Group		**8%**	**22%**	**11%**	**13%**	**7%**	**4%**	**9%**	**15%**	**11%**			
Guadeloupe			710	182	15676	31		76	1853	85	18613		18.0%
Martinique			332	98	6687	55		29	18924	228	26353		25.5%
STUDY Countries		**4555**	**13941**	**6647**	**29737**	**4340**		**5592**	**29686**	**6450**	**103286**		
												96%	
Other Caribbean		19203	17860	73602	10479	21047		10435	30835	18104	201565		
Caribbean		**23758**	**31801**	**80249**	**40216**	**25387**	**3206**	**16027**	**60521**	**24554**	**305719**		
OECS as % Caribbean		19%	41%	8%	18%	17%	73%	34%	15%	25%	**19%**		
Study as % Caribbean											**34%**		
USA				281345									
Canada				17522									
UK/Europe				39445									
Sources: Individual Country Statistics													

TABLE II-2 – KEY OECS DESTINATION/S FOR VISITORS FROM THE STUDY GROUP COUNTRIES – 2013

FROM	TO	Anguilla	Antigua	British V I	Dominica	Grenada	Montserrat	St. Kitts	St. Lucia	St Vincent	Total	Key OECS Dest
Anguilla			648	413	294	32		1021	146	149	2703	St. Kitts
			24%	15%	11%	1%		38%	5%	6%		
Antigua & Barbuda		531		921	2793	257		1430	1858	895	8685	Dominica
		6%		11%	32%	3%		16%	21%	10%		
British Virgin Islands		186	1371		1075	69		1185	370	1418	5674	St. Vincent/Antigua
		3%	24%		19%	1%		21%	7%	25.0%		
Dominica		1270	2960	1061		728		456	1959	520	8954	Antigua
		14%	33%	12%		8%		5%	22%	6%		
Grenada		128	719	648	317			256	1434	977	4479	St. Lucia
		3%	16%	14%	7%			6%	32%	22%		
Montserrat		79	1577	22	120	20		105	98	42	2063	Antigua
		4%	76%	1%	6%	1%		5%	5%	2%		
St. Kitts & Nevis		1577	2753	1788	426	304			764	340	7952	Antigua
		20%	35%	22%	5%	4%			10%	4%		
St. Lucia		508	1984	695	1918	1468		653		1796	9022	Antigua/Dominica
		6%	22%	8%	21%	16%		7%		20%		
St. Vincent & Grenadines		276	887	819	431	1376		381	2280		6450	St. Lucia
		4%	14%	13%	7%	21%		6%	35%			
Guadeloupe			710	182	15676	31		76	1853	85	18613	Dominica
			4%	1%	84%	0%		0%	10%	0%		
Martinique			332	98	6687	55		29	18924	228	26353	St. Lucia
			1%	0%	25%	0%		0%	72%	1%		
Other Caribbean		19203	17860	73602	10479	21047		10435	30835	18104		

Sources: Individual Country Statistics

For the year 2013, total intra-OECS stay-over visitors was 58,000 or **19%** of Caribbean visitors to the OECS countries. (The c.a. 22% arrived at from the analysis of available O-D data as shown in earlier paragraphs is reasonably close). When Guadeloupe and Martinique are included as source markets to the OECS, the number increases to 34% of Caribbean visitors but **96%** of these French West Indies stay-over visitors to the OECS travel to Dominica and St. Lucia.

Antigua (22%) was the most popular OECS destination for OECS source markets, followed by St. Lucia at 15% and Dominica at 13%. **These three countries combined attracted 50% of intra-OECS visitor travel in 2013.** There is however anecdotal evidence to suggest that the Antigua figures can be somewhat inflated because of persons who are connecting at Antigua on other flights/airlines but may choose to or have to be landed there.

On the other hand St. Lucia, Dominica and Antigua with 15% each are also the major intra-OECS source markets in 2013. **These three (3) countries appear to dominate intra-OECS visitor travel.**

The top three (3) intra-OECS stay over visitor Origin-Destination (O-D) pairs are Dominica to Antigua, Antigua to Dominica and St. Kitts to Antigua but in no case did the visitor count in 2013 exceed 3,000. When Guadeloupe and Martinique are included, the top three O-D pairs are Martinique to St. Lucia, Guadeloupe to Dominica and Martinique to Dominica.

Stay-over Visitors from Martinique to St. Lucia are more than six (6) times the number of visitors from Dominica to Antigua.

A further analysis of the intra-OECS stay-over visitor market shows definite preferred single destinations for all but two of the source markets. According to Table II-2 **above**, the preferred OECS destination for Anguilla is St. Kitts. This travel behavior continues to obtain even when Martinique and Guadeloupe are included.

For six (6) of the seven (7) such OECS source market countries the preferred single destinations attract between 32-38% of their intra-OECS outbound stay-over visitors. The outlier source market is Montserrat where the preferred destination, Antigua, appears to attract an even more significant percentage (76%) of the intra-OECS outbound traffic. 84% of Guadeloupe's OECS outbound traffic goes to Dominica while 72% of Martinique's goes to St. Lucia.

The two source markets showing a different pattern are British Virgin Islands and St. Lucia, the former with two (2) (Antigua, St. Vincent) preferred OECS destinations and the latter with three (3) (Antigua, Dominica, St. Vincent).

TOTAL OUTBOUND OECS TRAVEL

The Study attempted to estimate the size of the total outbound travel by OECS residents in order to assess the potential of the OECS as a source market.

Table II-3 **below** shows the total outbound travel, where available, from the OECS by each source country to all destinations including international, OECS and Non-OECS Regional destinations. However it is important to note the gaps in the table - reflecting the limitations in accessing critical data.

TABLE II-3 – TOTAL OECS OUTBOUND MARKET - 2013

FROM	Total Outbound	OECS as % Outbound
Anguilla	N/A	N/A
Antigua & Barbuda	N/A	N/A
British Virgin Islands	135995	4%
Dominica	30844	29%
Grenada	34075	13%
Montserrat	N/A	N/A
St. Kitts & Nevis	24512	32%
St. Lucia	51924	17%
St. Vincent & Grenadines	N/A	N/A
OECS Group	**277350**	**13%**

Source: Individual Country Statistics

Note to Table: N/A - Not Available

For the countries for which total outbound numbers are available, their intra-OECS outbound traffic is an average 13% of the total outbound traffic. Barring BVI, this figure is trending at 22%.

Taken from another perspective, this may be viewed as the OECS destinations being able to attract a maximum of 22% of the total OECS travel market given the basic gravitational pull of these destinations alongside current connectivity quality levels and airfares.

Marketing and research efforts in regional private sectors as well as major international markets by companies in industries as varied as the beer industry and airline sectors, have shown greater success in growing their markets by tapping into and diverting existing demand rather than creating demand by reducing prices. It is very interesting to note that measures and strategies that can deliver a **diversion of say 5% from OECS total outbound passengers to intra-OECS travel/destinations will lead to a 24% increase in intra-OECS stay-over visitors – or for every 1% switch there is a 4.7% increase in intra-OECS travel.**

In this regard, the Study findings reveal that to attract a higher level of demand intra-regionally the following factors, influencing shifts in the demand for travel, must be examined: the individual's responsiveness to the basic gravitational pull, changes in income (income elasticity); changes in the cost, ease and connectivity associated with travel including related incidental costs. Since income elasticity influences total OECS outbound traffic (of which intra-OECS traffic is a part) the key issues for diversion therefore would be the:

- basic gravitational pull of the OECS destinations
- ease of travel and quality of connectivity
- relative differences in prices/cost of OECS travel and vacation when compared to other attractive and affordable destinations.

The basic gravitational pull of the destination represents the underlying demand for travel and is generally associated with the level of service and product attributes and their combined ability to match the functional and emotional needs of the person or persons travelling. The final decision to travel however is determined by the interplay of this basic demand with the connectivity and cost factors which can add to the basic gravitational pull or detract from it – making the destination more or less appealing than its competitors.

The analyses and recommendations that follow in this chapter therefore are intended to offer guidelines and approaches to creating stronger basic gravitational pull. Subsequent chapters will look at improved airfares as well as improved connectivity levels and convenient schedule options to the OECS public/stakeholders.

IMPROVING THE GRAVITATIONAL PULL - EXPANDING THE INSTITUTIONAL PERSPECTIVE

The starting point is to determine to what extent the National Tourism Authorities believe that further development of the intra-OECS source market will bring added net value to their home economies.

The Importance and Value of the OECS Visitor

Responses from the survey questionnaires sent to the Tourism Authorities as well as follow-up discussions with these Authorities indicate a framework and orientation that is heavily weighted towards traditional non-regional source markets – North America, UK/Europe. There however appears to be a growing interest in the Latin markets (Panama and Brazil), the MDC CARICOM

countries (Jamaica, Barbados and Trinidad) as well as the Non-English speaking Caribbean markets such as Dominican Republic and Martinique. The level of interest shown towards OECS countries as source markets for visitors is indeed growing but it is still significantly less than that expressed towards other territories.

These relative counter-positions, together with the related allocation of marketing resources, are not surprising as the Caribbean as a source market was certainly not top of mind for many of the Tourism Authorities during the discussion phase of the data collection process. Many did not focus on the fact that when taken together, the Caribbean as a region, was in many instances their 2nd largest source market. The lack of adequate recognition of the Caribbean seemed to embrace the OECS countries - which comprise 19% of stay-over arrivals from the Caribbean Region.

The following was based on responses to the Tourism Authority Survey and gives further evidence on the relatively low level of importance that is attached to the OECS region as a source market.

UNDERSTANDING HOW IMPORTANT THE OECS IS AS A SOURCE MARKET

A broad assessment of the importance of the OECS region as a source market was premised on the survey responses in which four discrete options representing a graduated spectrum (Very Unimportant, Fairly Important, Fairly Unimportant and Very Unimportant) were presented to the Tourism Authorities. It is noted that for destinations with:

- **Over 300K stay-over visitors annually, the OECS as a source market was seen as being "Fairly Unimportant"**
- **Less than 100K, the OECS was seen as being "Fairly Important"**

Whether considered fairly important or fairly unimportant, the listing of the OECS source markets on which some degree of focus can be expected over the next 3 years include:

Antigua, St. Lucia, St. Kitts, Grenada, **St. Vincent, Dominica**

These countries, with the exception of Grenada, are in fact the current major source markets for intra-OECS stay-over visitors as shown in Table II-2 **above**. The review of the network connectivity will be assessed taking account of these expectations.

There is also a nascent interest for Martinique followed by Guadeloupe – but significant interest by St. Lucia and Dominica where there is already a strong traditional level of interest towards these countries.

Another factor that may contribute to the low level of importance attached to the OECS market is the relatively low level of spend by the Caribbean visitor when compared to the International Visitor. Details on the average length of stay as well as average daily spend are shown for three (3) of the OECS countries in Table II-4 **below.**

TABLE II-4 – STAY OVER VISITOR EXPENDITURE

Stayover Visitor Expenditure			
US$			
	Daily Spend	Length of Stay	Expenditure
St. Lucia 2013			
Caribbean	157.92	6.8	1073.86
Total Visitors	226.57	8.7	1971.16
Caribbean % of Total			**54%**
Grenada 2014			
Caribbean	121.11	5	605.56
Total Visitors	107.04	9	885.2
Caribbean % of Total			**68%**
Antigua 2013			
Caribbean		8.05	
Total Visitors		10.06	
Caribbean % of Total			**80%**
British Virgin Islands 2013			
Caribbean			
Total Visitors	100.07	10.6	1060.73
Caribbean % of Total			
Dominica 2013			
Commonwealth Caribbean	58.89	6.37	375.15
Total Visitors	83.64	8.27	691.68
Caribbean % of Total			**54%**

Source: Individual Tourism Authority Country Statistics

Broadly speaking Caribbean visitors appear to stay for shorter periods and spend less daily than their foreign counterparts. (The exception appears to be Grenada where the Caribbean daily spend per visitor is deemed to be higher.) Further the OECS visitor is likely to spend less "hard" currency such as US Dollars, Euros and UK Pounds.

Notwithstanding the lower financial "value" of the Caribbean visitor, the Study proposes that growth coming from the OECS market is not intended to replace the longer staying, higher spending visitors but to allow destinations to develop and manage a more diversified portfolio of key visitor segments that may be at different stages of their market lifecycle but which also continue to represent profitable visitor segments (spend less the cost of acquiring visitor). Indeed many Authorities agreed in large part that "The main lesson coming out of the recession is the "need for diversifying source markets".

The Study also contends that the value of a visitor or segment is not limited to their expenditure at a destination at any one point in time but also their likelihood:
1. To engage in repeat visits
2. To act as influencers for attracting further growth within the segment and across other segments.

To a limited extent this understanding was borne out in a number of discussions with Tourism Authorities and their stakeholders e.g. "Because Caribbean people tend to drill down into the culture when visiting a fellow OECS destination they become excellent "*Ambassadors*" once they have had a good experience" and "Caribbean people go deep into the economy and have

closer social interaction with a higher level of cultural exchange". Moreover the consumer survey showed that OECS residents do travel reasonably frequently; 55% of respondents travel more than twice annually.

These are important positive perspectives on the value of the Caribbean/OECS visitor that the Region needs to embrace as it develops strategies to attract and promote intra-Regional travel.

The Definition and Composition of OECS Travel

Discussions showed that while Tourism Authorities place great emphasis on the leisure aspect of their product and experience offering for their traditional markets – the leisure component is muted as a Caribbean and intra-OECS travel motivational factor. In large measure, OECS visitors are viewed as comprising predominantly VFR and Business Travel. These two travel categories (VFR and Business) are seen as being organic and somewhat stable in their contribution to intra-regional travel and therefore receive limited attention by way of tourism marketing and product development. In terms of business travel however the Meetings, Incentives, Conferences, Exhibitions (MICE) component does receive some attention.

However in a LIAT 2012 survey "**61.9%** of respondents indicated that they travelled for **Leisure**, **17.5%** for **Business**, **20.0%** On **Famil**y **visits** and **0.6%** for **Medical** reasons." To the extent that there is any focus on intra-OECS leisure travel it is with respect to Events and Festivals organised and promoted by the destinations and their Tourism Authorities; but still within the context of the broader Caribbean market where the non-OECS source markets receive more emphasis. For example, Dominica which positions itself as a Nature, Rainforest and Adventure destination has been promoting its World Creole Festival to Caribbean markets whilst Anguilla which is largely Relaxed, Sun, Sand and Sea destination is promoting its MoonSplash festival in the region. It is only very recently that Dominica undertook a Nature Trail competition, **which is consistent with its international positioning**, that targeted the Caribbean markets and was deemed sufficiently successful to be repeated.

Relatively speaking therefore, much more needs to be to done to accelerate the positioning of the core tourism and experiential/product offering of OECS destinations for marketing to and consumption by OECS source markets. The general assumption, even from the Hospitality sector, seems to be that Caribbean (OECS) residents would not be interested in such product offerings and their travel and vacation needs will be met "up North".

In large measure the hospitality private sector in each of the destinations resonated the perceptions of the Tourism Authorities as their responses to the Business questionnaires seem to indicate. They focus on attracting visitors from the traditional international markets whilst believing that the best way to grow and attract OECS visitors is to call for reduction in airfares and to provide reduced hotel rates during off-peak times.

Appreciating the Potential of the OECS as a Source Market

The potential of OECS as a tourism source market as seen by the Tourism Authorities appears to be based on the time series of the number of such visitors to the destination OECS country using a market and qualitative economic perspective as follows:

- The number as well as movement in OECS stay-over visitors to the destination over a specified period of years. One country expressed concern over the fall off in visitor arrivals from the OECS region in 2013 when compared to 2006; another went further back to 2003/4 and compared the numbers to 2013 figures.
- Qualitatively, one country sees the Caribbean as also offering good potential as "Caribbean people go deep into the economy and have closer social interaction with a higher level of cultural exchange" – a characteristic that helps mitigate the lower revenues from these visitors. Yet even that country does little to understand the socio – economic impact of this interaction. For most of the OECS countries that conduct regular Visitor Spend Surveys the OECS data is submerged within the overall Caribbean information, where the latter is available. Yet it is very likely that OECS specific data is available from the statistical departments of such countries.
- From a market perspective, OECS and Caribbean travel is countercyclical to traditional North American and European source markets where the peaks are concentrated during the winter months and are therefore these regional markets are seen as "filler" for the low season. However the average occupancy rates of the accommodation sector even in the peak periods, readily allow for additional visitors. Further, even as there is progress in attracting the traditional markets to the summer months there is still significant room to accommodate the Caribbean (OECS) visitor at that time.

When asked about the potential size of the total outbound OECS travel market which includes travel to non-OECS Caribbean as well as international destinations, none of the Authorities ever paid attention to the greater potential of the OECS region as a source market and the potential opportunities that may arise if they align their core vacation and product offering with the deeper travel needs of wider OECS outbound travel market.

After it was raised in discussions there was mention of the fact that "Caribbean people are better educated, more exposed today, knowledgeable about travel and their travel needs are changing". For example the total overseas shopping demand is being diverted from physical shopping, requiring travel to say US cities, to online shopping. This change in behaviour increases the opportunity for OECS destinations to be more competitive with for example US destinations.

It can be broadly concluded that OECS Tourism Authorities do not at this time see their fellow member states as important source markets and hence a sea-change in policy and a

perspective directed towards the greater potential of the total OECS outbound market will be required if they are to consider directing resources towards intra-OECS travel.

Whilst the majority of Tourism Authorities as well as the private hospitality sectors indicated that the "lesson" learnt from the recent global recession that negatively impacted tourism flows from the traditional North American markets, was the need to diversify the destination's source markets – they need to consider the OECS source markets as part of the efforts towards diversification alongside Latin America and the "other" Caribbean countries.

Multi-Destination Tourism

A well developed and organised multi-destination programme is another means to stimulate intra-OECS travel and diversify markets. This however means that the OECS countries must see one another less as competitors and more as partners. To do so, it is important that they clearly identify their differentiation within the overall positioning of the Caribbean as a tourism region.

Previous research shows that persons who engage in multi-destination travel for leisure seek **variety** (differentiation) but within their main area of activity – hike, dive, golfing etc. **This research also suggests that these travelers also prefer non-stop travel between destinations in the time period of late morning to early evening.**

The OECS Commission is currently engaged in implementing a Community-Based Tourism programme. The programme comprises five phases, the last of which is packaging of community-based niche products with a view to developing a multi-destination tourism programme for the OECS. A number of Tourism Authorities also indicated that they do not currently have a multi-destination programme in place but will be pursuing such over the next 3 years. In some cases they have expanded the traditional definition of multi-destination tourism to include day trippers so that accommodation of the visitor is not shared among the OECS countries. **This requires flights that allow persons to spend a minimum of four clear free hours at the destination – not including time at the airport.**

Montserrat indicated that it wanted to expand the number of day excursionists by developing programmes with islands in close proximity. Grenada believed that multi-destination packages gave the destinations a higher level of appeal by offering greater variety to visitors. Anguilla which is largely a beach destination saw Dominica's nature and rain forest as non-competitive and was interested in pursuing multi-destination packages with the island. While Dominica was interested in multi-destination tourism it recognizes the critical role that the private sector should play in driving the initiative.

Even as there was some measure of interest expressed in multi-destination travel by a number of Tourism Authorities there were also strong expressed concerns and limitations as follows and these were generated out of the Tourism Surveys as well as discussions with the Tourism Authorities:

- Previous experiences show potential partner countries to be lukewarm
- Larger visitor destinations feel that smaller countries do not bring much to the table and can go it alone

- Multi-destination is viewed in win-lose terms – how many nights must be shared with another destination or property
- Private sector must take the lead and airline/s must be involved

The following gives additional information on multi-destination travel as it relates to the Study Group:

Special Note on Martinique and Guadeloupe

All respondents expressed reasonably strong interest in Martinique and Guadeloupe either as multi-destination partner or as a source market. The reasons for the level of interest ranged from:

- Access to funding for tourism programmes from the EU; at least two Tourism Authorities expressed interest in multi-destination programmes with these two French territories as it was another avenue to allow them access to such funding
- Exposure to the larger mainland France market by coupling the destination with Martinique and Guadeloupe
- Easy access of these source markets for some of the destination countries

MOVING FORWARD

The Tourism Authorities are a major stakeholder in any prescription to increase the movement of persons travelling among the OECS countries but there needs to be an expanded appreciation of the larger potential and profitability of the OECS source markets over and beyond the numbers that are currently visiting their own destinations.

At the outset the geographical silos which are currently used to subdivide markets should be broken down; and to help achieve this expanded perspective Tourism Authorities should begin to share information on their total resident outbound travel with their fellow OECS countries. This sharing, by exposing the potential size of the OECS market, can assist in elevating the Region from being a "Fairly Important" source market (2nd lowest ranking in the Tourism Authority questionnaire) as currently indicated by the majority of Tourism Authorities to being at least "Important" (the 2nd highest ranking).

Needs that Generate Intra-OECS travel

A 2nd major aspect of the steps towards enhancing intra-regional travel is understanding the potential of OECS destinations to meeting the needs of the intra-regional outbound travel market. The following was generated out of the Tourism, Consumer and Business Surveys including discussions held with Tourism Authorities:

- **Caribbean Leisure Travel** – Largely "Getaway" Destinations - Getaway translates into short term, long weekends, but with quick and convenient travel times and when compared to the traditional US and Canadian destinations, lower or equal airfare costs; for many it means a comforting sense of familiarity yet the ability to experience subtle cultural differences and introduce an

interesting and even exciting shift from the day-to-day humdrum/stresses…..in effect an OECS-wide staycation

- **For the Business Traveller** – Day trips largely for meetings; second – training and managing other businesses. It means get in/get out and get back to the office…because time is money
- **VFR** – short or longer term stay; the option of hotel costs; bonding, exchanging experiences (what goes on abroad, catching up with the happenings back home)

These visitor definitions reflect deeper travel needs which are key to:

- Understanding the role that OECS destinations can play in the lifestyle and behavioural choices of the OECS traveller/visitor
- Understanding the nature and strength of the gravitational pull that currently exists for the OECS market and
- Providing insights into optimal ways the Region can identify, penetrate and develop the Getaway travel segment.

Redefining Market Segments

If the current thinking is accepted that tourism is about the fulfillment of physical, social, emotional, psychological and even spiritual needs within and across various physical and social contexts (as offered by destinations), and it is further accepted that persons travelling have various needs or mix of needs that they fulfill at various points in time and at different stages in their lives, then in the moving forward it is possible **to break down a destination's total marketplace into multiple "niche" segments comprising sets of behaviours and choices on the part of the visitor and sets of behaviours and choices on the part of the destination - identifying the ones through various levels of interaction that give greatest satisfaction or value to both players.** (Note that "niche" in this context refers to a set of behaviours, lifestyles and need-states associated with a segment of existing or potential travelers/visitors and does not refer to creating a product that meets a small potential market segment)

Each "niche" or behavioural and lifestyle segment that is identified then becomes a building block in defining the total visitor market as a portfolio of niches whether the visitor is a single destination or multi-destination visitor and regardless of the geographical source market from which he/she may originate. This framework or understanding offers the context within which the Tourism Authorities and their stakeholders are best able to examine the role of their product and experiential offerings and match them to the lifestyle and behavioural choices of the OECS traveller - such that the OECS traveller attains multiple values as he/she "joins" or is "embraced" by several "niche" segments comprising visitors and potential visitors from all geographical markets – as he/she travels to meet the primary needs of a Getaway vacation or trip.

Within this context, the OECS traveller no longer comes from a market that generates only a few hundred visitors a year and therefore is only "Fairly Important" – within the new behavioural and lifestyle segments the OECS traveller is "repurposed", "re-labelled" and "revalued".

Very importantly it should be noted that such a change in perspective does not dismantle the current efforts by the destinations/Tourism Authorities but indeed enhance them as for example, the concerts and entertainment product offering during the off-peak or shoulder periods becomes a niche segment in this frame and if say the concert is high-energy and "pumping" it will be easier to understand to which behavioural and lifestyle segments such types of products and promotions will/will not have a significant gravitational pull. Similarly integrated measures between and among OECS countries aimed at promoting Multi-destination travel becomes another niche or several niches again depending upon the deeper needs that are being fulfilled or need-states that are being met.

Product Enhancement

A second important note on this redefinition and reframing of the tourism target market(s) is that destinations are able to through continuous assessment, establish measures of the level of attractiveness or the degree of pull of their product / experiential offerings on targeted behaviours and need-states. If these measures are low for certain target segments, the destination can adjust its offering accordingly. In many instances, this is likely to require some tweaking of the level of energy and activities upwards or downwards around the core product-offering to not only match the need-states of the visitor segments but to fit their cultural rhythms – very often not calling for significant or costly changes and/or investment as required when creating a totally new product – as in this framework it is about identifying the nuances that allows the destination to vary its core product to match the various lifestyles and cultures whilst keeping the DNA or the fundamentals of its product and positioning and key brand benefits intact.

Marketing and Communication

By identifying such commonality in behaviours and lifestyle choices, Tourism Authorities as well as their stakeholders are also able to make more effective use of digital media across geographical markets by targeting their marketing and promotional campaigns towards particular behavioural and motivational segments taking into account the understanding that people share information based on common interests and this is no longer limited by geographical boundaries.

Indeed today's technology and connectivity, can be used to allow for easy and less costly diffusion of well-developed promotions and product information –making it possible to use marginal costing when marketing to new potential segments in the OECS countries. However, finding the right "influencers" who are well connected regionally and internationally is important to this strategy. The right "influencers" should fit the characteristics of an early adopter of a product of service within a market segment and should be persons who have strong peer or cross segment appeal to generate discussion and interest in the product or service.

New Role for Geography

It is proposed that geography takes on a new dimension – to help delineate cultural nuances of a people and inform and guide "the how", "the when" and "the where" to deliver destination messages/information to the market and "the how" to vary the product offering whilst keeping the DNA of the core product and positioning intact.

Clear Product Differentiation

Alongside the above is a critical need for each destination to carve a well-defined, well differentiated product and experience …"why should I pay for an experience that I can find in my own country"…. Indeed, many of the Tourism Authorities described their positioning and offering as being unique but when these were detailed and discussed the differentiation was not readily apparent – here are some examples:

- "Sailing"
- "Dive"
- "Romance"
- "Eco-Tourism"
- "From Beach to Rainforest"
- "Warmth and Friendliness of People"
- "It is the People"
- "We are not Mass Market"

It is not that the required level of differentiation does not exist – discussions suggest that it is only now in the early stages of being developed and delineated. Montserrat however stood out as being very unique – the destination has used the active volcano to emphasise its dramatic landscape from deep crevices running through cliffs to moon-like terrain littered with rock and craters and buried towns. Moreover, this more precise delineation will also improve the attraction of multi-destination tourism within the OECS Region.

Data and Statistics

Last but certainly not least, in moving forward there is a need to address the question of data and statistics.

From discussions and responses to the Tourism surveys, it appears that the potential of the OECS source markets and the connectivity of the people are hidden in the geographical silos that are used to measure the value and rank of a market. As indicated, the majority of Tourism destinations are today using CTO MIST/Immigration Data to inform their market strategies; marketing and promotional spend are allocated by geography; and strategic marketing decisions are predominantly geography based – "e.g. want to grow the US market by 10%" etc. In some instances exit surveys are used to supplement the CTO and Immigration Data – but this too needs to be further enhanced to offer the depth of understanding required to segment by motivations, behaviour and deeper need-states.

Whilst some Authorities and private sector businesses may have begun such qualitative assessments of their markets they continue to segment primarily along geographical lines not being able to benefit fully from economies that are made possible with the connectivity of markets and individuals using today's universally consumed digital and social media.

It is therefore critical that visitor feedback and enquiry mechanisms which focus on the qualitative and motivational and lifestyle aspects of OECS outbound travel as well as the

connectivity of various groups of persons be further developed to drive and supplement the current data, approaches and strategies.

CONCLUSION

The above framework and recommendations are expected to provide a commercially viable approach to diverting increasing numbers from total outbound OECS resident travel towards OECS destinations and this can be facilitated by broadening the current concept of staycations to one which spans OECS-wide staycations.

The acute understanding that diversification for the Region is ever more important following the period of the Great Recession indeed offers a useful starting point from which strategies can be reframed to take due consideration of the approaches and recommendations identified above - not only as they pertain to the enhancement of Intra-OECS travel but to the overall gravitational pull/attractiveness and continued competitiveness of the Region in the wider Tourism marketplace.

The first step however is to understand the value of the OECS outbound travel market not only in terms of the number of OECS persons travelling but by conducting deep motivational research into the behaviours, lifestyles and need-states of the current market of each of the OECS countries.

CHAPTER III
STRUCTURE OF INTRA-OECS AIRFARES

Given the focus on airfares in the Study Terms of Reference and the widespread perception by the public that airfares in the OECS are too high, it is important to obtain an understanding of the implications that high airline operating and the narrow profit margins that characterise the airline industry have on airline pricing strategies and ultimately the airfare that is finally paid by the passenger or visitor.

AIRLINE PRICING

The operating schedule of an airline, together with safety and security, is the basic product offered to its customers. The core revenue of the airline is earned on the flights of its operating schedule. The major component of the revenue generated by a flight, indeed for most scheduled passenger airlines, is passenger revenue which is measure of the average unit price per seat and the number of occupied seats. The available seats on a flight represents time-sensitive inventory and are considered be perishable in the sense that once the flight takes off, the revenue from the potential sale of empty seats on that flight is irretrievably lost. To optimise the revenue on a flight therefore, airline management seeks to understand the booking characteristics of the flight, within its competitive environment, to determine what prices to sell seats, at different times prior to flight take-off, even though such differently priced seats may offer the same level of service to different passengers on the same flight. Moreover, management also monitors the impact that this differential pricing has on the level of demand since it is possible that a higher average price may so dampen demand as to lead to lower revenue per flight than a lower price offering.

Further, because air service demand is derived and air travel is seen as a facilitating mechanism or having largely utilitarian value, people are inclined to want to make the air fare the lowest cost component of the overall cost of a visit and hence offer greater resistance to high prices. Persons may even make convenience trade-offs against prices.

Pricing of seats by airlines to optimise revenue per flight (a practise in the industry referred to as Revenue Management) is therefore as much an art as it is a science and is made more challenging to manage when governments, in an effort to increase their revenues, raise their taxes, fees and charges (TFCs) on airfares which automatically increase the price that the passenger pays for the air ticket; or when taxes are percentage based and as the fare increases the amount of taxes to be paid by the passenger also increases.

AIRLINE COSTS

Combined with this narrow range of flexibility in managing prices, the cost of operating is generally high. Aircraft are expensive to acquire and this in turn makes it a capital intensive enterprise. Even if an airline decides to acquire aircraft through operating leases rather than through purchases, the capital requirement is still high, even if less so. The size of the aircraft order has a major impact on the unit capital cost of the aircraft and related essential spares.

Airlines also tend to have high personnel costs whether directly employed or "disguised" as outsourced services. Regulations define the number and level of skills of aircraft crew. Aircraft maintenance and passenger handling are people-intensive operations. Although their compensations levels have been significantly managed in recent times, aircraft and maintenance crews are still comparatively well paid.

Airlines also have a de facto high percentage of fixed costs. Once the operating schedule is agreed, normally variable costs such as fuel, catering, landing fees, line maintenance costs, aircraft crew overnight expenses, etc. become fixed since these are largely driven by the operating schedule.

Further, the landing and take-off phases of a flight are not only the more risky but also the more expensive and generate the most structural wear and tear on aircraft frames and engines. The unit cost of a flight (cost per mile or cost per km) declines as the flight length between stops increases. A non-stop flight between points A and B is less expensive than a similar flight with intermediate stops. The revenues and yields generated by the nonstop flight may be less than that for the multi-stop flight so the key criterion for developing the operating schedule is profitability per flight. On a unit basis therefore, providing intra-OECS air service is more expensive than say providing air service between Grenada and Miami. In addition one also has to recognise that inter-island flying occurs at relatively low altitudes and this increases the chance of corrosion to aircraft frames and engines. These realities, leading to higher costs, significantly impact the profitability of airlines that are providing intra-OECS service and generate the need for relatively higher airfares. The question is how much higher, an answer probably best produced by competition, the demand in the marketplace as well as affordability given income levels.

In summary, airline profitability is highly leveraged and driven by the agreed operating schedule. Break-even points are usually at high load-factors (occupied seats divided by available seats) but once exceeded, profits grow exponentially. Profits, when achieved, tend to be in the range of 2-5% of revenues. There is therefore little room for error.

Mission compatible Aircraft

With little margin for error it is a basic requirement of airlines that the seating capacity of the aircraft type selected or chosen to provide the operating schedule must be consistent with the expected demand on the city-pairs that comprise the schedule. If the aircraft are too large then the revenue from the low demand is very likely **not to meet the cost of even the most efficient operations** and alternatively if the aircraft are too small then there will be unfulfilled demand and lost revenues. In the former case the airline risks financial failure, in the latter it encourages even further competition.

In the case of the intra-OECS Region, the expected demand on a significant number of city pairs appears to be far smaller than the seating capacity of the aircraft used by LIAT. It is no surprise therefore that with this possible misalignment between seat capacity and demand, the airline is not profitable on many of its routes even at airfares that are considered by the travelling public to be high.

INTRA-OECS AIRFARES AND FINAL COSTS TO PASSENGERS

The analysis above demonstrates that airfares for intra-OECS travel can be expected to be comparatively high unless massively subsidized. The airfare that a passenger pays for travel within the OECS region has a structure comprising three (3) primary components. These are the:

- Airline base fares which are generally the largest component and are driven by the basic economics of operating in the intra-OECS region as outlined above:
    - Lowest available base fare which varies between US$0.19 /NM (Airway Nautical Mile) to US$2.58/NM with a mean of US$0.58/NM, a mode of US$0.56/NM and a Standard Variation of US$0.42
    - Highest available base fare which varies between US$0.66 /NM (Airway Nautical Mile) to US$4.09/NM with a mean of US$1.49/NM, a mode of US$0.74/NM and a Standard Variation of US$0.76
    - The highest mean available base fare is 2.6 times that of the lowest mean while the highest mode is much less at 1.3 times the lowest mode
- Airline fixed price surcharges (e.g. fuel and recently introduced booking fees)
- Government taxes, fees and charges (TFCs), shown in Table III-1 **below** of which there is a:
    - Fixed price component that is usually presented as cost recovery mechanisms for providing the aviation infrastructure and services
    - Variable price component (where applicable) based on the actual base fare charged – maybe a sales tax or VAT

Online bookings show the breakout in the airfare the passenger pays between the base fare, the airline surcharges and government TFCs.

Five (5) of the OECS countries (Antigua, Dominica, St. Kitts, St. Lucia, St. Vincent) have a variable TFC component ranging between 5-10% of the base fare charged. The other OECS countries as well as Guadeloupe and Martinique do not have a variable component. All the variable Government Taxes apply to the total base fare for one way or round trip travel.

With respect to the fixed TFC component:

- Four (4) countries of the Study Group (Dominica, St. Vincent, Guadeloupe, Martinique) do not have inbound TFCs. Of those that do, this varies from US$37.50 (Antigua) to US$5.00 (Anguilla).
- All countries of the Study Group have outbound TFCs that vary from US$39.43 (Grenada) to US$5.00 (Anguilla).

These wide variations in TFCs show that there is little harmonisation of such across the OECS Region. Table III-1 **below** refers.

TABLE III-1 – GOVERNMENT TAXES, FEES AND CHARGES (TFCs)

APPLICABLE TAXES/FEES/CHARGES (TFCs)			
COUNTRY	**NAME OF TFC**	**USD**	**ECD**
ANTIGUA			
Outbound TFC's	Antigua Ticket Tax	10% of Total Fare	
	Antigua Airport Admin Charge	$37.50	
Inbound TFC's	Antigua Airport Admin Charge	$37.50	
ANGUILLA			
Outbound TFC's	Anguilla Development Tax	$10.00	
	Anguilla Bag Screen Fee	$5.00	
Inbound TFC's	Anguilla A/Port Expansion Fee	$5.00	
British Virgin Islands			
Outbound TFC's	Tortola Development Fee	$10.00	
	Tortola Hold Bag Screen Fee	$7.00	
Inbound TFC's	Tortola Development Fee	$10.00	
DOMINICA			
Outbound TFC's	Dominica Ticket Tax	7.5% of Total Fare	
	Embarkation Tax (Caricom Nationals)		$45.00
	Embarkation Tax (Non-Caricom Nationals)		$59.00
	NB: Embarkation Tax payable at the Airport		
Inbound TFC's	NIL		
GRENADA			
Outbound TFC's	Grenada Concourse Fee	$6.00	
	Grenada Svce & Security	$22.23	
	Grenada Bag Screen Fee	$3.70	
	GND Airport Capital Improvement Charge	$7.50	
Inbound TFC's	Grenada Facilitation Charge	$7.40	
	GND Airport Capital Improvement Charge	$7.50	
MONTSERRAT			
Outbound TFC's	Airport Security Charge		$10.00
	Embarkation Tax (Caricom Nationals)		$25.00
	Embarkation Tax (Non-Caricom Nationals)		$45.00
	NB: All the above payable at the Airport		
Inbound TFC's	ANU Airport Admin Charge	$37.50	
ST. KITTS			
Outbound TFC's	St. Kitts Ticket Tax	10% of Total Fare	
	St. Kitts Airport and Security Charge	$22.00	
	SKB Airport Enhancement Facilitation Fee	$12.00	
	St. Kitts Environmental Levy	$3.00	
Inbound TFC's	St. Kitts Passenger Facility Charge	$10.00	
NEVIS			
Outbound TFC's	St. Kitts/Nevis Ticket Tax	10% of Total Fare	
	Nevis Departure tax (payable at airport)	$19.00	
Inbound TFC's	Nevis Passenger Facility Charge	$10.00	

TABLE III-1 – GOVERNMENT TAXES, FEES AND CHARGES (TFCs) – (Con't.)

APPLICABLE TAXES/FEES/CHARGES (TFCs)			
COUNTRY	**NAME OF TFC**	**USD**	**ECD**
ST. LUCIA			
Outbound TFC's	St. Lucia Ticket Tax	7.5% of Total Fare	
	St. Lucia Airport Service Charge	$25.10	
	St. Lucia Security Charge	$4.82	
Inbound TFC's	St. Lucia Passenger Facility Charge	$5.00	
	St. Lucia Facilitation Charge	$0.37	
ST.VINCENT			
Outbound TFC's	SVD Ticket Tax	5% of Total Fare	
	SVD Airport Charge	$19.00	
Inbound TFC's	NIL		
BARBADOS			
Outbound TFC's	BGI Ticket Tax	15% of Total Fare	
	BGI Passenger Service Charge	$27.50	
	BGI Security Fee	$3.20	
Inbound TFC's	BGI Passenger Facility Charge	$1.50	
TRINIDAD			
Outbound TFC's	POS Ticket Tax	15% of Total Fare	
	POS Passenger Service Charge	$31.90	
	POS Concourse Fee	$11.50	
Inbound TFC's	NIL		
ST. MAARTEN			
Outbound TFC's	SXM Departure Tax	$36.00	
	SXM Screening Fee	$10.91	
	SXM Airport Fee	$5.00	
Inbound TFC's			
MARTINIQUE			
Outbound TFC's	FDF Travel/Airport Tax	$26.16	
	Air Passenger Solidarity Tax	$5.59	
	French Tax	$12.71	
Inbound TFC's	NIL		
GUADELOUPE			
Outbound TFC's	PTP Travel/Airport Tax	$26.16	
	Air Passenger Solidarity Tax	$5.59	
	French Tax	$10.04	
Inbound TFC's	NIL		

Source: Filed Government Taxes

Impact of Airline Decisions on Applicable TFCs

Notwithstanding the differences and movements in TFCs, the differential between the highest and lowest available base fare charged by the airline is by far the more significant determinant of the variations in the final fare that is charged to the passenger. The revenue management process defines the range of fares that is available for sale or booking at any point in time and "pushes" fares towards the higher levels the closer the flight is to departure and the higher demand for that flight. This action can further raise the final fare paid by the passenger where

there is a variable component of the TFC that is applied to the selected base fare used for the booking.

It should be noted that the airline in the way it structures its schedule can have a greater impact on the TFCs actually charged to the passenger than the government that establishes them. Where an airline's schedule requires a passenger to use connecting flights and the connecting airport has a transfer or equivalent fee then such a journey will be more expensive than one that enjoys same plane, direct service. In LIAT's current schedule 76% of the connection opportunities for intra-Study Group city pairs require a combination of flights or connecting flights. The key connecting airports that charge a transfer or equivalent fee are Barbados, St. Lucia, St. Maarten and Trinidad.

Finally the nature of the airfare structure used by the airline can also affect the level of applicable TFCs. Journeys that do not show same day connections or connections within a twenty-four hour period from a point of origin to final destination can result in travelers having to pay two (2) one-way fares attracting two (2) sets of TFCs – one set associated with point of origin and the other associated with arriving and departing taxes at the intermediate stop or overnight point. However by 'building' in the Computerized Reservations System (CRS) overnight connecting flights, through-fares which do not attract the transfer/overnight point taxes can be quoted to the passenger. **Hence the airline is able to reduce the final price paid by the customer while not affecting the level of base fare and surcharges earned by the airline.**

Review of Airline Fares – High Level of Variability

However even outside of the TFCs, a review of the available air fares on LIAT shows a wide range of fares among the city pairs that comprise the OECS Region. The unit fare **charged to passengers** per Airway Nautical Mile (NM) based on the **lowest available fare** varies from US$0.40 /NM (Airway Nautical Mile) to US$5.14/NM with a mean of US$1.30/NM, a mode of US$0.82/NM and a Standard Variation of US$0.91.

Similar fares based on the **highest available fare** varies from US$0.84/NM (Airway Nautical Mile) to US$5.93/NM with a mean of US$2.26/NM, a mode of US$2.11/NM and a Standard Variation of US$1.31. The highest mean available passenger fare is 1.7 times that of the lowest mean while the highest mode is much greater at 2.6 times the lowest mode. This is a reversal in similar relationships between the available base fares.

The significant increase in the already high standard deviations between unit base fares (those charged by the airline excluding taxes and surcharges) and the unit final passenger fares highlights how the combination of the airline surcharges and the government TFCs under the current airfare structure can significantly distort the relationships among the airfares paid by passengers.

The standard deviations are as follows:
Lowest Available Base Fare - US$0.42
Lowest Available Passenger Fare - US$0.91
Highest Available Base Fare - US$0.76

Highest Available Passenger Fare - US$1.31

Likely Airfares

The Study through an intensive and detailed review of airfares between the different OECS city-pairs provided the basis for the analysis in the determination of the likely air fare that passengers would be charged for the different intra-OECS city pairs. These are shown in Table III-2 **below**.

Table III-2 –LIKELY PASSENGER RETURN AIRFARES

Likely Unit Pax R/T Fares US$														
Feb 21, 2015														
TO		FROM	EIS	AXA	SKB	NEV	ANU	MNI	PTP	DOM	FDF	SLU	SVD	GND
Grenada	Fare (GND)		739	886	708	865	691	1182	N/A	492	N/A	378	508	N/A
	Distance NM		1003	853	755	739	648	713	538	448	330	260	152	N/A
	Yield UScts/NM		73.68	103.87	93.77	117.05	106.64	165.78		109.82		145.38	334.21	
	TFCs		81	188	171	176	182	274		88		124	107	
	TFCs as % Fares		11%	21%	24%	20%	26%	23%		18%		33%	21%	
St. Vincent	Fare (SVD)		606	634	573	708	488	915	N/A	378	N/A	353	N/A	377
	Distance NM		851	701	603	587	496	561	386	296	178	108	N/A	152
	Yield UScts/NM		71.21	90.44	95.02	120.61	98.39	163.10		127.70		326.85		248.03
	TFCs		54	150	126	130	139	225		55		89		105
	TFCs as % Fares		9%	24%	22%	18%	28%	25%		15%		25%		28%
St. Lucia - Vigie	Fare (SLU)		594	592	534	664	446	864	N/A	326	N/A	N/A	463	394
	Distance NM		743	593	495	479	388	453	278	190	70	N/A	108	260
	Yield UScts/NM		79.95	99.83	107.88	138.62	114.95	190.73		171.58			428.70	151.54
	TFCs		62	149	108	112	137	222		52			81	116
	TFCs as % Fares		10%	25%	20%	17%	31%	26%		16%			17%	29%
Martinique	Fare (FDF)		996	837	956	1111	554	997	N/A	577	N/A	291	653	432
	Distance NM		674	524	426	410	319	384		120	N/A	70	178	330
	Yield UScts/NM		147.77	159.73	224.41	270.98	173.67	259.64		480.83		415.71	366.85	130.91
	TFCs		230	174	302	286	164	252		139		93	86	105
	TFCs as % Fares		23%	21%	32%	26%	30%	25%		24%		32%	13%	24%
Dominica - Melville Hall	Fare (DOM)		474	562	370	468	351	749	N/A	N/A	N/A	325	552	476
	Distance NM		555	438	307	291	200	265	90	N/A	120	190	296	448
	Yield UScts/NM		85.41	128.31	120.52	160.82	175.50	282.64				171.05	186.49	106.25
	TFCs		32	125	73	76	97	180				54	49	68
	TFCs as % Fares		7%	22%	20%	16%	28%	24%				17%	9%	14%
Guadeloupe	Fare (PTP)		563	602	475	592	428	839	N/A	358	N/A	652	626	563
	Distance NM		464	315	216	200	108	174	N/A	90		278	386	538
	Yield UScts/NM		121.34	191.11	219.91	296.00	396.30	482.18		397.78		234.53	162.18	104.65
	TFCs		67	153	102	106	141	225		60		180	90	103
	TFCs as % Fares		12%	25%	21%	18%	33%	27%		17%		28%	14%	18%
Montserrat	Fare (MNI)		737	410	671	784	275	N/A	N/A	640	N/A	720	1052	906
	Distance NM		422	272	174	158	66	N/A	174	265	384	453	561	713
	Yield UScts/NM		174.64	150.74	385.63	496.20	416.67			241.51		158.94	187.52	127.07
	TFCs		194	187	242	238	87			193		230	224	230
	TFCs as % Fares		26%	46%	36%	30%	32%			30%		32%	21%	25%
Antigua	Fare (ANU)		436	349	371	459	N/A	309	N/A	345	N/A	433	464	620
	Distance NM		356	206	108	109	N/A	66	108	200	319	388	496	648
	Yield UScts/NM		122.47	169.42	343.52	421.10		468.18		172.50		111.60	93.55	95.68
	TFCs		92	95	144	146		75		91		133	125	138
	TFCs as % Fares		21%	27%	39%	32%		24%		26%		31%	27%	22%
Nevis	Fare (NEV)		391	573	N/A	N/A	324	708	N/A	397	N/A	474	736	626
	Distance NM		288	138	18	N/A	109	158	200	291	410	479	587	739
	Yield UScts/NM		135.76	415.22			297.25	448.10		136.43		98.96	125.38	84.71
	TFCs		59	206			104	185		74		75	64	73
	TFCs as % Fares		15%	36%			32%	26%		19%		16%	9%	12%
St. Kitts	Fare (SKB)		386	610	N/A	N/A	361	745	N/A	434	N/A	511	773	643
	Distance NM		270	120	N/A	18	108	174	216	307	426	495	603	755
	Yield UScts/NM		142.96	508.33			334.26	428.16		141.37		103.23	128.19	85.17
	TFCs		74	243			141	222		111		112	101	110
	TFCs as % Fares		19%	40%			39%	30%		26%		22%	13%	17%
Anguilla	Fare (AXA)		305	N/A	556	676	387	791	N/A	555	N/A	691	861	911
	Distance NM		190	N/A	120	138	206	272	315	406	524	593	701	853
	Yield UScts/NM		160.53		463.33	489.86	187.86	290.81		136.70		116.53	122.82	106.80
	TFCs		37		165	167	118	202		113		180	148	196
	TFCs as % Fares		12%		30%	25%	30%	26%		20%		26%	17%	22%
BVI (Tortola)	Fare (EIS)		N/A	292	462	572	452	875	N/A	521	N/A	603	861	745
	Distance NM		N/A	190	270	288	356	422	464	555	674	743	851	1003
	Yield UScts/NM		N/A	153.68	171.11	198.61	126.97	207.35		93.87		81.16	101.18	74.28
	TFCs			47	127	131	130	216		98		101	148	90
	TFCs as % Fares			16%	27%	23%	29%	25%		19%		17%	17%	12%

Source: Results from Queries made to Online Booking Systems

The unit **likely fare** charged to passengers per Airway Nautical Mile (NM) varies from US$0.71 /NM (Airway Nautical Mile) to US$4.90/NM with a mean of US$1.74/NM, a mode of US$1.58/NM and a Standard Variation of US$1.03. This mode is 0.75 of the mode of the highest passenger fare. The related TFCs vary between US$32 and US$302 with a mean of US$135, a mode of US$230 and a Standard Deviation of US$61. TFCs as a percentage of the likely passenger fare vary between 7% and 40% with a mean of 23%, a mode of 17% and a Standard Variation of 7%.

Impact on Government Revenues

The ball park OECS Group Government revenues from stay over intra-OECS visitors based on 2013 visitor numbers and the likely TFCs is c.a. **US$6.5M** as shown in Table III-3 **below**. Note however that this figure is likely to be lower since travel between some of the city pairs may require transfers at airports in countries outside of the OECS Group (e.g. Barbados). From a country perspective, travel to Antigua (**US$1.446M**) and travel from St. Kitts & Nevis (**US$1.092M**) produce the largest TFC Government Revenues. Travel from Antigua generated US$1.082M in TFC revenues.

TABLE III-3 – LIKELY GOVERNMENT REVENUES FROM TFCs

STAY-OVER VISITORS											
INTRA-OECS LIKELY TFCs US$											
2013											
FROM	**TO**	AXA	ANU	EIS	DOM	GND	MNI	SKB	SLU	SVD	**Total**
Anguilla (AXA)			648	413	294	33		1021	146	149	2704
Likely TFCs			95	47	125	188	187	243	149	150	
Likely Government Revenue			61560	19411	36750	6204		248103	21754	22350	**416132**
Antigua & Barbuda (ANU)		531		921	2793	262		1430	1858	895	8690
Likely TFCs		118		130	97	182	87	141	137	139	
Likely Government Revenue		62658		119730	270921	47684		201630	254546	124405	**1081574**
British Virgin Islands (EIS)		186	1371		1075	74		1185	370	1418	5679
Likely TFCs		37	92		32	81	194	74	62	54	
Likely Government Revenue		6882	126132		34400	5994		87690	22940	76572	**360610**
Dominica (DOM)		1270	2960	1061		734		456	1959	520	8960
Likely TFCs		113	91	98		88	193	111	52	55	
Likely Government Revenue		143510	269360	103978		64592		50616	101868	28600	**762524**
Grenada (GND)		128	719	648	317			256	1434	977	4479
Likely TFCs		196	138	90	68		230	110	116	105	
Likely Government Revenue		25088	99222	58320	21556			28160	166344	102585	**501275**
Montserrat (MNI)		79	1577	22	120	20		105	98	42	2063
Likely TFCs		202	75	216	180	274		222	222	225	
Likely Government Revenue		15958	118275	4752	21600	5480		23310	21756	9450	**220581**
St. Kitts & Nevis (SKB)		1577	2753	1788	426	306			764	340	7954
Likely TFCs		165	144	127	73	171	242		108	126	
Likely Government Revenue		260205	396432	227076	31098	52326			82512	42840	1092489
St. Lucia (SLU)		508	1984	695	1918	1507		653		1796	9061
Likely TFCs		180	133	101	54	124	230	112		89	
Likely Government Revenue		91440	263872	70195	103572	186868		73136		159844	**948927**
St. Vincent & Grenadines (SVD)		276	887	819	431	1840		381	2280		6914
Likely TFCs		148	125	84	49	107	224	101	81		
Likely Government Revenue		40848	110875	68796	21119	196880		38481	184680		**661679**
OECS Group		**4555**	**12899**	**6367**	**7374**	**4776**	**2338**	**5487**	**8909**	**6137**	**56504**
Likely Average TFCs							198				
Likely Government Revenue		**646589**	**1445728**	**672258**	**541016**	**566028**	**463801**	**751126**	**856400**	**566646**	**6509592**

Source: Results from Calculations using Likely TFCs and 2013 Intra-OECS Visitor Numbers

Updated Likely Fares

Following queries raised about the level of taxes on certain city pairs, LIAT conducted a review of the structure used to calculate airfares. This has resulted in a reduction in the applicable TFCs on a number of city pairs. Table III-4 **below** shows the applicable likely fares as at March 19, 2015.

TABLE III-4 – LIKELY PASSENGER RETURN AIRFARES - UPDATED

OECS STUDY														
Likely Unit Pax R/T Fares US$														
19-Mar-15														
TO		FROM	EIS	AXA	SKB	NEV	ANU	MNI	PTP	DOM	FDF	SLU	SVD	GND
Grenada	Fare (GND)		739	752	696	699	691	887	N/A	492	N/A	380	475	N/A
	Distance NM		1003	853	755	739	648	713	538	448	330	260	152	N/A
	Yield UScts/NM		73.68	88.16	92.19	94.59	106.64	124.40	N/A	109.82	N/A	146.15	312.50	N/A
	TFCs		81	104	159	122	182	191	N/A	88	N/A	125	95	N/A
	TFCs as % Fares		11%	14%	23%	17%	26%	22%	N/A	18%	N/A	33%	20%	N/A
St. Vincent	Fare (SVD)		598	633	581	593	488	688	N/A	390	N/A	356	N/A	366
	Distance NM		851	701	603	728	453	561	386	296	178	108	N/A	152
	Yield UScts/NM		70.27	90.30	96.35	81.46	107.73	122.64	N/A	131.76	N/A	329.63	N/A	240.79
	TFCs		46	77	124	86	139	152	N/A	57	N/A	92	N/A	93
	TFCs as % Fares		8%	12%	21%	15%	28%	22%	N/A	15%	N/A	26%	N/A	25%
St. Lucia - Vigie	Fare (SLU)		594	553	530	533	446	643	N/A	326	291	N/A	433	399
	Distance NM		743	593	495	479	388	453	278	190	70	N/A	108	260
	Yield UScts/NM		79.95	93.25	107.07	111.27	114.95	141.94	N/A	171.58	415.71	N/A	400.93	153.46
	TFCs		62	77	104	67	137	147	N/A	52	93	N/A	72	119
	TFCs as % Fares		10%	14%	20%	13%	31%	23%	N/A	16%	32%	N/A	17%	30%
Martinique	Fare (FDF)		705	751	526	626	554	759	N/A	422	N/A	291	662	443
	Distance NM		674	524	426	410	319	384	N/A	120	N/A	70	178	330
	Yield UScts/NM		104.60	143.32	123.47	152.68	173.67	197.66	N/A	351.67	N/A	415.71	371.91	134.24
	TFCs		77	98	130	190	164	181	N/A	74	N/A	93	95	117
	TFCs as % Fares		11%	13%	25%	30%	30%	24%	N/A	18%	N/A	32%	14%	26%
Dominica - Melville Hall	Fare (DOM)		474	441	367	370	351	547	N/A	N/A	N/A	325	553	457
	Distance NM		555	438	307	291	200	265	90	N/A	120	190	296	448
	Yield UScts/NM		85.41	100.68	119.54	127.15	175.50	206.42	N/A	N/A	N/A	171.05	186.82	102.01
	TFCs		54	55	78	30	91	118	N/A	N/A	N/A	52	57	88
	TFCs as % Fares		11%	12%	21%	8%	26%	22%	N/A	N/A	N/A	16%	10%	19%
Guadeloupe	Fare (PTP)		563	536	432	435	428	625	N/A	358	N/A	543	628	574
	Distance NM		464	315	216	200	108	174	N/A	90	N/A	278	386	538
	Yield UScts/NM		121.34	170.16	200.00	217.50	396.30	359.20	N/A	397.78	N/A	195.32	162.69	106.69
	TFCs		67	82	113	76	141	150	N/A	60	N/A	199	92	104
	TFCs as % Fares		12%	15%	26%	17%	33%	24%	N/A	17%	N/A	37%	15%	18%
Montserrat	Fare (MNI)		651	570	601	604	275	N/A	N/A	565	N/A	682	982	831
	Distance NM		422	272	174	158	66	N/A	174	265	384	453	561	713
	Yield UScts/NM		154.27	209.56	345.40	382.28	416.67	N/A	N/A	213.21	N/A	150.55	175.04	116.55
	TFCs		119	125	172	135	87	N/A	N/A	118	N/A	192	178	155
	TFCs as % Fares		18%	22%	29%	22%	32%	N/A	N/A	21%	N/A	28%	18%	19%
Antigua	Fare (ANU)		435	371	369	372	N/A	263	N/A	345	N/A	433	453	620
	Distance NM		356	206	108	109	N/A	66	108	200	319	388	496	648
	Yield UScts/NM		122.19	180.10	341.67	341.28	N/A	398.48	N/A	172.50	N/A	111.60	91.33	95.68
	TFCs		102	117	141	104	N/A	75	N/A	91	N/A	133	125	138
	TFCs as % Fares		23%	32%	38%	28%	N/A	29%	N/A	26%	N/A	31%	28%	22%
Nevis	Fare (NEV)		369	327	N/A	N/A	324	518	N/A	353	N/A	474	728	608
	Distance NM		288	138	18	N/A	109	158	200	291	410	479	587	739
	Yield UScts/NM		128.13	236.96	N/A	N/A	297.25	327.85	N/A	121.31	N/A	98.96	124.02	82.27
	TFCs		37	65	N/A	N/A	104	110	N/A	30	N/A	75	56	64
	TFCs as % Fares		10%	20%	N/A	N/A	32%	21%	N/A	8%	N/A	16%	8%	11%
St. Kitts	Fare (SKB)		386	364	N/A	N/A	361	558	N/A	401	N/A	511	765	635
	Distance NM		270	120	N/A	18	108	174	216	307	426	495	603	755
	Yield UScts/NM		142.96	303.33	N/A	N/A	334.26	320.69	N/A	130.62	N/A	103.23	126.87	84.11
	TFCs		74	102	N/A	N/A	141	147	N/A	78	N/A	112	93	101
	TFCs as % Fares		19%	28%	N/A	N/A	39%	26%	N/A	19%	N/A	22%	12%	16%
Anguilla	Fare (AXA)		337	N/A	388	393	387	583	N/A	424	N/A	563	632	727
	Distance NM		190	N/A	120	138	206	272	315	406	524	593	701	853
	Yield UScts/NM		177.37	N/A	323.33	284.78	187.86	214.34	N/A	104.43	N/A	94.94	90.16	85.23
	TFCs		69	N/A	110	75	118	75	N/A	55	N/A	101	87	84
	TFCs as % Fares		20%	N/A	28%	19%	30%	13%	N/A	13%	N/A	18%	14%	12%
BVI (Tortola)	Fare (EIS)		N/A	313	437	440	463	650	N/A	478	N/A	603	843	717
	Distance NM		N/A	190	270	288	356	422	464	555	674	743	851	1003
	Yield UScts/NM		N/A	164.74	161.85	152.78	130.06	154.03	N/A	86.13	N/A	81.16	99.06	71.49
	TFCs		N/A	69	102	65	131	140	N/A	54	N/A	101	76	81
	TFCs as % Fares		N/A	22%	23%	15%	28%	22%	N/A	11%	N/A	17%	9%	11%

Source: Results from Queries to Online Booking Systems

The highest unit likely passenger fare is now US$4.17/NM as opposed to US$4.90/NM previously and the highest TFC is now US$199 as opposed to US$302. The unit **likely fare** charged to passengers per Airway Nautical Mile (NM) varies from US$0.70 /NM (Airway Nautical Mile) to US$4.17/NM with a mean of US$1.80/NM, and a Standard Variation of US$0.99. There was no apparent mode.

The related TFCs vary between US$30 and US$199 with a mean of US$102, a mode of US$104 and a Standard Deviation of US$37. TFCs as a percentage of the likely passenger fare vary between 8% and 39% with a mean of 20%, a mode of 8% and a Standard Variation of 7.5%.

LIAT is to be congratulated for this expeditious action.

Updated Impact on Government Revenues

The updated ball park OECS Group Government revenues from stay over intra-OECS visitors based on 2013 visitor numbers and the likely TFCs is now c.a. **US$5.8M** as shown in Table III-5 **below** down from US$6.5M, a reduction of 11%. From a country perspective, travel **to Antigua** (**US$1.465M**) and travel **from Antigua** (**US$1.066**) produce the largest TFC Government Revenues; marginal changes. Travel from St. Kitts now produces US$0.948M in TFC revenues

TABLE III – 5 LIKELY GOVERNMENT REVENUES FROM TFCs - UPDATED

STAY-OVER VISITORS											
INTRA-OECS LIKELY TFCs US$											
2013											
FROM	**TO**	AXA	ANU	EIS	DOM	GND	MNI	SKB	SLU	SVD	**Total**
Anguilla (AXA)			648	413	294	33		1021	146	149	2704
Likely TFCs			117	69	55	104	125	102	77	77	
Likely Government Revenue			75816	28497	16170	3432		104142	11242	11473	**250772**
Antigua & Barbuda (ANU)		531		921	2793	262		1430	1858	895	8690
Likely TFCs		118		131	91	182	87	141	137	139	
Likely Government Revenue		62658		120651	254163	47684		201630	254546	124405	**1065737**
British Virgin Islands (EIS)		186	1371		1075	74		1185	370	1418	5679
Likely TFCs		69	102		54	81	119	74	62	46	
Likely Government Revenue		12834	139842		58050	5994		87690	22940	65228	**392578**
Dominica (DOM)		1270	2960	1061		734		456	1959	520	8960
Likely TFCs		55	91	54		88	118	78	52	57	
Likely Government Revenue		69850	269360	57294		64592		35568	101868	29640	**628172**
Grenada (GND)		128	719	648	317			256	1434	977	4479
Likely TFCs		84	138	81	88		155	101	119	93	
Likely Government Revenue		10752	99222	52488	27896			25856	170646	90861	**477721**
Montserrat (MNI)		79	1577	22	120	20		105	98	42	2063
Likely TFCs		75	75	140	118	191		147	147	152	
Likely Government Revenue		5925	118275	3080	14160	3820		15435	14406	6384	**181485**
St. Kitts & Nevis (SKB)		1577	2753	1788	426	306			764	340	7954
Likely TFCs		110	141	102	78	159	172		104	124	
Likely Government Revenue		173470	388173	182376	33228	48654			79456	42160	947517
St. Lucia (SLU)		508	1984	695	1918	1507		653		1796	9061
Likely TFCs		101	133	101	52	125	192	112		92	
Likely Government Revenue		51308	263872	70195	99736	188375		73136		165232	**911854**
St. Vincent & Grenadines (SVD)		276	887	819	431	1840		381	2280		6914
Likely TFCs		87	125	76	57	95	224	93	72		
Likely Government Revenue		24012	110875	62244	24567	174800		35433	164160		**596091**
OECS Group		**4555**	**12899**	**6367**	**7374**	**4776**	**2338**	**5487**	**8909**	**6137**	**56504**
Likely Average TFCs							149				
Likely Government Revenue		**410809**	**1465435**	**576825**	**527970**	**537351**	**348362**	**578890**	**819264**	**535383**	**5800289**

Source: Results from Calculations using Updated Likely TFCs and 2013 Intra-OECS Visitor Numbers

PRICE ELASTICITY OF INTRA-OECS AIRFARES

To better understand the cost benefit of taxes applied to airfares, one needs to gain a better appreciation of the price elasticity of airfares within the OECS Region. There appears however to be little information available on this topic in the literature.

General Data

The IATA Air Travel Demand Report of April 2008 states that income factors have a greater impact on air travel than price factors. However in both cases the related elasticities are dependent on the different scenarios being evaluated and cannot be easily applied across such varying scenarios. Indeed none of the scenarios explored in that report can be directly compared to the intra-OECS scenario. The closest, but by some margin, would be the intra-South America scenario that appears to have a price elasticity of **-1.1** for short haul travel responding to price factors at the regional level.

Hence a clear understanding of the intra-OECS scenario is required to determine elasticities relevant to the Region and the factors driving them. That said, the report concludes that Developing Countries "typically have a greater responsiveness" to income factors. The income elasticity for such countries appears to be **1.8** for short haul traffic responding to income factors at the regional level.

The December 2014 IMF Working Paper "Revisiting Tourism Flows to the Caribbean: What is Driving Arrivals", while **not examining** intra-Caribbean travel, concluded that "tourism arrivals and expenditure are sensitive to both price and income factors in source markets" with income factors appearing to have the larger impact. The report also notes that:

- "Price and income elasticities of tourism have declined since 2008
- The nominal cost of an average one week beach holiday in the Caribbean is higher than in other beach destinations around the world."

The first speaks to air travel becoming even more utilitarian in value whilst the second finding, if indeed true can reduce the incentive for intra-OECS leisure travel if for example a beach Getaway is a primary interest of Intra-OECS travelers.

Experience detailed in former studies, both of airline travel in general and travel within the OECS in particular, indicates that the expected response of passenger volumes to changes in price is influenced by wider considerations, the specific scenarios identified in the IATA 2008 Report. Primary among these are levels of disposable income, total cost of travel and the "gravity pull" or attractiveness of destinations.

That said, a significant determinant of price elasticity is of course price but also the alternative that are available from (capacity) competition among airlines flying the same routes across a region. There are two (2) Eastern Caribbean examples of such a scenario.

LIAT vs Caribbean Star/Sun

Over the period 2004-2006 Caribbean Star/Sun competed vigorously with LIAT on intra-OECS and other Eastern Caribbean routes on the basis of price and schedule, each flying essentially the same routes with the competition peaking in 2006 in a fight to the death. However, competition essentially ceased in 2007 as the airlines entered a commercial alliance in Jan 2007 with LIAT purchasing its competitor in October 2007.

A review of the ECCB tourism statistics showed:

- Caribbean Visitors to the OECS (not including BVI) increased by 13,195 in 2004, 12,903 in 2005, 5070 in 2006 but **declined by 53,447** (17%) in 2007. The decline in Caribbean Visitors in 2007 was **1.7** times the growth over the period 2004-2006.
- Non Caribbean Visitors increased by 97,366 (15%) in 2004, declined by 6874 in 2005, increased by 22,555 in 2006 and by a **further 25,409 in 2007. This is a stark difference in market behaviour from that of the Caribbean source market.**

Further an informal analysis of available data, completed in early 2013, showed:

- The combined traffic carried by LIAT, Caribbean Star/Sun was c.a. 2.3 M in 2006 (competition), c.a. 1.5 M in 2007 (alliance) 1.0M in 2008 (monopoly). This decline compares unfavourably with Non Caribbean Visitor traffic to the OECS as shown in the ECCB statistics which was c.a. 0.77M in 2006, c.a. 0.79M in 2007 and was also c.a. 0.79M in 2008.
- The average combined fare of these airlines was c.a. **US$83 in 2006, and US$107 in 2007.**
- **This market response appears to imply a price elasticity at a regional level of c.a. -1.15.**

Further, based on the above data, combined passenger spend on air travel seems to have decreased by 14% in 2007 despite a 29% increase in price.

The Study hypothesizes that such price changes impacted the decision-making process of intra-Regional travelers at that time by altering the individual's personal imputed value of regional destinations relative to other destinations as well as other forms of expenditure such that there appeared to be less personal spend allocated to intra-Regional travel in 2007 when compared to 2006.

REDjet

The REDjet phenomenon does give some insight into price elasticity on an individual route in the Eastern Caribbean albeit not between OECS countries. This low-price airline started operations in May 2011 and ceased in March 2012. Based in Barbados, its key routes were to Guyana (started May 2011) and Trinidad (started July 2011).

Using the impact of RedJet in 2011-12 on travel from Trinidad to Barbados we were able to calculate a price elasticity at the route level based on data from the related organisations. The results are shown in Table III-6 **below**.

TABLE III-6 – IMPACT OF REDJET ON VISITOR ARRIVAL NUMBERS

REDjet Impact				
BGI-T&T Market				
	2010	**2011**	**2012**	**2013**
Visitors ex TT to BGI	27259	36825	38005	31614
Change		9566	1180	-6391
% Change		35%	3%	-17%
POS-BGI Passenger Numbers - One Way	96506	119340	139492	123305
Change		22834	20152	-16187
% Change		23.66%	16.89%	-11.60%
Av One-Way Fare US$	103	84	72	94
Change		-19	-12	22
% Change		-18.45%	-14.29%	30.56%
Est. Price Elasticity		**-1.28**	**-1.18**	**-0.38**

The estimated price elasticities related to the decline in airfares at one route level in the Eastern Caribbean, albeit not intra-OECS, of -1.28, -1.18 are reasonably comparable with the estimates presented in the Inception Report (-1.1, -1.15) at the regional level.

It is to be noted that the price elasticity related to the increase in airfares was -0.38, much lower than that generated by the decline in prices. This differential is consistent with the expected findings where there is a strong gravitational pull. The Barbados Tourism Authority will confirm that Barbados generates a strong gravitational pull in the Trinidad & Tobago source market.

The Empirical Price Elasticity Simulation Model

The recently completed online consumer survey that was conducted across the OECS Group countries for the purpose of this Study assessed how individual travel plans were likely to change with variations in the prices of airfares for the city pairs within the OECS region. This data has been fed into the price elasticity simulation model to determine the possible cost benefit of variations in price.

The Simulation Model has three objectives.

- The first is to estimate the price elasticity of demand for intra-regional (OECS) air travel at the route level. This will be achieved in two stages. In the first stage, the survey will generate data with respect to different airfares (at the route level) and a corresponding willingness of respondents to travel at each airfare. Using additional explanatory data, such as per capital income per member states and a variable representing destination attractiveness (gravitational pull), the regression analysis will generate the price elasticity of demand for air travel on each route. The analysis will also determine a coefficient for the attractiveness of the destination country influencing travel volumes on routes.

- The second objective is to simulate the 2013 air travel flows of OECS passengers using the price elasticity on each route, based on available visitor arrival data across the OECS Member Countries. Intra-regional travel is defined as "*Travel originating in an OECS Member state and Terminating with stay-over in another OECS Member State*". The current 2013 data has estimated such travel at the "OECS-regional" level at 58,320 over 64 City Pairs. Using the data for such intra-regional traffic the model will generate the alternate levels of intra-regional traffic that would be achieved on each route as per the adjusted airfares. This stage of the analysis will indicate the extent to which intra-regional travel can be increased through achieving price reduction on intra-regional routes.
- The third objective of the model, as required by the Study Terms of Reference, is to generate a Benefit/Cost ratio for a policy designed to increase intra-regional (OECS) air traffic through a reduction in airfares.

The "cost" associated with such a policy, is estimated as the equivalent of the direct loss in TFC revenues that would have accrued to the Member States as a result of such travel on the route. These costs are aggregated across all Member States, to the OECS-regional level.

The benefit is evaluated as the gain in Government revenues from the total impact of an increase in visitor travel on national GDP also aggregated at the OECS-regional level. Tax revenue as a percentage of GDP among OECS countries is a very stable statistic. Using the average weighted average of tax revenue to GDP (based on the 3-year period 2011 -2013), we are able to determine the level of tax revenues that would be associated with an increase in the OECS-region's GDP, as a result of an increase in intra-regional visitors arriving by air.

A benefit cost ratio greater than 1 would indicate that the programme of inducing an increase in intra-regional visitors through a reduction in intra-regional airfares is a beneficial proposition.

PRICE ELASTICITY OF INTRA-OECS TRAVEL

To better understand the cost/benefit ratio of a policy to increase intra-OECS travel through a reduction in the TFC burden on tickets, one needs to gain a statistical appreciation of the price elasticity of airfares within the OECS Region. Airfares prices are quoted on the basis of the point of origin and the point of destination (city-pairs). We have identified 64 such city-pairs, providing the means for OECS citizens to travel within the sub-Region.

Our objectives are as follows:

a) To estimate the response in travel volumes from a policy that seeks to reduce airline ticket costs;
b) To estimate the benefit/cost ratio of such a response in terms of revenue lost and gained by member-states.

Data Source

The model used to estimate the responsiveness of consumers – *a price-elasticity estimate,* sought to explain such changes on three factors:

a) Passenger responses to variations from the most likely sale price per city-pair paid by the passenger (sale price);

b) The gravity-pull of the destination of the journey;
c) An indication of the comparative level of income (GDP per Capita) among destination countries.

The first two were derived from the on-line consumer survey to which 397 persons across the OECS member states responded. The data from the survey indicated consumer preferences for travel under varying price levels in seven of the nine OECS territories. The comparative data was derived from national statistics.

City-Pair Responses

The estimate of stay-over visitors originating from the seven (7) OECS territories identified in our survey data was 51,216, or 88% of the total stay-over passengers in 2013 (58,320).

For data manageability, we concentrated on 15 city-pairs, which included the territories of St. Lucia, Dominica, Antigua and St. Kitts, St. Vincent & The Grenadines, Grenada and British Virgin Islands (BVI). The combined total of the selected city-pairs accounted for 47% of the total 2013 intra-OECS travelers. (See Table III-7 **below**.)

Table III-7 SELECTED CITY-PAIRS

Origin	Destination	Stay Overs	Total OECS Travelers	City-Pair as % of Total
St. Lucia	Dominica	1,918	9,022	21%
St. Lucia	St. Vincent	1,796		20%
St. Lucia	Grenada	1,498		17%
Dominica	Antigua	2,960	8,954	33%
Dominica	Anguilla	1,270		14%
Dominica	BVI	1,061		12%
Antigua	Dominica	2,793	8,685	32%
Antigua	St. Lucia	1,858		21%
Antigua	St. Kitts	1,430		16%
St. Kitts	Antigua	2,753	7,952	35%
St. Kitts	BVI	1,788		22%
St. Vincent & The Grenadines	St. Lucia	2,280	6,450	35%
St. Vincent & The Grenadines	Grenada	1,376		21%
Grenada	St. Lucia	1,434	4,479	32%
BVI	Antigua	1,371	5,674	24%
TOTAL		**27,586**	**51,216**	**47%**

Several models were used to estimate the price elasticity of these city-pairs from survey responses. Antigua (as source market) estimates performed well from a model of price-quantity correlation, showing an elastic demand See Table III-8 **below**. The other models, which included variants of an income factor and a "demand-pull" of the destination country, revealed elasticity close to unity (1) for most of the other City-Pairs. Too few of the respondents chose St. Kitts as an option and as such the elasticity of the BVI was imputed in this case.

Table III-8 ELASTICITY IMPACT OF SELECTED CITY PAIRS

				Response to Price Decrease of		
Origin	**Destination**	**Stay Overs**	**Elasticity**	**15%**	**25%**	**35%**
St. Lucia	Dominica	1,918	0.929	14%	23%	33%
St. Lucia	St. Vincent	1,796	0.929	14%	23%	33%
St. Lucia	Grenada	1,498	0.970	15%	24%	34%
Dominica	Antigua	2,960	0.906	14%	23%	32%
Dominica	Anguilla	1,270	0.786	12%	20%	28%
Dominica	BVI	1,061	0.780	12%	20%	27%
Antigua	Dominica	2,793	1.718	26%	43%	60%
Antigua	St. Lucia	1,858	1.685	25%	42%	59%
Antigua	St. Kitts	1,430	0.905	14%	23%	32%
St. Kitts	Antigua	2,753	0.911	14%	23%	32%
St. Kitts	BVI	1,788	0.911	14%	23%	32%
St. Vincent & The Grenadines	St. Lucia	2,280	0.871	13%	22%	30%
St. Vincent & The Grenadines	Grenada	1,376	0.911	14%	23%	32%
Grenada	St. Lucia	1,434	0.893	13%	22%	31%
BVI	Antigua	1,371	0.911	14%	23%	32%
TOTAL		**27,586**				

The OECS regional price elasticity for airfares appears to be c.a. **-1.035**, much lower than the estimates shown earlier in this chapter (-1.1 to -1.28) but not surprising given the lower incomes in the OECS. However it is to be noted that this figure is heavily influenced by the relatively high city pair price elasticities for Antigua-Dominica and Antigua-St. Lucia. When these two city pairs are excluded the figure of **-1.035** falls to **-0.899**.

Summary of Travelers' Response

From an analysis of the survey data relating to the selected City-Pairs, the total volume of traffic would increase by 16%, 27%, and 37% of the 2013 level, based on a response to price reductions in the airline ticket of 15%, 25% and 35% respectively. See Table III-9 **below**.

Table III-9 TRAVEL RESPONSE TO PRICE DECREASES

ORIGIN	DESTINATION	STAY OVERS	AT 15%	AT 25%	AT 35%
St. Lucia	Dominica	1,918	2,187	2,359	2,551
St. Lucia	St. Vincent	1,796	2,047	2,209	2,389
St. Lucia	Grenada	1,498	1,723	1,858	2,007
Dominica	Antigua	2,960	3,374	3,641	3,907
Dominica	Anguilla	1,270	1,422	1,524	1,626
Dominica	BVI	1,061	1,188	1,273	1,347
Antigua	Dominica	2,793	3,519	3,994	4,469
Antigua	St. Lucia	1,858	2,323	2,638	2,954
Antigua	St. Kitts	1,430	1,630	1,759	1,888
St. Kitts	Antigua	2,753	3,138	3,386	3,634
St. Kitts	BVI	1,788	2,038	2,199	2,360
St. Vincent & The Grenadines	St. Lucia	2,280	2,576	2,782	2,964
St. Vincent & The Grenadines	Grenada	1,376	1,569	1,692	1,816
Grenada	St. Lucia	1,434	1,620	1,749	1,879
BVI	Antigua	1,371	1,563	1,686	1,810
TOTAL		27,586	31,917	34,749	37,601
% Change in Sample			**16%**	**26%**	**36%**

The related value of ticket sales for these reductions in price is however also decline as shown below:

No change:	US$11.21M
15% reduction:	US$11.01M
25% reduction:	US$10.57M
35% reduction:	US$9.91M

Any price reduction must at least have neutral impact on airline revenue and preferably positive impact. The most effective way to achieve this outcome is to leave untouched the base fares and surcharges of the airlines, although surcharges should be more closely aligned to the cost of the activities that generate the surcharges. If this approach is adopted then the airline gets the full benefit of the increase in travel volumes.

The approach implies that price reductions should indeed be focused on the government imposed TFCs. Likely changes in travel volumes resulting from 20%, 50% and 100% reductions in TFCs are shown in Table III-10 **below**.

Airfares benefit not so much the country in which they are generated (unless it is the home country of the airline) but the country to which the revenue (normally less local costs) is repatriated. Given the LIAT quasi monopoly on intra-OECS air travel, Antigua will be the major beneficiary of airfares generated by OECS travel. However the visitor spend related to such travel will benefit all destination countries. Visitor spend is therefore a more appropriate

measure in this Study to determine the impact of price elasticity on GDP and government revenue.

However as Table II-4 shows there is little available data on average daily spend and on average length of stay for Caribbean visitors, let alone OECS visitors. Using the data available for St. Lucia, Grenada and Dominica, the weighted average spend for Caribbean visitors in 2013 was **US$726**. This figure will be used as a surrogate for OECS visitor spend in this analysis. **It is however imperative that the OECS countries make a concerted effort to determine on a regular basis visitor spend for an expanded group of categories including OECS countries.**

Benefit/Cost Ratio

The model to generate a Benefit/Cost ratio from a policy designed to increase intra-regional (OECS) air traffic through a reduction in the TFCs on airline tickets, comprises three stages.

a) Use of the elasticity coefficients to estimate changes in travel volumes, from a reduction in TFCs of 20%, 50% and 100%. The results by city pair are shown in Table III-10 **below**.
b) Use of the travel volumes to determine the **reduction** in TFC government revenues from the changes in travel volumes and the related **increase** in visitor spend revenue from the same travel volumes.
c) The total benefit to GDP is calculated from the increased regional visitor spend times the Tourism sector GDP multiplier (3.32). Tax revenue as a percentage of GDP among OECS countries is a very stable statistic. Using the weighted average of tax revenue to GDP (based on the 3-year period 2011 -2013) of 22%, the level of tax revenue benefits associated with an increase in the OECS-region's GDP, as a result of an increase in intra-regional visitors arriving by air is determined.

Table III-10 Travel Volumes Generated by 20% - 100% TFC Reductions

Origin	Destination	2013 Visitors	Most Likely Price	Total Ticket Sales	TFC %	Total TFC Yield	Price Elasticity	Traveler Response	Visitor Volume at Airline Base Fare and Surcharges With 20% Reduction in TFCs	Visitor Volume at Airline Base Fare and Surcharges With 50% Reduction in TFCs	Visitor Volume at Airline Base Fare and Surcharges With 100% Reduction in TFCs
									20%	50%	100%
St. Lucia	Dominica	1,918	$325	$623,350	17%	$105,970	0.929	15.79%	1,979	2,069	2,221
St. Lucia	St. Vincent	1,796	$353	$633,988	25%	$158,497	0.929	23.23%	1,879	2,005	2,213
St. Lucia	Grenada	1,498	$378	$566,244	33%	$186,861	0.970	32.01%	1,594	1,738	1,978
Dominica	Antigua	2,960	$345	$1021,200	26%	$265,512	0.906	23.56%	3,099	3,309	3,657
Dominica	Anguilla	1,270	$555	$704,850	20%	$140,970	0.786	15.72%	1,310	1,370	1,470
Dominica	BVI	1,061	$521	$552,781	19%	$105,028	0.780	14.82%	1,092	1,140	1,218
Antigua	Dominica	2,793	$351	$980,343	28%	$274,496	1.718	48.10%	3,062	3,465	4,137
Antigua	St. Lucia	1,858	$446	$828,668	31%	$256,887	1.685	52.24%	2,052	2,343	2,829
Antigua	St. Kitts	1,430	$361	$516,230	39%	$201,330	0.905	35.30%	1,531	1,682	1,935
St. Kitts	Antigua	2,753	$371	$1021,363	39%	$398,332	0.911	35.53%	2,949	3,242	3,731
St. Kitts	BVI	1,788	$462	$826,056	27%	$223,035	0.911	24.60%	1,876	2,008	2,228
St. Vincent & The Grenadines	St. Lucia	2,280	$463	$1055,640	17%	$179,459	0.871	14.81%	2,348	2,449	2,618
St. Vincent & The Grenadines	Grenada	1,376	$508	$699,008	21%	$146,792	0.911	19.13%	1,429	1,508	1,639
Grenada	St. Lucia	1,434	$394	$564,996	26%	$146,899	0.893	23.22%	1,501	1,600	1,767
BVI	Antigua	1,371	$452	$619,692	21%	$130,135	0.911	19.13%	1,423	1,502	1,633
TOTAL		**27,586**				**2920,203**			**29,124**	**31,430**	**35,274**
% Increase in Visitor Numbers									**6%**	**14%**	**28%**

The regional benefit/cost ratios for the 20%, 50%, 100% reductions in TFCs are shown in Table III-11 **below**. These ratios are all greater than 1. At a visitor spend of US$520, the regional benefit/cost is 1 for a 100% reduction in TFCs.

The Study also conducted a sensitivity analysis using the city pair with the lowest elasticity (-0.780) i.e. Dominica to BVI. With a 100% reduction in TFCs the increase in visitor spend using the figure of US$726 above is US$113,982. The related increase in government revenues is US$83,252 while the value of TFCs foregone is US$105,028. **The benefit/cost ratio is 0.79 for this city pair.** For St. Vincent to St. Lucia with a price elasticity of -0.871 with a 100% reduction in TFCs the increase in government revenues from increased visitor spend is US$179,231. The loss in government revenues from the removal of TFCs is US$179,459 giving a benefit/cost of **0.998**. Only two (2) of the fifteen (15) city pairs examined have a price elasticity lower than -0.871.

Table III-11 Benefit/Cost Ratios from 20% - 100% Reductions in TFCs US$

	BASE	*TFCs Reduction by*		
	2013	20%	50%	100%
Intra-Regional Travellers	**27,586**	**29,124**	**31,430**	**35,274**
Increase in Travellers		1,538	3,844	7,688
Additional Spend per Traveller	**$726**	$1116,588	$2790,744	$5581,488
Total GDP Gain	**3.32**	$3707,072	$9265,270	$18530,540
Expected Tax Revenue Increase	**22%**	$815,556.00	$2038,359	$4076,719
Cost of TFC Reduction		$453,793	$1256,642	$2920,203
Net Revenue Gains		**$361,763**	**$781,717**	**$1156,516**
Benefit/Cost Ratio		1.80	1.62	1.40

Implications of the Results

Positive benefits appear to accrue to regional GDP, based on the reductions of 20% - 100% to the TFCs that impact on the airfares paid by passengers. Hence airline, economy, government revenues all appear to benefit. However before final decisions are taken, the impact on a country by country basis needs to be determined. This requires, at minimum, a determination of the visitor spend by OECS visitors and preferably at each OECS destination from each OECS source market.

These benefits can be expected to increase as the current environment of low incomes, somewhat weak gravitational pull and poor network connectivity improve with implementation of the recommendations developed in this Study.

CHAPTER IV
ANALYSIS OF NETWORK CONNECTIVITY

Chapter I of this report highlights the critical role that network connectivity plays in influencing the level of intra-OECS travel. There are two essential components to connectivity: connectivity among the OECS countries; and connectivity between the OECS countries and international source market/gateway cities.

DIRECT INTERNATIONAL CONNECTIVITY

Given that traditionally, international stay-over visitors have been of major importance to the socio-economic development of the OECS member states, effective international air service is an imperative. As a result, OECS aviation policy is de facto "open sky" for international service. The challenge has always been convincing international airlines that profitable demand to the OECS countries exists for their services.

Such international service can be direct to/from the OECS countries and/or connecting through the intra-OECS flight network via regional hubs. In most cases the international link is through non-stop services and in a minority of cases, direct one-stop services usually from the United Kingdom and Europe.

Four (4) of the nine (9) countries of the OECS Group (Antigua, Grenada, St. Kitts, St. Lucia) have the physical infrastructure to accommodate international airlift. Guadeloupe and Martinique also have such infrastructure.

British Virgin Islands, Anguilla, Montserrat, Dominica and St. Vincent, given airport and infrastructural limitations, cannot accommodate international passenger flights at this time. St. Vincent expects to do so later in 2015.

Daily International Arrivals

Table IV-1 **below** shows the daily international arrivals for a select sample period in March 2015 extending over seven (7) consecutive days (March 6–12, 2015) to those OECS countries with international service facilities as well as to nearby countries in the Eastern Caribbean that can/do act as hubs external to the OECS.

TABLE IV – 1 – DAILY FREQUENCY OF INTERNATIONAL FLIGHTS TO OECS DESTINATIONS

OECS STUDY GROUP								
AVAILABLE INTERNATIONAL AIR SERVICES								
Mar 06 - 12, 2015								
DAILY TOTALS								
	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Week
Antigua	5	9	8	4	6	5	6	**43**
St. Kitts	3	7	2	1	2	2	2	**19**
St. Lucia	5	13	11	7	7	4	8	**55**
Grenada	2	5	2	3	1	3	2	**18**
OECS	**15**	**34**	**23**	**15**	**16**	**14**	**18**	**135**
Guadeloupe	8	11	5	5	5	5	4	**43**
Martinique	4	6	7	5	4	4	6	**36**
French Territories	**12**	**17**	**12**	**10**	**9**	**9**	**10**	**79**
St. Maarten	11	26	15	11	12	10	11	**96**
Barbados	16	19	13	10	7	8	10	**83**
Trinidad	16	16	16	18	16	17	15	**114**
Non-OECS	**43**	**61**	**44**	**39**	**35**	**35**	**36**	**293**
Total	**70**	**112**	**79**	**64**	**60**	**58**	**64**	**507**
St. Thomas	13	21	16	12	11	12	12	**97**
GRAND TOTAL	**83**	**133**	**95**	**76**	**71**	**70**	**76**	**604**

Source: Online Flight Systems

The following points are to be noted:

- OECS Study Group countries have significantly less international flights than those at the selected non-OECS countries, St. Maarten, Barbados, Trinidad.
- St. Thomas is included in the analysis because of its close proximity to BVI when compared to San Juan - the traditional regional hub for service from the USA. It is however analysed separately.
- The French Territories are treated as a separate group.
- The OECS Study countries have **73%** of the flights to the non-OECS countries, the OECS Group **46%**.
- Hewannora (St. Lucia), with minimal intra-OECS connectivity, has at this time **28%** more international service than Antigua which is a key intra-OECS hub
- St. Thomas has the 2nd largest number of international flights after Trinidad, and one more flight per week than St. Maarten
- Consistent with the travel patterns of stay-over visitors, Saturdays and Sundays are peak flight days and Tuesdays and Wednesdays have the lowest level of service. Overall mid-week flights are **62%** of weekend flights. Trinidad, where international tourism is relatively insignificant, is the exception to this pattern with a consistent level of flights across the week.

International Flight to OECS Countries by International City

Table IV-2 **below** shows the analysis of flights from international cities to the same countries over the same period in March 2015 (March 6 – 12, 2015):

TABLE IV-2 – ANALYSIS OF FLIGHTS TO OECS DESTINATIONS BY INTERNATIONAL CITIES

OECS STUDY GROUP															
AVAILABLE INTERNATIONAL AIR SERVICES															
Mar 06 - 12, 2015															
WEEKLY TOTALS BY INTERNATIONAL CITY															
	Antigua	**St. Kitts**	**St. Lucia**	**Grenada**	**OECS**		**Guadeloupe**	**Martinique**	**French**		**St. Maarten**	**Barbados**	**Trinidad**	**Non-OECS**		**St. Thomas**
Boston	0	0	1	0	**1**		0	0	**0**		2	0	0	**2**		8
Newark	8	0	1	0	**9**		0	0	**0**		8	0	1	**9**		9
New York	6	1	8	3	**18**		0	0	**0**		19	13	25	**57**		14
Philadelphia	0	0	1	0	**1**		0	0	**0**		6	0	0	**6**		6
Washington	0	0	0	0	**0**		0	0	**0**		1	0	0	**1**		6
Charlotte	1	1	2	0	**4**		0	0	**0**		10	1	0	**11**		8
Orlando	0	0	0	0	**0**		0	0	**0**		0	0	2	**2**		0
Ft. Lauderdale	0	0	0	0	**0**		0	0	**0**		1	0	14	**15**		7
Miami	7	13	7	7	**34**		1	2	**3**		14	14	21	**49**		21
USA - Eastern Seaboard	**22**	**15**	**20**	**10**	**67**		**1**	**2**	**3**		**61**	**28**	**63**	**152**		**79**
Minneapolis	0	0	0	0	**0**		0	0	**0**		3	0	0	**3**		1
Chicago	0	0	0	0	**0**		0	0	**0**		1	0	0	**1**		2
Atlanta	1	1	8	0	**10**		0	0	**0**		7	2	0	**9**		15
Houston	0	0	0	0	**0**		0	0	**0**		0	0	7	**7**		0
USA - Central	**1**	**1**	**8**	**0**	**10**		**0**	**0**	**0**		**11**	**2**	**7**	**20**		**18**
Toronto	6	1	10	2	**19**		0	0	**0**		6	11	14	**31**		0
Montreal	1	0	3	0	**4**		2	3	**5**		2	3	0	**5**		0
Canada - Central	**7**	**1**	**13**	**2**	**23**		**2**	**3**	**5**		**8**	**14**	**14**	**36**		**0**
Panama	0	0	0	0	0		0	0	**0**		4	0	11	**15**		0
Central America	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**		**4**	**0**	**11**	**15**		**0**
Caracas	0	0	0	0	**0**		0	0	**0**		0	0	7	**7**		0
Porlamar	0	0	0	1	**1**		0	0	**0**		0	0	3	**3**		0
Sao Paulo	0	0	0	0	**0**		0	0	**0**		0	1	0	**1**		0
South America	**0**	**0**	**0**	**1**	**1**		**0**	**0**	**0**		**0**	**1**	**10**	**11**		**0**
Manchester	1	0	1	0	**2**		0	0	**0**		0	8	0	**8**		0
Birmingham	0	0	0	0	**0**		0	0	**0**		0	3	0	**3**		0
London	11	2	12	4	**29**		0	0	**0**		0	21	9	**30**		0
United Kingdom	**12**	**2**	**13**	**4**	**31**		**0**	**0**	**0**		**0**	**32**	**9**	**41**		**0**
Dusseldorf	0	0	0	0	**0**		0	0	**0**		0	1	0	**1**		0
Frankfurt	1	0	1	1	**3**		1	0	**1**		0	4	0	**4**		0
Munich	0	0	0	0	**0**		1	0	**1**		0	1	0	**1**		0
Milan	0	0	0	0	**0**		1	0	**1**		0	0	0	**0**		0
Rome	0	0	0	0	**0**		1	0	**1**		0	0	0	**0**		0
Paris	0	0	0	0	**0**		36	31	**67**		9	0	0	**9**		0
Amsterdam	0	0	0	0	**0**		0	0	**0**		3	0	0	**3**		0
Europe	**1**	**0**	**1**	**1**	**3**		**40**	**31**	**71**		**12**	**6**	**0**	**18**		**0**
GRAND TOTAL	**43**	**19**	**55**	**18**	**135**	**0**	**43**	**36**	**79**	**0**	**96**	**83**	**114**	**293**	**0**	**97**

Source: Analysis based on Results from Online Flights Systems

- Flights from cities on the Eastern Seaboard of USA to the OECS and non-OECS Groups represent largest proportion of total international flights to those countries, accounting for some 51%; followed by the United Kingdom which account for 17% of total international flights.
- Flights from Paris are **85%** of the international flights to Guadeloupe and Martinique.
- For the OECS Group, Miami has the highest frequency of service to/from the US Eastern Seaboard followed by New York. Miami has **88%** more flights than New

York but only 25% more when Newark is included as part of the New York Tri-State area.

- For the non-OECS Group, the situation is reversed but more balanced with New York having **16%** more services than Miami. However when services to/from Newark are added to New York and Fort Lauderdale is added to Miami, the reach between the Miami area and Non-OECS Group and the New York Tri-State area and this Group are just about on par.
- The non-OECS Group has more than twice as many flights from the Eastern Seaboard than the OECS Group. St. Thomas has 18% more flights from the Eastern Seaboard than the OECS Group.
- St. Maarten is served by a wider spread of cities on the Eastern Seaboard than any of the OECS Group. However St. Thomas is served by more Eastern Seaboard cities than St. Maarten.
- Atlanta is the only city in Central USA that has service to the OECS Group. St. Maarten and St. Thomas are served by Atlanta and two other cities in Central USA.
- St. Thomas is served only by flights from the USA. It has the **largest** number of services from the USA among the countries that have been reviewed.
- There is service from Toronto and Montreal in Central Canada to the OECS and Non-OECS Groups and to the French Territories. However **78%** of such services is from Toronto.
- The United Kingdom has **32%** more services to the non-OECS Group than to the OECS Group. London provides 94% of services from the United Kingdom to the OECS Group and 73% of such services to the non-OECS Group.
- Only the non-OECS Group has service from Central America and such service is from Panama.
- The OECS Group has service from only one city in Europe, Frankfurt. The non-OECS Group has six (6) times the number of services to the OECS Group and from five (5) cities. The highest number of services in the latter Group is Paris to St. Maarten followed by Frankfurt to Barbados.

In summary, countries in the non-OECS Group enjoy much more service from a wider range of cities than the countries in the OECS Group and the French Territories. With appropriate regional connectivity the countries in the OECS Group, including those with international airports, have the potential to access more international cities without direct flights from those cities. **This is an aspect of regional connectivity and regional sharing that has been underplayed.**

International/Regional Connectivity

The Study examined international/regional connectivity between key hub airports (Antigua, Barbados) and nearby OECS countries without international airports on Saturday March 07 the peak travel day of the week. Only **non-stop regional flights** with connecting times of 90-120 minutes to international flights were considered.

ANU-DOM
There are no reasonable connections to international services since all non-stop flights to/from Dominica occur between 9:30 am and 10:15 am well before the arrivals and departures of international flights.

ANU-MNI
There are good connection opportunities for both arrivals and departures given the timings of the four (4) daily round trips ANU-MNI

ANU-NEV
There are no connections between ANU-NEV on a Saturday. Currently there are two daily round trips on Fridays and Sundays by Caribbean Helicopters Ltd.

ANU-BVI
There are no connecting services by LIAT. VI Link's departing service to BVI does connect well with the mid-afternoon arrivals by British and Virgin from Gatwick. VI Link's arrival from BVI makes reasonably good connections with the departing services to Gatwick.

ANU-AXA
LIAT's departing service to AXA provides connections to the midafternoon arrivals from London, Newark and Charlotte. However the LIAT's flight from AXA does not connect with departing international services thus posing a serious challenge to return and therefore overall connections.

Barbados does not provide non-stop services to MNI, NEV, AXA, BVI. There are however non-stop services to DOM and SVD.

BGI-DOM
There are no connection opportunities given the non-stop flight schedule BGI-DOM v.v.

BGI-SVD
SVD arrivals allow good connections to early evening flights to Sao Paulo, Birmingham, Manchester, London, Frankfurt. SVD departures create connection opportunities to London, Toronto, Atlanta, Charlotte, Manchester. Good round trip connection opportunities are only allowed therefore to Manchester and London.

SXM
However it should be noted that Anguilla is well served by air and ferry from the wide range of international flights to/from St. Maarten and BVI also has good access to the same flights at St. Maarten **and by air and ferry to the many flights from the USA to St. Thomas**.

Dominica too has rapidly improving access and market reach to international cities/destinations over St. Maarten as afforded by increased regional service between SXM and DOM with St. Maarten based carrier, WINAIR.

CONNECTIVITY AMONG OECS COUNTRIES

For historical reasons and buttressed by protectionist national civil aviation regulations, the harsh reality is that LIAT has a quasi-monopoly on airline service in the Study Group Region. An examination of LIAT's schedule is therefore a good indicator of the quality of the current network connectivity within the Study Group Region. The Study analysed the current LIAT schedule looking at all possible connection opportunities from one Study Group country to all other such countries. The exception was Montserrat since LIAT does not serve that country. Connections to/from Nevis were considered via St. Kitts as there is a regular ferry service linking both islands. The parameters used in the analysis included:

- Number of non-stop, one-stop, two stop and greater than two stop flights
- Number of city pair connections requiring one, two, greater than two security checks
- Number of city pair connections provided by same plane service or requiring a combination of flights
- Number of flights with block to block times (c.a. time interval between leaving departing gate and reaching arrival gate) less than or equal to twice the time for related non-stop flights and the number with block to block times greater than twice the time for the related non-stop flights
- The number of city pair connections that require an overnight stop.

The results are shown in Table IV-3 **below.**

Table IV-3 – INTRA-OECS CONNECTIVITY ANALYSIS

OECS STUDY																
Analysis of Current Network Connectivity																
LIAT Schedule Jan -June 2015																
Feb 21, 2015																
FROM	**Non-Stop flts**	**One-Stop Flts**	**Two-Stop Flts**	**> two-Stop Flts**		**One Security Check**	**Two Security Checks**	**> two Security Checks**		**Same Flt Number**	**Connecting Flts**		**Flts <, = twice non-stop time**	**Flts > twice non stop time**		**Overnight Flts**
Antigua																
Number of Weekly Flights	61	34	40	6	141	85	56	0		99	42		78	63		0
% of Total Flights	43%	24%	28%	4%		60%	40%	0		70%	30		55%	45%		0%
Anguilla																
Number of Weekly Flights	0	14	32	21	67	7	7	53		7	60		7	60		53
% of Total Flights	0	21	48%	31		10	10	79%		10	90		10	90		79%
British Virgin Islands (Tortola)																
Number of Weekly Flights	0	35	21	81	137	49	60	28		35	102		7	130		7
% of Total Weekly Flights	0	26	15	59%		36	44	20		26	74		5	95		5
Dominica																
Number of Weekly Flights	19	45	31	15	110	22	76	12		29	81		26	84		7
% of Total Weekly Flights	17	41	28	14		20	69	11		26	74		24	76		6
Grenada																
Number of Weekly Flights	14	35	50	35	134	14	57	63		28	106		21	113		0
% of Total Weekly Flights	10	26	37	26		10	43	47		21	79		16	84		0
Guadeloupe																
Number of Weekly Flights	8	12	9	11	40	8	32	0		12	28		8	32		8
% of Total Weekly Flights	20	30	23	28		20	80%	0		30	70		20	80		20
Martinique																
Number of Weekly Flights	4	28	28	35	95	11	49	35		8	87		4	91		0
% of Total Weekly Flights	4	29	29	37		12	52	37		8	92%		4	96%		0
St. Kitts																
Number of Weekly Flights	14	54	34	32	134	21	57	56		21	113		21	113		7
% of Total Weekly Flights	10	40	25	24		16	43	42		16	84		16	84		5
St. Lucia																
Number of Weekly Flights	10	55	33	22	120	10	79	31		24	96		10	110		0
% of Total Weekly Flights	8	46%	28	18		8	66	26		20	80		8	92		0
St. Vincent																
Number of Weekly Flights	7	70	85	60	222	14	131	77		21	201		21	201		0
% of Total Weekly Flights	3	32	38	27		6	59	35		9	91		9	91		0
STUDY GROUP																
Number of Weekly Flights	**137**	**382**	**363**	**318**	**1200**	**241**	**604**	**355**	**1200**	**284**	**916**	**1200**	**203**	**997**	**1200**	**82**
% of Total Weekly Flights	**11%**	**32%**	**30%**	**27%**		**20%**	**50%**	**30%**		**24%**	**76%**		**17%**	**83%**		**7%**
There is no LIAT service to Montserrat																

Source: LIAT Current Schedule (Available in March 2015)

With respect to overall system connectivity:

- There are 1200 weekly connection opportunities among the Study Group countries in the current LIAT schedule. St. Vincent is the best served country, having 222 (19%) of such opportunities and this is **57%** more than the country with the next highest, Antigua, the key regional hub within the OECS.
- Only 11% of connection opportunities are provided by non-stop flights; **57%** require two or more stops
- **76%** of connection opportunities require combination flights (different aircraft with different flight numbers)
- Consistent with the predominance of combination flights, **80%** of connection opportunities are subject to two or more physical security checks of transit passengers

- Given this network structure it is not surprising that **83%** of flights have block to block times that are greater than twice that of related non-stop flights
- 7% of all connection opportunities require an overnight stop. In this regard Anguilla is the most negatively affected; **65%** of system wide overnights occur out of **Anguilla.**

This analysis suggests a particularly taxing travel and connectivity network for persons travelling intra-OECS, indeed much more so than travelling to international cities. This point has been frequently cited in the Study surveys.

The analysis further indicates that for flights originating in the given country:

- **Antigua**, the LIAT hub within the Study Group, has the highest percentage of non-stop flights and hence the highest percentage of flights having the same flight number, flights requiring only one security check and flight times that are less than or equal to twice those of related non-stop flights. **Persons resident in Antigua therefore have the best connectivity in the Study Group.**
- **Anguilla** has the highest percentage of two-stop flights, the highest percentage of connections requiring greater than two security checks and the highest percentage of overnight stops
- **British Virgin Islands** has the highest percentage of connections requiring greater than two stops.
- **Guadeloupe** has the highest percentage of connections requiring two security checks
- **Martinique** has not only the highest percentage of connections requiring combination flights but also the highest percentage with flight times greater than twice those of the related non-stop flights
- **St. Lucia** has the highest percentage requiring one stop flights
- **St. Vincent** has the highest number of connection opportunities, but **91%** require combination flights (primarily over Barbados) and **91%** also have flight times greater than twice those of related non-stop flights.

In summary therefore, the current network connectivity structure <u>does</u> pose a significant challenge to the movement of people and goods among the Study Group countries. Flight delays only further exacerbate an already difficult situation.

This analysis is consistent with the results of the Study surveys. The following comments were frequently offered by respondents in describing the current network connectivity.

- "Long time it takes to get to destination - you can get to the US in about the same time"
- "Long wait at airport for connecting flights"
- "Too many connections to get to final destination"
- "Inability to do a day trip whether for business, meetings or obtaining visas"
- "Frequent security checks including the embarking and disembarking"

- "Limited number of flights – inability to choose later or earlier options depending on preference"
- "Limited number of flights – delay in an international flight coming into the Caribbean – unable to catch another regional flight until following day"

The Core Problem

The LIAT schedule as it affects persons travelling within and to/from the Study Group is the result of a gross mismatch between the Origin-Destination demand between the Study Group city pairs and the number and capacity of the aircraft available to the airline, leading the airline to provide non-optimal service in an effort to reduce costs. The analysis of intra-OECS city pair O-D data available to the Study points to the fact that the capacity of the current LIAT fleet matches level of demand on only c.a. **15-20%** of the OECS Group city pairs. The aircraft capacity is too large for the remainder of the city pairs seriously hindering profitability, efficiency and quality of service. Indeed, the fleet upgrade programme at LIAT has likely exacerbated the mismatch!

In late 2012 at the CTO State of the Industry Conference, the then Chief Executive Officer of LIAT publicly stated that c.a. 35% of the airline's then schedule was unprofitable. He did not publicly identify what was the percentage of the intra-OECS routes that were unprofitable but it can be assumed that it was higher than 35% given the **known** relatively low demand on many of the city pairs that are flown by the airline's ATRs.

It appears therefore that the perceived mission and the resources of the primary airline serving the Study Group countries are not in harmony. Subsidies will not resolve this fundamental problem since what is required is a change in aircraft size on the intra-OECS routes so that subsidies will at least be significantly reduced if not eliminated.

Improved Connectivity Likely to Encourage Increased Intra-Regional Travels

It was stated earlier in the report that 60% of business persons indicated that they will likely increase their travels to the OECS if there was an improvement in the quality of service without any reduction in fares. Twenty five percentage (25%) indicated that they will increase travels if there were an improvement in fares but no improvement in convenience and quality of service and schedule. The remaining 15% indicated that will not adjust their travels since they either do not have business in the Region and will not be affected or they "they travel whatever the conditions because it is required – and such any improvements will not lead to an increase in travel".

The following provides further details on the 60% of travelers who were likely to increase their travels and what they ascribed to an improved quality of service:

- "More direct services/flights including a maximum of 2 stops; preferably one stop"
- "More non-stop flights"
- "Less time to get to final destination"
- "Increased number of services – giving options – people want choice"
- "Option to return "home" on same day"

- "Less security checks and embarking and disembarking of planes/aircraft"

It should be noted however that some travelers indicated that the above will not necessarily lead to improvement in service, if not accompanied by greater reliability and higher levels of On-Time-Performance.

The above comments are consistent with the expectations/needs of the leisure traveler who wishes to get to his/her final destination quickly and at a reasonable cost to begin to enjoy his/her short-term stay. Such needs and expectations fit the definition of what leisure travel to OECS countries means and that is "Getaway" destinations. This definition is not only key to understanding the motivations driving travel intra-Regionally but provides the raison d'etre as to why "getting there" quickly becomes ever more important and why the cost must be reasonable or at least equal to next most popular vacation destinations. Since most Getaway vacations extend between 3 and 5 days many times built around long weekends, losing just one day travelling or stuck in long delays or sitting at airports significantly reduces the value associated with and the attractiveness of the destinations. In addition, from an emotional and psychological perspective, Getaways are in large part designed to break from the stress and hum-drum of every life and as such a network and service that reduce travel stress become very important.

According to the Consumer Survey conducted for the Study, business and leisure travel for the period during which the survey was undertaken account for the majority of total intra-OECS travel (68%).

IMPROVED NETWORK CONNECTIVITY

The primary objective is to provide an improved connectivity between the Study Countries that is affordable to passengers, minimises their portal to portal time and have the potential of offering profitably feasible routes for the airlines providing the service. **Achieving this objective improves intra-OECS travel for residents, multi-destination travelers and connections to international services at regional hubs.** The essential starting point in this exercise is an analysis of passenger traffic and distances to be flown between city pairs.

This Study has focused on the development of high level connectivity concepts and strategies; the routes and schedules that are eventually flown are totally within the remit of the serving airlines that may allocate their limited but movable resources to routes outside of the STUDY Group.

One key target for network connectivity would be to ensure at least one daily return service for each city pair that allows the passenger a minimum of four (4) hours working or leisure time on the ground whilst also catering for the required check-in times at the airport.

City-Pair Distances/Demand

64 City pairs were reviewed using the most recent of internal Origin-Destination (O-D) passenger (pax) data available to the team and airway distances in Nautical Miles (NM) between airports.

The available **O-D data does not include city pairs linked to Nevis and Montserrat.** However demand on such city pairs are expected to be a rather small component of overall demand.

- 17 city pairs of less than 100 NM generate 33% of O-D paxs (Category I)
- 20 city pairs 100-199 NM generate 51% of O-D pax (Category II)
- 16 city pairs 200-299 NM generate 9% of O-D pax (Category III)
- 11 city pairs 300+ NM generate 7% of O-D pax (Category IV)

A further breakout shows:

- 29 city pairs less than 150 NM generate 57% of O-D pax
- 47 city pairs less than 250 NM generate 91% of O-D pax

The top four intra-OECS city pairs are:

- Antigua-Dominica; Antigua-Tortola; St. Lucia-St. Vincent; Antigua-St. Kitts; only one of these are in the southern tier of the intra-OECS network

Average Daily One-Way Demand:

- 2 city pairs between 25-35 pax moving to 45-65 pax in peak (Category A)
- 4 city pairs between 12-20 pax moving to 20-35 pax in peak (Category B)
- 5 city pairs between 5-10 pax moving to 9-18 pax in peak (Category C)
- 29 city pairs with less than 5 pax moving to less than 9 pax in the peak (Category D)

The distance/demand matrix for these 40 city pairs is shown in Table IV-4 **below**

TABLE IV-4 – ANALYSIS OF THE LEVEL OF DEMAND BY DISTANCE BETWEEN OECS CITY PAIRS

OECS STUDY						
CITY PAIR ANALYSIS						
DISTANCE/DEMAND MATRIX						
DISTANCE	**O-D DEMAND**	Category A	Category B	Category C	Category D	
Category I			3	2	6	**11**
Category II		2	1	2	9	**14**
Category III				1	7	**8**
Category IV					7	**7**
Total		**2**	**4**	**5**	**29**	**40**

Sources: El Perial City Pair Demand Data with Calculations of Nautical Miles between OECS City Pairs

This matrix has implications for improving network connectivity inclusive of use of aircraft with appropriate seat capacity and range. The Category A (highest) demand city pairs exist in the Category II city pair distance (100 – 199 NM).

The analysis to date points to the possible need for 9/12-, 19-, 30-, 48-, 68-seater aircraft, all of which are available in the Eastern Caribbean, if not in the OECS Group. With aircraft in the seat category 9-30 flight sector times should be limited to a maximum of 60-75 minutes. A listing of such aircraft, as available at this time, is shown in Table IV-5 **below**.

TABLE IV-5 - 3RD TIER AIRCRAFT AVAILABILITY

OECS STUDY						
3RD TIER AIRCRAFT AVAILABILITY						
EASTERN CARIBBEAN						
Seats	**Type**	**Range NM 100% L/F**	**Airline**	**Number**	**Base**	**Oversight**
68	ATR 72	c.a. 470	LIAT	4	Antigua	ECCAA
68	ATR 72	c.a. 470	CAL	5	Trinidad	TTCAA
68	ATR 72	c.a. 470	Air Caraibes	3	Guadeloupe	French CAA
48	ATR 42	c.a. 470	LIAT	4	Antigua	ECCAA
48	ATR 42	c.a. 470	Air Antilles	4	Guadeloupe	French CAA
30	SAAB 340	c.a.400	Seaborne	8	San Juan	FAA
19	Twin Otter	c.a. 100	WINAIR	4	St. Maarten	D
19	Twin Otter	c.a. 100	Air Antilles	2	Guadeloupe	A
19	Twin Otter	c.a. 100	SVG Air	6	St. Vincent	ECCAA
19	Embraer-110	c.a. 100	Air Sunshine	1	San Juan	FAA
12	Beech 99	c.a. 180	Trans Island Air	3	Barbados	BCAD
12	Beech 99	c.a. 180	Humming Bird Air	3	USVI	FAA
9	Cessna 402C	c.a. 140	Cape Air	24	San Juan	FAA
9	Cessna 402C	c.a. 140	Air Sunshine	2	San Juan	FAA
9	Cessna 402C	c.a. 140	Anguilla Air Svcs	3	Anguilla	ASSI
9	Islander	50	Anguilla Air Svcs	3	Anguilla	ASSI
9	Islander	50	SVG Air	4	St. Vincent	ECCAA
9	Islander	50	Fly Montserrat	3	Montserrat	ASSI
9	Islander	50	Mustique Airways	2	St. Vincent	ECCAA
9	Piper Navajo-350	c.a. 140	Caribbean Helicopters	2	Antigua	ECCAA
7	Citation CJ3	1800	SVG Air	1	Canouan	ECCAA
8	Citation CE550	1200	SVG Air	1	St Vincent	ECCAA
Note: Twin Otters limited to 16 pax SVD-BGI; Islanders limited to 7 pax						

Source: Eastern Caribbean Airline Sources

There will however have to be trade-offs between seat capacity, range, availability and operating cost. Moreover, effective use of these resources will require flexibility in the aviation regulatory framework of the OECS Group.

Adjusted Mandate for LIAT

The Study proposes therefore that in order to move forward, long standing paradigms should be broken. LIAT should be allowed/encouraged to give priority to those city pairs in the Eastern Caribbean that it can do profitably at "affordable airfares". A number of Study Group country city pairs will likely qualify for such service.

The OECS Region should then develop an environment for the private sector to provide service consistent with the requirements of passengers and to do so profitably, using appropriately sized aircraft. This is consistent with recent statements by the Caribbean Development Bank about increased private sector involvement in the economic infrastructure of the Region. In such a scenario easy access to the inventory of the private sector airlines for the purposes of booking and paying for airline tickets become critical to the effectiveness of the outcome. To

readily meet this urgent requirement, LIAT may be required to allow such airlines to use its Passenger Service Solutions (PSS) systems at incremental cost plus a reasonable markup to ensure effective service to passengers. This requirement may become more involved if a multi-host solution is desired/required. There are however, other "next generation" PSS systems (other than the more expensive, comprehensive traditional providers) and these too must be considered. That having been said, there are airlines based in the French Territories and St. Maarten that already have effective PSS systems and code share experience.

Reducing the Number of Security Checks

One possible early relief to the current challenges of intra-OECS travel is to reduce the number of physical security checks for passengers; 80% of connection flights using only LIAT, require two or more security checks.

Theoretically a passenger goes through security at the originating airport and into a sterile waiting area then unto a sterile airside space and into a sterile aircraft. At the connecting airport the passenger disembarks onto a sterile airside space and moves into a sterile waiting area. Theoretically all countries in the Eastern Caribbean are required to meet at minimum the ICAO standards for safety and security. If theory holds in practice then there should be no reason for the passenger to have to go through security checks, similar to those in the originating airport, prior to entering the sterile area in the connecting airport. This should only occur if the authorities at the connecting airport do not believe that the passenger is sterile or the prior theoretical sterile areas are not in practice sterile. Unless otherwise properly explained, one is left to strongly assume that **there is significant concern among the authorities in the different Eastern Caribbean countries that the security practices by their neighbours are in fact effective.**

The OECS Commission has been collaborating with ECCAA since 2012 to resolve this issue. It is now 2015. The process requires that the Civil Aviation Authorities (ECCAA, ASSI etc) will have the freedom to audit the security systems of partner countries. Related harmonised regulations have been developed but they have only been ratified to date by three (3) of the ECCAA controlled countries.

To further complicate matters the single security check system will only work effectively if all countries involved in intra-OECS travel implement the agreed systems. This requires agreement by all OECS member states that operate under three (3) Safety and Security Oversight Systems but needs to also include the key hubs Barbados and St. Maarten as well as Trinidad. **Significant Regional coordination and political will are necessary for timely implementation.**

As the wider CARICOM Region actively moves towards a single security system for data on passengers embarking and disembarking in the Region (APIS- Advanced Passenger Information), it will be prudent to also review these other inhibiting measures, even if only at the OECS Regional level in the first instance.

Key Elements of an Improved Network

The intra-Study Group network can be subdivided into three groups:

- **The Southern Group** comprising the core of Grenada, St. Vincent, St. Lucia, Martinique with a possible extension to Dominica
- **The Centre Group** comprising St. Kitts, Nevis, Antigua, Montserrat, Guadeloupe with a possible extension to Dominica
- **The Northern Group** comprising Anguilla and BVI (Tortola)

There will need to be multi-daily connections between the three groups.

The Southern Group

The following city pairs in this Group are categorized by distance and demand as follows:

GND–SVD Cat I/ B
GND-SLU Cat II/ C
GND-FDF Cat II/ D
GND-DOM Cat III/D
SVD-DOM Cat II/D
SLU-DOM Cat I/C
FDF-DOM Cat I/D
SVD-SLU Cat I/B
SVD-FDF Cat I/D
SLU-FDF Cat I/C

The Centre Group

This Group has the largest number of city pairs and these are categorized as follows:

SKB-ANU Cat I/B
SKB-MNI Cat I/?
SKB-PTP Cat II/D
DOM-PTP Cat I/D
DOM-MNI Cat II/?
DOM-ANU Cat II/A
DOM-NEV Cat II/?
DOM-SKB Cat II/D
NEV-ANU Cat I/?
NEV-MNI Cat I/?
NEV-PTP Cat II/?
ANU-MNI Cat I/?
ANU-PTP Cat I/D

Flights to/from MNI will connect over ANU given the airport limitations at MNI. Also flights to NEV to also connect over ANU as well as SKB.

The Northern Group

AXA-EIS Cat I/D

Core multi-daily services within each group can be provided by appropriate 9-19 seater aircraft.

Connecting Flights South-Centre Groups

SVD-ANU Cat III/C
SLU-ANU Cat II/B

Connecting Flights Centre-North Groups

EIS-SKB Cat II/C
EIS-ANU Cat II/A
AXA-SKB Cat I/D

AXA-ANU Cat I/D

South-Centre-North Same Plane Flights
GND-SVD-ANU-EIS v.v.
GND-SLU-ANU-EIS v.v.

It is envisaged that given the sector distances these flights can be conducted with say 30-seat Saab 340s or aircraft with similar passenger comfort and range.

The Challenge
This proposed strategic shift in intra-OECS air service delivery will no doubt be challenging as horizons expand not only for LIAT but also for the 3rd tier airlines in the region. The resources of ECCAA will have to expand so that the international standards for safety and security are maintained, if not enhanced.

However the broad concept has worked effectively in the northern sector of the Eastern Caribbean where there are multi-daily flights between the city pairs that provide effective service.

CHAPTER V

REVIEW OF LEGAL AND REGULATORY FRAMEWORK FOR CIVIL AVIATION IN THE OECS

This chapter focuses on civil aviation regulations and arrangements that facilitate, as well as constrain, air access between and among the Study countries (the OECS countries plus Martinique and Guadeloupe) and identifies the areas that require attention to mitigate the constraints. It acknowledges that air transportation constitutes an essential component of the efforts at establishing a single OECS economic space and pursuing the wider goals and objectives of the Revised Treaty of Basseterre. Because of the importance of this topic to the development of effective intra-OECS service and the technical nature of the topic, a more detailed exposition forms **Appendix 1** to this report.

A primary principle of international civil aviation law is the sovereignty of a country's air space and the consequent rights and obligations of countries to regulate virtually all elements of their national civil aviation systems. One critical implication is that the vast majority of passenger flights within the OECS are "international" flights i.e. flights involving travel between two sovereign territories.

International air transportation is subject to a range of legal and regulatory policies and measures. Through the Eastern Caribbean Civil Aviation Authority (ECCAA) and the harmonised legal and regulatory regime established at that level, integration at the OECS level has been achieved in terms of technical safety and security regulation. **The area that is still resides primarily at the national level and which constrains true integration is harmonisation of market access.**

Efforts towards advancing OECS integration and cooperation will therefore need to remove those constraints that arise out of the current civil aviation legal and regulatory structures and arrangements at the national level, and to ensure that they are consistent with the provisions of the legal instruments establishing the OECS integration and cooperation arrangements. At the same time, the peculiar nature of international civil aviation means that any such arrangements must also be compliant with the requirements of international civil aviation law.

Given the dominant position accorded to sovereignty in the regulation of air transportation, the principles and obligations established by international civil aviation law can present inherent challenges for efforts by States, such as the OECS, moving towards regional cooperation and integration. Strong political will and commitment to the goals and objectives of the Revised Treaty of Basseterre are required to mitigate if not remove these challenges. This requirement is even more important given that the OECS comprises sovereign states, associate members that are not fully sovereign and now an associate member that is a department of a member state of the European Union.

It is to be noted that as a further complication, Anguilla and the British Virgin Islands (BVI) that are **The UK – ASSI (**Air Services Support International) **administered territories are not party to**

the Revised Treaty of Basseterre and therefore not a part of the OECS single economic space. Montserrat however, which is also ASSI administered, is a party to the Revised Treaty.

Because the sovereignty by a State of the air space above its territory is one of the fundamental principles of international civil aviation all airlines operating commercially in a country are required to have explicit permission to do so, invariably through the issue of a relevant license or certificate. The existence of a bilateral or multi-lateral Air Service Agreement (ASA) does not obviate the need for such a license but it does readily facilitate the process.

Article 19 of the Protocol of OECS Economic Union of the Revised Treaty highlights "Transport and Civil Aviation" as one of the areas of focus for OECS cooperation. Among other things, Article 19 establishes a "**single Economic Union Area air space**" and also calls for joint OECS negotiation and conclusion of "air administrative services agreements" with other countries. Unfortunately there has been little progress in joint OECS negotiation of ASAs.

The legal and regulatory framework for civil aviation in the OECS and specifically those components of the civil aviation regulatory system that affect market access for air travel within the OECS, and between the OECS and the French Overseas Departments of Martinique and Guadeloupe were reviewed. The focus has been on identifying those elements of the civil aviation legal and regulatory systems that adversely impact the goals and objectives of the OECS integration process, and between the OECS and Guadeloupe and Martinique.

OECS Member States and Associate Member States fall within the jurisdiction of two separate civil aviation administrations for technical safety and security. The ECCAA is the governing body for the sovereign states of Antigua and Barbuda, Commonwealth of Dominica (Dominica), Grenada, St Kitts and Nevis, Saint Lucia, and St Vincent and the Grenadines. The OECS non-sovereign member states Anguilla, British Virgin Islands, and Montserrat fall within the administrative jurisdiction of the UK Department of Transport with actual administration of that function delegated to Air Services Support International (ASSI) a subsidiary company of the UK Department of Transport.

REGULATORY FRAMEWORK FOR CIVIL AVIATION IN THE OECS

Civil Aviation among the sovereign member states of the OECS Region is governed by the harmonised national Civil Aviation Acts and the harmonised Eastern Caribbean Civil Aviation Authority Act of these states. The ECCAA Act establishes the Authority as the regional agency charged with the regulation of civil aviation in its member States. ECCAA is governed by a Board of Directors with one Director appointed by each Member State.

The ECCAA Act is supported by the harmonised national Civil Aviation Acts of the sovereign member states. Arising out of the national Civil Aviation Acts are various regulations in areas such as security and **licensing**. The Civil Aviation Act empowers the Minister responsible for civil aviation with regulatory authority in all matters relating to civil aviation and the Act provides for the Minister to delegate his authority under the Act to the Director-General of ECCAA. **The ECCAA Director-General is therefore simultaneously a national and regional official**, with responsibilities involving authority for national civil aviation activities in six sovereign

jurisdictions as well as administrative authority for the regional regulatory organization. Such authority however does not include granting approval for an aircraft to operate in those member states.

In relation to granting authority for aircraft to operate in ECCAA member countries, Part IV of the Civil Aviation Act establishes the Air Transport Licensing Board (ATLB), or Authority (ATLA) in some States, "with the general duty to deal with applications for air transport licenses or permits …….and to approve the tariffs to be charged for the transportation by air of passengers and cargo". The Act provides that in the performance of its functions the Board shall have regard to the "co-ordination and development of air services generally with the object of ensuring the most efficient service to the public".

Under this legislative provision, requests for any airline to operate commercially within the State are reviewed by the ATLB/ATLA which advises the Minister as to whether a License (in the case of scheduled carriers) or Permit (in the case of non-scheduled carriers) should be issued. The ATLB/ATLA, as required, receives technical guidance from ECCAA on the specifications submitted by the applicant airline. This process applies to all airlines and encompasses national and non-national carriers. The ATLB/ATLA invariably comprises a mix of stakeholder ministries and interests. This is intended to ensure that application for air services are reviewed by various interests (e.g. tourism, airport and security). In most instances ATLBs/ATLAs adopt liberal approaches to applications for **international services** as countries seek to develop their tourism industries and view non-regional countries as their core tourism source markets. Some stakeholders believe that a somewhat less liberal approach is adopted for intra-OECS services by non-OECS registered but Eastern Caribbean based airlines.

Article 16 of the Act outlines a relatively extensive but general range of factors for consideration by the ATLB/ATLA in determining applications for air services however **no special consideration currently exists for OECS registered airlines** even if they meet the technical standards established by the ECCAA.

It is therefore strongly recommended that the **mandate given to the national ATLBs be urgently redefined so as to allow for OECS registered carriers to enjoy automatic right of market entry within the OECS single market area once they meet the technical requirements established by ECCAA** i.e. establishment of a single market for OECS civil aviation operators within the OECS Region.

This would require an amendment to the Civil Aviation Act to specifically include OECS air carrier status as a factor for grant of a License or Permit application. This is particularly important since Article 16 of the Civil Aviation Acts establishes a number of "matters" which the ATLB/ATLA should "have regard to" in considering applications for airline services. These are essentially items of economic regulation such as the presence of existing carriers and existing and projected demand, and are generally of a protectionist nature but do not include **OECS registration as a condition for grant of a license, overriding any protectionist but not any safety or operational provisions**.

UK-ASSI ARRANGEMENTS

In the OECS UK-dependent territories, legislative authority for the exercise of civil aviation provides for the Governor in each territory to exercise regulatory authority either directly or through delegation of that authority. ASSI has been designated by the Governor to perform the civil aviation regulatory tasks. That organisation is responsible for supporting the UK's overseas territories in the safety regulation of all aspects of civil aviation, including the licensing of personnel and the certification of aircraft, airlines, and airports.

The Air Navigation (Overseas Territories) Order 2013 provides a comprehensive and up-to-date legislative instrument for regulating civil aviation in the UK territories fulfilling a similar omnibus type role as the Civil Aviation Acts in the ECCAA States.

Applications for civil aviation operations within the ASSI territories are submitted to the Governor. As in the ECCAA States, such applications are subject to a process of technical approval, in this case conducted by ASSI, as a prerequisite for approval.

As in the ECCAA States, applications for market access to these territories are reviewed by various aviation and other stakeholder interest so that the final decision made by the administration reflects the input of a range of stakeholder interests. As in the ECCAA territories, concerns for advancing the growth and development of the important tourism industry means that there is a generally liberal approach to *bona fide* applicants for operating international air services into these territories. **Once again however no special criteria exist for processing of applications from OECS registered airlines.**

Access rights affecting non-UK registered OECS carriers are governed by bilateral agreements where these exist, or on the basis of comity and reciprocity where no agreement exists. As a member of the European Community, the UK is obliged to provide commercial freedoms for other EC Member airlines including those operating within its OECS overseas territories. As a result, airlines of OECS ECCAA States in most instances face legal barriers to freedom of commercial operation within OECS UK territories, while some non-OECS EU airlines (e.g. from Guadeloupe) enjoy legal status to operate within the OECS UK-ASSI territories.

The need therefore exists to urgently arrive at single aviation market access within the OECS single market arrangements and arrangements for preferred access between the ECCAA and UK/OECS registered airlines.

MARKET ACCESS - CARICOM MULTILATERAL AIR SERVICES AGREEMENT (MASA)

The CARICOM MASA constitutes the principal legal instrument regulating civil aviation among the countries of the CARICOM region. The current agreement entered into force in 1996 and is presently under review with the aim of making the instrument compliant with the provisions of the Revised Treaty of Chaguaramas.

Because there is no separate technical agreement at the OECS sub-regional level dealing with the issues of market access or other commercial civil aviation matters, the framework established in the MASA constitutes the *de facto* regime among those OECS countries that are party to the MASA (the ECCAA Member States and Montserrat).

The MASA establishes the framework for the operation of CARICOM air carriers within CARICOM. It is a restrictive regime that leans heavily to the protection of the sovereignty of its individual member states.

Article 2 provides that CARICOM air carriers "shall be entitled to receive an operating license, **but such a license does not in itself confer any rights of access to specific routes or markets within the Community**". Article 4 of the MASA restricts multiple designation of airlines where based on the "characteristics of the market the operation of air services by additional CARICOM air carriers would lead to serious financial loss to the existing carriers licensed by both member states". This is a very protectionist clause and easily leads to monopoly positions as currently exist within the OECS Region.

The MASA identifies criteria for determining CARICOM designation to a large extent following the standard criteria established in international civil aviation law. In relation to fifth freedom air transport by CARICOM carriers, the MASA provides for such access "on the basis of the reciprocal and liberal exchange of these rights between the Member States concerned".

Other principal provisions of the MASA affecting market access are article 8 containing restrictions on cabotage (i.e. the right to transport carriers between points within the same country) and article 15 on approval of air fares which provides for State approval of fares and charges on air services operated under the agreement through mechanisms that are largely outdated and ineffective in the present airline business operating environment.

In the case of OECS registered airlines operating within the OECS Region, the provisions of the CARICOM MASA mean that these airlines are required to possess licenses from each OECS State in which they operate. The licensing requirements provided to OECS carriers through ECCAA mean however that such requirements are harmonised and therefore unlikely to encounter substantial technical obstacles to the provision of air transport services.

Notwithstanding the harmonised ECCAA provisions, and the provisions of the Revised Treaty of Basseterre, ECCAA registered airlines have in some instances experienced obstacles in offering commercial air services to destinations within the OECS outside of their State of registration.

The present status of intra-OECS air access therefore presents a relatively restrictive set of formal arrangements that does not present an explicit legal obligation for a single commercial air space within the OECS notwithstanding the harmonised technical regime established through the ECCAA arrangements. This extends to the absence of any requirement to provide commercial access to the market, and where access is granted there continue to be restrictions to fifth freedom and cabotage services for OECS registered carriers.

The current MASA regulatory framework which exists at regional level is thus inconsistent with the public policy framework established under the Revised Treaty of Basseterre.

MARKET ACCESS - DRAFT CARICOM MASA

As noted above, work is underway on the revision to the MASA. The Forty Third Special Meeting of the CARICOM Council on Trade and Development (COTED) in May 2013 reviewed the new draft MASA and, while noting the need for additional technical inputs, directed the draft for consideration by CARICOM Heads of Government. Two (2) years have lapsed since that recommendation was made.

The new draft MASA largely follows a format developed by ICAO and which is used, with some modifications, in most liberalized air services agreements globally including those involving CARICOM countries and third countries. The intent of the revisions is to ensure that the MASA is compliant with the legal and other obligations of the Revised Treaty of Chaguaramas.

In relation to liberalisation of market access the draft MASA lessens the limitations to fifth freedom travel involving CARICOM airlines and facilitates the granting cabotage rights to these airlines. Other provisions of the draft MASA include standardized provisions developed by ICAO in areas such as safety, security, commercial operations and charters.

However the draft MASA does contain a few provisions **that run counter to the single air space concept of the Revised Treaty of Basseterre** as well as counter to the Revised Treaty of Chaguaramas. In that regard, the draft MASA maintains some restrictions on fifth freedom traffic. The draft also contains another provision which allows the aeronautical authorities of a CARICOM State to "refuse to accept the designation by another Party of an air carrier to operate services on a particular route" where certain defined criteria for that route are met". Hence the protectionist ethos though muted, still remains.

It is therefore recommended that the OECS Region urgently pursues its own MASA that is consistent with the agreed objectives of the Revised Treaty of Basseterre. Given such urgency, an appropriately drafted MASA can be prepared within one month of receiving approval to proceed. The OECS Commission should facilitate this initiative.

MARKET ACCESS, UK - OECS BILATERAL AIR SERVICE AGREEMENTS

The other primary set of international arrangements affecting intra-OECS aviation market access involves the agreements between individual OECS States and the United Kingdom (UK), with the significance of these arrangements deriving from the constitutional relationship between the UK and its territories in the OECS.

To date the UK has concluded bilateral ASAs with Antigua and Barbuda, Grenada, Saint Lucia, and St Kitts and Nevis. These agreements incorporate several provisions of the liberalized ICAO template document and include an acceptance of the Community of Interest Principle which allows CARICOM countries to designate airlines from another CARICOM country to operate services on its UK routes, and conversely for similar arrangements for European Community airlines to be designated by the UK on its CARICOM routes. However the rights of the airlines registered in the various OECS countries vary significantly in these different ASAs.

For Dominica and St Vincent and the Grenadines, which do not currently have bilateral air service agreements with the UK, any market access for their carriers into OECS UK territories will be determined by general rules of international civil aviation law. Such legal arrangements can generally be expected to be conservative in their scope and particularly to restrain liberalized fifth freedom type arrangements between those countries and the OECS UK territories except on the basis of reciprocity and comity.

Based on the framework established by the Revised Treaty of Basseterre, the need, however, exists for a harmonised approach within the OECS to its air access arrangements with the UK and including, where mandated by the Revised Treaty, **to establish a regime allowing for liberalized access by carriers from independent OECS countries into OECS UK territories.**

MARKET ACCESS, OECS – FRANCE AIR SERVICES ARRANGEMENTS

Arrangements relating to market access and other elements of civil aviation between OECS countries and France are governed by two different sets of arrangements.

In the case of the independent OECS members it does not appear that bilateral agreements have been negotiated between OECS countries and France. In that context, the formal arrangements between independent OECS States and France are embodied in the pre-independence agreements between the UK and France, succeeded to by the OECS States following their independence, as well as by the general rules of international civil aviation law.

Such arrangements are perhaps necessarily conservative in their scope in relation to areas of commercial rights and market access particularly fifth freedom traffic rights: such rights which are essential for operating commercially viable services between the OECS and Martinique and Guadeloupe. The need exists therefore to negotiate an air service agreement with France that reflects developments in civil aviation as well as in the OECS and EU economic integration systems.

In the case of the OECS UK overseas territories, their civil aviation relations with France are governed by the rules established within the EU single market and civil aviation regimes. This

means that there is full market access for French (and other EU) registered airlines wishing to operate into the OECS UK territories and *vice versa*.

The need now exists to formalize the arrangements governing air transport between the OECS and France preferably through either a multilateral OECS treaty with France or through a series of harmonized bilateral agreements based on joint negotiations as envisaged under the Annex to the Revised Treaty of Basseterre.

To address these issues will require a review of the existing agreements and arrangements to establish where inconsistencies may exist with the OECS commitments.

LEGAL AND REGULATORY ARRANGEMENTS FOR CERTIFICATION OF AIRLINE OPERATIONS

Regulatory arrangements for certification of airline operations in the OECS are established within the various harmonized civil aviation laws and regulations. These are based on standards and requirements established by ICAO as an essential component of the global air safety systems. Some degree of harmonization exists among CARICOM countries through the CASSOS (Caribbean Aviation Safety & Security Oversight System) arrangements.

Some concerns have been expressed that existing arrangements within the ECCAA States are unduly protracted and costly, with the overall effect being to restrict entry of airline operators into the market and therefore constituting a *de facto* barrier to market entry. **It is however essential to point out that this is not a universally held view.**

Regulatory requirements for airline operators in the ECCAA are outlined in an online document, OAC-001 "Certificate of an Air Operator", on the ECCAA website which provides detailed guidance on a five-step process to be undertaken by prospective airline operators. The document clearly and methodically sets out the requirements which the applicant will be expected to satisfy and the successful culmination of the process is the issue, by ECCAA, of an Air Operator's Certificate (AOC), an essential requirement for operation of a commercial air service.

The process for attaining the AOC is a necessarily extensive one requiring detailed technical preparation and review processes by applicant and regulator so as to ensure that regulatory requirements are satisfied based on internationally accepted standards of civil aviation safety. The process is also a costly one for operators as it requires certain uniform staffing requirements during the certification process.

There is no doubt that the certification and licensing process is a costly one and one which is likely to present financing challenges to "small" operators. It is however difficult to see how many of these costs can be avoided if the rigorous requirements for ensuring the continuing high standards of aviation safety in the region are to be maintained. The ECCAA guidance material provides clear, accessible and explicit indication of the technical processes involved and allows applicants the opportunity for as much advance preparation as possible.

The issue of promoting a more enabling environment for *bona fide* prospective operators than what currently obtains today is particularly important given the need for smaller, third tier aircraft to serve thinner OECS markets particularly in the Leeward Islands. At the same time it is critical that OECS States maintain the required standards of international civil aviation regulation.

It is recommended that the OECS Commission, along with ECCAA, engage select regional and international development partners on the possibility of establishing a Special Fund intended to assist *bona fide* start-up airline applicants through the five-step ECCAA certification process. In addition to supporting the ECCAA certification process, the initiative should also be directed to strengthening, where necessary, basic management capacities and systems in the applicant airlines. One such critical system is a Passenger Services System, identified earlier in the report.

The aim of the initiative would be to facilitate the growth of a competitive and efficient private sector small airline sector in the sub-region, able to support feeder and other traffic within the wider region **while maintaining a strong regulatory framework that is so essential for public confidence and safety.**

ROLE OF ECCAA

Timely implementation of the recommendations documented in this chapter is essential for improvement in the quality of intra-OECS air service that all users of the service are adamant should occur. However such implementation would significantly increase the workload on ECCAA as well as enhance that organisation's mandate as a key agency to facilitate effective intra-OECS air service. Such facilitation does embrace the safety and security of this air service.

The governments of the ECCAA countries will therefore have to expand the resources of ECCAA if this essential strategy is to succeed.

CHAPTER VI
ACTION PLAN AND TECHNICAL ASSISTANCE PLAN

The recommendations in this Study focus on three broad areas:

1. Deepening the basic gravitational pull of individual OECS countries for residents in the Study Group and diverting incremental portions of the Total OECS Outbound Market to intra-OECS Staycations (National Tourism Authorities)
2. Taking advantage of the empirical price elasticity data to increase the volume of intra-OECS travel by reducing the airfares charged to passengers through a reduction if not a complete removal of TFCs on only those intra-OECS flights that provide net economic benefit to the individual OECS countries and increased revenue to the governments (National Ministries of Finance)
3. Significantly improving the quality of intra-OECS air service by freeing LIAT from its regional obligations and establishing a facilitating and welcoming environment for appropriately approved airlines based in the Eastern Caribbean to fly intra-Study Group routes. (National Civil Aviation Authorities, ECCAA)

The nature of these recommendations is such that their effective implementation is anticipated to take three (3) years to be complete. Accordingly the most critical activity of the Action Plan is the early approval of the Study recommendations and gaining and maintaining the commitment throughout the implementation period of influential sponsors at the political and administrative levels in the related organisations in each member state.

This activity is a major challenge that the OECS Commission must be resourced and prepared to assume. It is one that will demand continuous lobbying efforts by the Commission. It is expected that this Action Plan will be amended dependent on which recommendations are approved for implementation. Further the Action Plan will inform the detailed action plans (implementation plans) that would be prepared by assigned project managers to guide the effective implementation of assigned recommendations.

To assist in maintaining the high level of commitment that is required, there should be a focus on those recommendations that will yield early recognizable benefits even as other activities with longer term impact are carried out in parallel.

REVISED TOURISM STRATEGIES

There are a number of recommendations that fall completely within the ambit of the national Tourism Authorities and it will be their remit to accept and implement the related recommendations in the Study. However, the National Immigration Administrations will need to commit to collect and deliver, on a quarterly basis, to the appropriate National Statistical Administrations, raw data on Outbound Travel by Destination by Residents that will be collated and shared with the Tourism Authorities of all OECS member states, preferably through the OECS Commission.

Such information will also allow for the timely monitoring of changes in intra-OECS traffic and should start immediately making available outbound travel statistics beginning January 01, 2015. This monitoring system will also allow the OECS Commission and the National Ministries of Finance and Tourism Authorities, as a start, to assess the level of economic impact, of the recent re-structuring of airfares by LIAT and its relationship to any changes in intra-OECS traffic flows.

REDUCTION IN INTRA-OECS AIRFARES

Ministers of Finance of OECS member states will have to meet urgently to determine if together they can reduce the TFCs paid by passengers to generate a positive benefit/cost ratio all OECS governments. To assist, the National Tourism Authorities and National Statistical Administrations will need to urgently review available raw data on visitor spend to determine the daily average spend and the average length of stay of OECS visitors. (They also need to commit to conduct such surveys on a more frequent basis.)

If the result of such talks is positive, then ALL member states, acting in unison, should reduce their TFCs related to intra-OECS travel only, by the agreed amount(s), for the next three years in the first instance. This is the period estimated to fully implement the improvements in the quality of intra-OECS air connectivity. Parallel with that decision, the national Tax Administrations may need to enhance their tax collection mechanisms, focusing on those private sector entities, including self-employed persons, who are likely to benefit from the expected increase in stay over visitors.

IMPROVING THE QUALITY OF AIR SERVICE CONNECTIVITY

There is significant preparatory work to be completed before the full benefits of the connectivity recommendations will be seen.

However there can be early significant benefit from the timely implementation of the Single Physical Passenger Security Check System. Those ECCAA countries that have not yet passed the related regulations must do so immediately. This will show commitment by the ECCAA countries that will positively influence the necessary negotiations with Barbados, St. Maarten, and the ASSI countries, Martinique and Guadeloupe, Trinidad.

These various negotiations should proceed in parallel rather than sequentially to reduce the timeline for implementation and to create synergy among the individual negotiations.

While full implementation of this security system will not occur in time for the peak 2015 intra-OECS travel period of July-August, the system must be operational by December 01, 2015, the start of the next peak travel period.

The initial activity in creating a welcoming environment for non-LIAT scheduled air services would be the negotiation of a true open-sky Multilateral Air Service Agreement (MASA) between the ECCAA countries such that a single commercial airspace is created for all ECCAA registered airlines. Given the resources available to the ECCAA countries it is a reasonable expectation that this MASA can be developed, agreed and ratified within three (3) months.

Achievement of such a deadline will give a tremendous boost to the implementation of the overall connectivity improvement programme.

Parallel with the MASA activities should be the approval by the LIAT shareholders of the recommended "Freedom to Fly" mandate, to be implemented on a phased basis as other airlines expand their operations under the ECCAA MASA. Early approval of this mandate is essential to enable it to influence LIAT's current restructuring programme. It will also allow for early sharing with other airlines of the intra-OECS routes on which LIAT wishes to reduce or cease service.

With the ECCAA MASA in place, its signatories can then jointly negotiate appropriate liberal Air Service Agreements with the UK on behalf of the ASSI countries, France on behalf of the French Departments of Martinique and Guadeloupe, USA on behalf of Puerto Rico and USVI, St. Maarten, Barbados, Trinidad, Guyana, Suriname. Outside of the Study Group countries priority should be given to St. Maarten since that country has an airline with 3rd tier aircraft, an effective PSS system and code share experience. Moreover that airline also has a strategic alliance with a similar airline based in Guadeloupe.

Even as these activities are being pursued, ECCAA would have submitted its resource requirements to meet its expanded mandate to its member countries for approval and funding.

Further ECCAA and the OECS Commission would have developed the broad mandate, policies and likely initial budget of the Air Services Development Fund and would have started negotiations with a consortium of funding agencies (say World Bank, EU, CDB) for the establishment of the Fund. Table VI-1 **below** charts this Action Plan.

TableVI-1 ACTION PLAN

OECS STUDY - ACTION PLAN & SCHEDULE												
ACTIVITY	**LEAD RESPONSIBLE AGENCY**	**MTH 1**	**MTH 2**	**MTH 3**	**QTR 2**	**QTR 3**	**QTR 4**	**QTR 5**	**QTR 6**	**QTRS 7-8**	**YEAR 3**
Improve Basic Gravitational Pull	**National Tourism Authorities**										
Determine Key Product Differentiation	National Tourism Authorities										
Define/Monitor Behavioural/Motivational Niche Markets	National Tourism Authorities										
Adjust Product, Marketing & Promotion Strategies	National Tourism Authorities										
Incremental Travel Diversion to OECS Destinations	**National Tourism Authorities**										
Collate Total Country Resident Outbound Travel Info	National Statistical Administrations										
Disseminate Quarterly Outbound Travel Information	OECS Commission										
Implement Reduction in TFCs for Intra-OECS Travel	**Council of Ministers of Finance**										
Update/Maintain Visitor Spend Information	National Statistical Administrations										
Revise City-Pair Benefit/Cost Ratios	OECS Commission										
Agree Joint TFC Reduction Policy	Council of Ministers of Finance										
Upgrade Regulatory & Legal System	**Council of Ministers of Civil Aviation**										
Appoint National Standing ASA (NS-ASA)Committees	National Ministers of Civil Aviation										
Develop ECCAA Countries' MASA by NS-ASAs	OECS Commission										
Ratify ECCAA Countries' MASA	Council of Ministers of Civil Aviation										
Appoint Joint Standing ASA Committee	Council of Ministers of Civil Aviation										
Joint ASA Negotiations with Other OECS Countries	Joint Standing ASA Committee										
Joint ASA Negotiations with Regional Countries	Joint Standing ASA Committee										
Upgrade ECCAA Resources	Council of Ministers of Civil Aviation										
Implement Air Services Fund	ECCAA										
Upgrade Network Connectivity System	**ECCAA**										
Single Passenger Physical Security System	ECCAA										
Approval of Revised Mandate for LIAT	LIAT Shareholders' Committee										
LIAT Sharing of Route Termination	LIAT Management										
Technical Approval of ECCAA Airlines re Sched Svcs	ECCAA										
Commercial Approval of ECCAA Airlines re Sched Svcs	National Air Transport Licencing Bodies										
Commercial Approval of Other OECS Airlines	National Air Transport Licencing Bodies										
Commercial Approval of Other Regional Airlines	National Air Transport Licencing Bodies										
Phased Implementation of Improved Connectivity	Airlines										

Note: These proposed timelines are fully dependent on the timely allocation of appropriate resources.

TECHNICAL ASSISTANCE

It is not expected that the OECS countries will require technical assistance outside of the resources available to the individual member states and the related regional organisations.

Political will is, by far, the more important requirement. However, the approval of this Study by the respective Governments and Authorities provide a very good starting point and must be commended but now taken forward.

APPENDIX 1

DETAILED REVIEW OF LEGAL AND REGULATORY FRAMEWORK FOR CIVIL AVIATION IN THE OECS

1 INTRODUCTION

International air transportation continues to be a primary instrument for international commerce and trade. Air transportation is particularly important for the OECS where it constitutes an essential component of the efforts at establishing a single OECS economic space and pursuing the wider goals and objectives of the Revised Treaty of Basseterre.

A primary principle of international civil aviation law is the sovereignty of a country's air space and the consequent obligation of countries, consistent with the principles of the Chicago Convention[1], to regulate virtually all elements of their national civil aviation systems.

Like other elements of international trade, and in some ways even more so, international air transportation is subject to a range of legal and regulatory policies and measures. Through ECCAAA and the harmonized legal and regulatory regime established at that level, within the OECS integration has been achieved in terms of technical safety and security regulation.

Efforts towards advancing OECS integration and cooperation will however also need to address removal of any barriers to economic integration and social/institutional interaction which arise out of the current civil aviation legal and regulatory structures and arrangements, to ensure that they are consistent with the provisions of the legal instruments establishing the OECS integration and cooperation arrangements. At the same time, the peculiar nature of international civil aviation means that any such arrangements must also be compliant with the requirements of international civil aviation law.

The transnational nature of civil aviation is especially apparent within the OECS where the vast majority of passenger flights within the OECS are "international" flights i.e. flights involving travel between two sovereign territories. Within the Caribbean context, the multiplicity of national jurisdictions – including UK, Dutch, US and French territories – is particularly challenging given the proximity and close formal and informal relations which exist among the States in the region and has fuelled calls for establishment of a "single Caribbean air-space"[2].

Given the dominant position accorded to sovereignty in the regulation of air transportation, the principles and obligations established by international civil aviation law can present inherent

[1] The International Convention on Civil Aviation, commonly referred to as the Chicago Convention, was agreed at Chicago in 1944 and constitutes the primary documented source of international civil aviation law. Among other things, the Convention establishes the International Civil Aviation Organization (ICAO) the principal organization establishing the rules and procedures regulating international, and in most cases national, civil aviation.

[2] See Caribbean Tourism Organization San Juan Accord. 2007
http://www.onecaribbean.org/content/files/SANJUANACCORD.pdf

challenges for efforts by States, such as the OECS, moving towards regional cooperation and integration.

This section of the Study will review the legal and regulatory framework for civil aviation in the OECS and specifically those components of the civil aviation regulatory system that affect market access for air travel within the OECS, and between the OECS and the French territories of Martinique and Guadeloupe. The focus will be on identifying those elements of the civil aviation legal and regulatory systems which adversely impact upon the goals and objectives of the OECS integration process, and between the OECS and the French Overseas Departments of Guadeloupe and Martinique. Arising out of that analysis, recommendations are developed for resolving these barriers.

2. SCOPE OF THE STUDY

The principle of national sovereignty of the State's air space above it's territory is one of the fundamental principles of international civil aviation. The result of this is that all airlines, and particularly foreign airlines, operating commercially in a country are required to have explicit permission to do so, invariably through the issue of a license or certificate of some sort.

The activities for advancing the removal of barriers to OECS economic integration and cooperation are based on the legal and policy framework established by the Revised Treaty of Basseterre Establishing the OECS Economic Union. Removal of barriers to intra-OECS travel and tourism can therefore be expected to take place based on the Revised Treaty of Basseterre. In that regard Article 2 of the Protocol to the Revised Treaty of Basseterre indicates that one of the objectives of the OECS Economic Union established under the Revised Treaty, is the "creation of a single financial and economic space among Protocol States". Article 3(c) of the Revised Treaty identifies as one of the "Principles" of the Revised Treaty, the "abolition, as between Protocol Member States, of the obstacles to the free movement of persons, capital and services".

Article 19 of the Protocol of OECS Economic Union of the Revised Treaty highlights "Transport and Civil Aviation" as one of the areas of focus for OECS cooperation. Among other things, Article 19 establishes a "single Economic Union Area air space" and also calls for joint OECS negotiation and conclusion of "air administrative services agreements" with other countries. In relation to civil aviation/air transport, the overall intent of the provisions of the Revised Treaty points clearly towards the removal of obstacles to air transport as well as for the establishment and implementation , as far as possible, of common civil aviation/air transport policies and measures among the States party to the Revised Treaty.

As reflected in the Overall objective and Purpose presented in the Terms of Reference for the Study, this section of the report examines issues relating to supporting "the expansion and efficiency of intra-regional travel and trade in the OECS".

The OECS Common Tourism Policy developed in 2011 highlights *Regional Facilitation* and *Access and Transportation* as priority areas requiring attention, in order to enhance the performance

of tourism in the OECS. The Policy states that "enabling the free movement of people within the region is perhaps the single greatest change required to improve the region's economic competitiveness".

This chapter of the study seeks to address the legal and regulatory elements of these issues and comprises the following distinct components:

a. Legal and regulatory arrangements for OECS airlines to operate within the sub-region, specifically identifying the obstacles which might exist to liberalized arrangements for intra-OECS air travel, and the development of an action plan for moving towards a legal regime for intra-OECS airline operations consistent with the spirit and provisions of the OECS single market regime.

b. Legal and regulatory arrangements for certification of airline operations adversely impacting on the ability of OECS airlines to enter the aviation market and identification of actions for addressing this issue.

As noted above, a primary consideration will be to ensure that in addition to being consistent with the provisions of the instruments of OECS integration and cooperation, the recommendations are also compliant with the requirements of international civil aviation law.

3. METHODOLOGY

OECS Member States and Associate Member States fall within the jurisdiction of two separate civil aviation administrations. In the case of Antigua and Barbuda, Commonwealth of Dominica (Dominica), Grenada, St Kitts and Nevis, Saint Lucia, and St Vincent and The Grenadines this consists of the Eastern Caribbean Civil Aviation Authority (ECCAA). The OECS territories of Anguilla, British Virgin Islands, and Montserrat fall within the administrative jurisdiction of the UK Department of Transport with actual administration of that function delegated to Air Services Support International (ASSI) a subsidiary company of the UK Department of Transport. The review will encompass both sets of relevant regulatory arrangements, virtually all of which is harmonized within the respective administrative authorities.

Activities undertaken include a review of the principal legal instruments regulating civil aviation within the OECS as it relates to the focus areas of the study. This includes the various Civil Aviation Acts as well as legislation and regulations pertaining to various aspects of civil aviation. The review also encompasses bilateral and multilateral air service agreements to which OECS States are party and specifically those affecting air services among OECS countries and territories and between the OECS and France.

In addition to reviewing legal and other documents, the chapter draws on inputs provided by public and private sector participants within the OECS civil aviation systems. The conclusions and recommendations presented therefore reflect published and unpublished sources.

4. REGULATORY FRAMEWORK FOR CIVIL AVIATION IN THE OECS

4. 1 Background

As noted above, international civil aviation is governed at its highest level by ICAO, a specialized agency of the United Nations. ICAO establishes global policies, standards and procedures and is also increasingly involved in the international oversight of these standards and procedures.

The administrative machinery for civil aviation oversight for the islands of the OECS was first set up in 1957 and is among the earliest regional mechanisms in the OECS.

4.2 OECS ECCAA framework

In 2004 the then Directorate of Civil Aviation was upgraded to the status of a civil aviation Authority through establishment of the Eastern Caribbean Civil Aviation Authority (ECCAA). The Authority is headquartered in Antigua.

The legal foundation for ECCAA derives from the harmonized Civil Aviation Act and the harmonized Eastern Caribbean Civil Aviation Authority Act which has been passed in all of the ECCAA Member States. The ECCAA Act establishes the authority as a regional agency charged with the regulation of civil aviation in its member States. ECCAA is governed by a Board of Directors with one Director appointed by each Member State.

The ECCAA Act is supported by the harmonized Civil Aviation Acts which are also common to all of the ECCAA States. Arising out of the Civil Aviation Act are various regulations in areas such as security and licensing. The Civil Aviation Act empowers the Minister responsible for civil aviation with regulatory authority in all matters relating to civil aviation and the Act provides for the Minister to delegate his authority under the Act to the Director-General of ECCAA. The ECCAA Director-General is therefore simultaneously a national and regional official, with responsibilities involving authority for national civil aviation activities in six sovereign jurisdictions as well as administrative authority for the regional regulatory organization.

Article 10(6) of the Civil Aviation Act provides *inter alia* that the ECCAA Director-General shall:

"***(a)*** exercise control over entry into the civil aviation system through the granting of civil aviation documents under this Act or any regulation made pursuant to this Act;

(b) take such action as may be appropriate in the public interest to enforce the provisions of this Act, including the carrying out or requiring of inspections and audits;

(c) be responsible for the provision of safety services including:

(i) registration and certification of aircraft;

ii) control over the airworthiness of aircraft;

(iii) licensing and certification of personnel who perform duties related to aviation;

(iv) prescribing civil aviation safety and security standards;

(v) establishing commercial air service standards and administering the certification of air transport, aerial work, and flight training units; and

(vi) certification of airports and airport services.

In relation to granting authority for aircraft to operate in ECCAA member countries, Part IV of the Civil Aviation Act establishes the Air Transport Licensing Board (ATLB), or Authority (ATLA) in some States, "with the general duty to deal with applications for air transport licences or permits …….and to approve the tariffs to be charged for the transportation by air of passengers and cargo". The Act provides that in the performance of its functions the Board shall have regard to the "co-ordination and development of air services generally with the object of ensuring the most efficient service to the public".

Under this legislative provision, requests for any airline to operate commercially within the State are reviewed by the ATLB/ATLA which advises the Minister as to whether a License (in the case of scheduled carriers) or Permit (in the case of non-scheduled carriers) should be issued. The ATLB/ATLA, as required, receives technical guidance from ECCAA on the specifications submitted by the applicant airline. This process applies to all airlines and encompasses national and non-national carriers. The ATLB/ATLA invariably comprises a mixture of stakeholder ministries and interests. This is intended to ensure that application for air services are reviewed by various interests (e.g. tourism, airport and security). In most instances ATLBs/ATLAs adopt liberal approaches to applications as countries seek to maximize on the potential for developing their tourism industries.

Article 16 of the Act outlines a relatively extensive but general range of factors for consideration by the ATLB/ATLA in determining applications for air services: no special consideration presently exists for OECS registered airlines. Under international civil aviation law, the rights for market access are governed by bilateral agreements where these exist, or on the basis of comity and reciprocity where no agreement exists[3].

A redefinition of the mandate given to the ATLB is required so as to allow for OECS registered carriers to enjoy automatic right of market entry within the OECS single market area, subject to safety or operational limitations, i.e. establishment of a single market for OECS civil aviation operators within the OECS.

This would require an amendment to the Civil Aviation Act to specifically include OECS air carrier status as a factor for grant of a Licence or Permit application[4]. This is particularly important since Article 16 of the Civil Aviation Acts establishes a number of "matters" which the ATLB/ATLA should "have regard to" in considering applications for airline services. These are essentially items of economic regulation such as the presence of existing carriers and existing and projected demand, and are generally of a protectionist nature but do not include OECS registration as a condition for grant of a licence. The need now exists, within the single air space jurisdiction, for ensuring that the administrative machinery is prescribed to act within the framework of the single economic air space regime.

[3] Article 19 provides for the ATLB/ATLA to take any bilateral and presumably multilateral air service agreements into consideration in its decision making on any particular application.

[4] Article 16 of the Act identifies nine "matters" which the ATLB/ATLA should "have regard to" in considering applications for airline operations. These are essentially items of economic regulation such as presence of existing carriers, existing and projected demand, and are generally protectionist in origin.

4.3 UK-ASSI arrangements

In the OECS UK dependent territories, legislative authority for the exercise of civil aviation derives principally from the UK Air Navigation (Overseas Territories) Order, the Civil Aviation Overseas Territories Act (1949) as well as from ICAO standards and recommended practices. Specifically the Civil Aviation Overseas Territories Act provides the framework for the Governor in each territory to exercise regulatory authority either directly or through delegation of that authority. In the case of the UK OECS territories, ASSI has been designated by the Governor to perform the civil aviation regulatory tasks on behalf of the Governor.

Oversight responsibilities for civil aviation in the OECS UK dependent territories are therefore provided by the ASSI which is a wholly owned non-profit subsidiary of the UK Department for Transport. The company's responsibilities embrace UK overseas territories world-wide and a primary mission is "to assist in providing a cohesive system of civil aviation regulation throughout these territories".

ASSI was set up by the UK Government to regulate civil aviation in its overseas territories and is responsible for supporting the UK's overseas territories in the safety regulation of all aspects of civil aviation, including the licensing of personnel and the certification of aircraft, airlines, and airports. The ASSI office is based in the United Kingdom.

The Air Navigation (Overseas Territories) Order 2013 provides a comprehensive and up-to-date legislative instrument for regulating civil aviation in these territories fulfilling a similar omnibus type role as the Civil Aviation Acts in the ECCAA States. Article 4 of the Act grants wide authority to the Governor for making regulations pertaining to civil aviation in the territories and for the general oversight of civil aviation matters in the respective territories. Article 7 of the Act stipulates that "the Governor must within the territory issue such instructions or publish such requirements …..as are necessary … for carrying out the Convention on Civil Aviation …".

Applications for civil aviation operations within the ASSI territories are submitted to the Governor. As in the ECCAA States, such applications are subject to a process of technical approval, in this case conducted by ASSI, as a prerequisite for approval.

As in the ECCAA States, applications for market access to these territories are reviewed by various aviation and other stakeholder interest so that the final decision made by the administration reflects the input of a range of stakeholder interests. As in the ECCAAA territories, concerns for advancing the growth and development of the important tourism industry means that there is a generally liberal approach to *bona fide* applicants for operating air services into these territories. No special criteria exist for processing of applications from OECS registered airlines.

Access rights affecting non-UK registered OECS carriers are governed by bilateral agreements where these exist, or on the basis of comity and reciprocity where no agreement exists. As a member of the European Community, the UK is obliged to provide commercial freedoms for

other EC Member airlines including those operating within its overseas territories such as in the OECS. The end result of this is that airlines of OECS ECCAA States in most instances face legal barriers to freedom of commercial operation within OECS UK territories, while non-OECS EU airlines (e.g. from Guadeloupe) enjoy legal status to operate within the OECS UK-ASSI territories.

The UK – ASSI administered territories are not party to the Revised Treaty of Basseterre and therefore not a part of the OECS single economic space.

4.4 Conclusion

Administrative procedures for approval of civil aviation market access are virtually identical in both jurisdictions. This involves a process of technical review, along with a review of economic considerations aimed at identifying potential benefits of the proposed service as well as any adverse impacts on existing services or systems and any international commitments which might exist.

The administrative level obligation to accept applications for market access from OECS registered airlines varies depending on the civil aviation administrative jurisdiction. In the case of ECCAA registered aircraft there is no legal obligation except where such agreement has been reached through bilateral agreement. In the case of UK ASSI registered aircraft there is an administrative obligation for market access within UK ASSI territories and there are bilateral obligations with ECCAA registered carriers arising from bilateral arrangements where these exist with OECS States.

The need now arises to arrive at single aviation market within the OECS single market arrangements and arrangements for preferred access between the ECCAA and UK/ASSI registered airlines where these are not part of the OECS single market.

5. MARKET ACCESS

5.a Background

Within the OECS the right of airlines to operate international commercial air services is governed by the general principles of international civil aviation law as embodied in the Chicago Convention, as well as through a number of bilateral and multilateral agreements regulating civil aviation. In many instances OECS countries have inherited and maintained their civil aviation relations through largely informal arrangements based on historical connections and on the principles of comity and reciprocity.

As noted above, overall air transport policy in the OECS is driven by the objective of increasing the number of visitor arrivals into the respective islands. Arising from this is a liberal approach to the award of applications for air transport services where safety and operational requirements are satisfied.

The principal multilateral and bilateral agreements and arrangements affecting market access for OECS airlines OECS operating into OECS countries and territories, and with the French, are outlined below.

5.b CARICOM Multilateral Air Services Agreement (MASA)

The CARICOM MASA constitutes the principal legal instrument regulating civil aviation among the countries of the CARICOM region. The current agreement entered into force in 1996 and is presently under review with the aim of making the instrument compliant with the provisions of the Revised Treaty of Chaguaramas[5].

It is important to note that there is no separate technical agreement at the OECS sub-regional level dealing with the issues of market access or other commercial civil aviation matters although as noted above, the Protocol to the Revised Treaty does refer to a number of concepts and principles in this regard. This means that the framework established in the MASA constitutes the *de facto* regime among those OECS countries that are party to the MASA (the ECCAA Member States) and/or do not have separate civil aviation agreements governing their relations (the UK/OECS territories).

The MASA establishes the framework for the operation of CARICOM air carriers within CARICOM. Article 2 provides that CARICOM air carriers "shall be entitled to receive an operating licence, but such a licence does not in itself confer any rights of access to specific routes or markets within the Community". Article 4 of the MASA restricts multiple designation of airlines where based on the "characteristics of the market the operation of air services by additional CARICOM air carriers would lead to serious financial loss to the existing carriers licensed by both carriers".

The MASA identifies criteria for determining CARICOM designation to a large extent following the standard criteria established in international civil aviation law. In relation to fifth freedom air transport by CARICOM carriers, the MASA provides for such access "on the basis of the reciprocal and liberal exchange of these rights between the Member States concerned".

Other principal provisions of the MASA affecting market access are article 8containingrestrictions on cabotage (i.e. the right to transport carriers between points within the same country) and article 15 on approval of air fares which provides for State approval of fares and charges on air services operated under the agreement.

The result of the CARICOM MASA arrangements is the maintenance of a regional integration regime, based largely on reciprocity and historical association, and also including restrictive elements that weaken the possibilities for liberalization. In particular CARICOM airlines operating under the MASA arrangements continue to encounter restrictive fifth freedom traffic

[5]While all OECS ECCAA member States, as well as Montserrat, are party to the MASA, all members of CARICOM, notably Jamaica and The Bahamas, are not party to the CARICOM MASA.

rights[6], restrictions on multiple designation of airlines[7], as well as being excluded from domestic/cabotage markets. Other restrictive elements include tariff approval provisions that are largely outdated and ineffective in the present airline business operating environment.

One of the principal challenges facing the MASA is that CARICOM States have in a number of instances signed air service agreements with third countries which provide for more liberalized air service regimes than that provided under the MASA[1]. This conflicts with the provisions of the CARICOM Revised Treaty of Chaguaramas (and the Revised Treaty of Basseterre) which requires that CARICOM countries receive most favored nation status within the parameters of the CARICOM single market regime[8]. Equally significant is that the restrictive provisions of the MASA, agreed in 1996, are generally recognized as contrary to the goal and objective of the CARICOM Revised Treaty for removal of trade barriers within CARICOM.

In the case of OECS registered airlines operating within the OECS, the provisions of the CARICOM MASA mean that these airlines are required to possess licenses from each OECS State in which they operate. The harmonized licensing requirements provided to OECS carriers through ECCAA mean however that such requirements are harmonized and therefore unlikely to encounter substantial technical obstacles to the provision of air transport services.

Notwithstanding the harmonized ECCAA provisions, and the provisions of the Revised Treaty of Basseterre, ECCAA registered airlines have indicated experiencing obstacles in offering commercial air services to destinations within the OECS outside of their State of registration.

An additional limitation facing OECS airlines is the legal restriction in the current MASA on operating air services involving third countries i.e. fifth freedom traffic.

The present status of intra-OECS air access therefore presents a relatively restrictive set of formal arrangements that does not present an explicit legal obligation for a single commercial air space within the OECS notwithstanding the harmonized technical regime established through the ECCAA arrangements. This extends to the absence of any requirement to provide commercial access to the market, and where access is granted the ability to restrict fifth freedom and cabotage services for OECS registered carriers.

At the same time, State practice of OECS countries, desirous of promoting tourism growth in their countries, is to encourage market access for airlines into their countries and in that regard

[6] Fifth freedom traffic refers to the right granted by country A to an airline(s) from country B to carry traffic between country A and countries other than B.

[7] The existing MASA arrangements provide that Member States "shall accept multiple designation on a country-pair basis by another Member State, except in cases where by virtue of the nature of the route and, in particular, the characteristics of the market, the operation of air services by additional CARICOM air carriers would lead to serious financial loss to the existing air carriers licensed by both Member States".

[8] See for example the agreements between the USA and most CARICOM countries. The USA – Jamaica agreement is provided at http://www.state.gov/e/eb/rls/othr/ata/j/jm/114813.htm

OECS countries generally adopt liberalized market access regimes for OECS based airlines to operate into their countries.

The current MASA regulatory framework which exists at regional level appears inconsistent with the public policy framework established under the Revised Treaty of Basseterre.

5.c Draft CARICOM MASA

As noted above, work is underway on the revision to the MASA. The Forty Third Special Meeting of the CARICOM Council on Trade and Development (COTED) in May 2013 reviewed the new draft MASA and, while noting the need for additional technical inputs, directed the draft for consideration by CARICOM Heads of Government.

The new draft MASA largely follows a format developed by ICAO and which is used, with some modifications, in most liberalized air services agreements globally including those involving CARICOM countries and third countries. The intent of the revisions is to ensure that the MASA is compliant with the legal and other obligations of the Revised Treaty of Chaguaramas.

In relation to liberalization of market access the draft MASA removes the provisions limiting fifth freedom travel involving CARICOM airlines as well as granting cabotage rights to CARICOM airlines. Other provisions of the draft MASA include standardized provisions developed by ICAO in areas such as safety, security, commercial operations and charters.

However the draft MASA does contain a few provisions which would appear to run counter to the single air space concept of the Revised Treaty of Basseterre as well as counter to the Revised Treaty of Chaguaramas. In that regard, the draft MASA maintains some restriction on fifth freedom traffic, confining this in relation to passenger traffic to rights from "points behind the territory of the Party designating the air carrier *via* the territory of that Party and intermediate points, to any point or points in and beyond the territory of the Party granting the right"[9].

Another potentially restrictive provision to the single commercial air space is found in Article 13 of the draft MASA, entitled "Public Service Obligation" which allows the aeronautical authorities of a CARICOM State to "refuse to accept the designation by another Party of an air carrier to operate services on a particular route" where certain defined criteria for that route are met". This is tied to the concept of an "essential air service" defined in article 1 of the draft MASA[10].

When accepted, however, the revised MASA will provide a significantly more liberalized environment than currently exists for the operation of CARICOM airlines within CARICOM, and seeks to ensure that the region's air service arrangements are supportive of, and consistent with the principles for single market integration embodied in the Revised Treaty of Chaguaramas.

[9] A fully liberalized regime is provided in article 4.c (ii) for cargo traffic with rights granted "between points in the territory granting the right and any other point or points".

[10] The concept of essential air services is a well-established principle of public policy and has been applied in diverse settings. It is generally intended to ensure protection for air services in markets that are unable economically to support such a service, but where a service is required for social or strategic reasons.

5.c UK - OECS Bilateral Air Service Agreements

The other primary set of international agreements affecting intra-OECS aviation market access involves the agreements between individual OECS States and the United Kingdom (UK), with the significance of these arrangements deriving from the constitutional relationship between the UK and its territories in the OECS[11].
To date the UK has concluded bilateral agreements with Antigua and Barbuda, Grenada, Saint Lucia, and St Kitts and Nevis. These agreements incorporate several provisions of the liberalized ICAO template document. This includes an acceptance of the community of interest principle which allows CARICOM countries to designate airlines from another CARICOM country to operate services on its UK routes, and conversely for similar arrangements for European Community airlines to be designated by the UK on its CARICOM routes.

In the case of the agreement between Antigua and Barbuda and the UK, Antigua and Barbuda registered airlines are allowed to operate fifth freedom air services throughout the OECS including Anguilla, BVI and Montserrat as well as to exercise cabotage rights between those territories. This provision is not included in the UK's bilateral agreements with Grenada, St Kitts and Nevis, or Saint Lucia where the agreement provides that "No traffic may be picked up at an intermediate point to be set down in the territory of the United Kingdom, nor picked up in the territory of the United Kingdom to be set down at a point beyond, and vice versa, except as may from time to time be jointly determined by the aeronautical authorities of the Contracting Parties. This restriction also applies to all forms of stop-over traffic".

While the agreements between the UK and the OECS countries, with the exception of Antigua and Barbuda, contain restrictions on fifth freedom traffic into their respective territories, the grant of historic or grandfather rights[12] means that UK and OECS carriers which have historically enjoyed traffic rights within the OECS would retain such rights.

For Dominica and St Vincent and The Grenadines, which do not currently have bilateral air service agreements with the UK, any market access for their carriers into OECS UK territories will be determined by general rules of international civil aviation law. Such legal arrangements can generally be expected to be conservative in their scope and particularly to restrain liberalized fifth freedom type arrangements between those countries and the OECS UK territories except on the basis of reciprocity and comity.

However, it is important to recognize here that notwithstanding legal and bureaucratic obstacles, that government policy in all of the OECS territories is supportive of increased airlift into these territories, and favorable consideration is generally provided to applications for air services from the OECS and elsewhere, where technical considerations are satisfied.

[11]Information as to the terms of membership for the accession of Martinique as an Associate Member of the OECS on 5th February 2015 was not available at the time of preparing this report.
[12] A general principle of international air service agreements is that they seek, at minimum, to retain and not diminish existing market access regimes.

Based on the framework established by the Revised Treaty of Basseterre, the need, however, exists for a harmonized approach within the OECS to its air access arrangements with the UK and including, where mandated by the Revised Treaty, to seek to establish a regime allowing for access by carriers from independent OECS countries to enjoy liberalized market access into OECS UK territories.

5.d OECS – France air services arrangements

Arrangements relating to market access and other elements of civil aviation between OECS States and territories and France are governed by two different sets of arrangements.

In the case of the independent OECS members it does not appear that bilateral agreements have been negotiated between OECS countries and France. In that context, the formal arrangements between independent OECS States and France are embodied in the pre-independence agreements between the UK and France, succeeded to by the OECS States following their independence, as well as by the general rules of international civil aviation law.

Such arrangements are perhaps necessarily conservative in their scope in relation to issues of commercial rights and market access particularly fifth freedom traffic rights: rights which are essential for operating commercially viable services between the OECS and Martinique and Guadeloupe. The need exists therefore to negotiate an air service agreement with France that reflects developments in civil aviation as well as in the OECS and EU economic integration systems.

In the case of the OECS UK overseas territories, their civil aviation relations with France are governed by the rules established within the EU single market and civil aviation regimes. This means that there is full market access for French (and other EU) registered airlines wishing to operate into the OECS UK territories and *vice versa*.

In terms of actual arrangements on the ground, discussions with civil aviation officials from Dominica and Saint Lucia indicate that arrangements between themselves and French aviation authorities establish a *de facto* liberalized framework for market access between these countries. Similar arrangements, based on principles of comity and reciprocity, also appear to exist for charter and air taxis for airlines registered in St Vincent and The Grenadines operating into French territory. Discussions with OECS authorities suggests that there would appear to be a historic policy tending towards liberal access between French and OECS civil aviation authorities with this reflecting a common desire on the part of both parties to advance tourism development.

The need now exists as envisaged under the Annex to the Revised Treaty of Basseterre to formalize the arrangements governing air transport between the OECS and France through either a multilateral OECS treaty with France or through a series of harmonized bilateral agreements based on joint negotiations.

5.d CONCLUSION

The review of bilateral and multilateral arrangements governing intra-OECS market access establishes that OECS States are not presently under a legal obligation to provide such access for airlines from other OECS jurisdictions except in most cases for airlines from the UK ASSI territories. This represents a departure from the spirit of the Revised Treaty of Basseterre which seeks to establish a single Economic Union Area air space.

The following section identifies an Action Plan for addressing the legal and regulatory provisions adversely affecting market access for OECS airlines within the OECS integration area.

6. ACTION PLAN FOR ADRESSING LEGAL AND REGULATORY BARRIERS TO MARKET ACCESS

The removal of legal and regulatory barriers to a single OECS aviation market will require action at national and regional levels.

Four separate but interrelated initiatives are proposed for adapting the civil aviation legal framework within the OECS to enable implementation of the single market/single air space as identified in the Revised Treaty of Basseterre. These are an amendment to the mandate of the national ATLB/ATLAs to incorporate single market/single air space considerations for OECS carriers; the preparation and subsequent adoption of an OECS single air space agreement; an OECS-UK air services agreement or an amendment to current OECS – UK air service agreements; and an OECS –France air services agreement.

A proposed set of actions for moving forward on the initiatives is presented below.

6.a Amendment to mandate of the ATLB/ATLAs to incorporate single market/air space considerations for OECS carriers.

The Air Transport Licensing Boards/Air Transport Licensing Authorities have responsibility for determining market access based on technical and commercial/economic considerations. Existing legal requirements do not include single air space/single market arrangements and an amendment is necessary to ensure that the provisions of the Revised Treaty of Basseterre are a part of the legal framework.

The following broad action items are proposed:

- Preparation of draft technical amendment.
- Drafting and circulation of the proposed amendment.
- Convening of a half-day OECS teleconference of Legal and Civil Aviation officials to review and finalize the draft.
- Circulation of agreed draft amendment to OECS States. Possible adoption at OECS Assembly.
- Adoption by OECS member States.
- Press releases throughout the process informing of progress in the initiative.

6.b OECS AIR SERVICES AGREEMENT

The importance of freedom of civil aviation within the OECS regional integration arrangements requires that there be an agreed legal framework governing such arrangements and giving effect to the single air space/single market arrangements. Guidance documentation for developing the agreement would include work by ICAO and should be aimed at producing a focused instrument establishing the legal framework for civil aviation among OECS member States and between the OECS single air space and other countries.

The following broad action items are proposed:

- Preparation of a draft OECS air services agreement document.
- Circulation of the draft to OECS civil aviation and legal affairs officials for their review.
- Regional one day consultation to discuss and finalize the agreement.
- Submission to OECS Commission and OECS Authority for agreement and enactment into national legislation.

6.c OECS MULTILATERAL AIR SERVICES AGREEMENT WITH THE UK

Four of the six independent States of the OECS have signed bilateral air services agreements with the UK. In most instances the air transport agreements between the OECS and the UK do not allow for fifth freedom and other elements of an air transport policy reflecting a single OECS air space.

The possibility therefore exists for a completely new OECS – UK multilateral air services agreement or an amendment to existing OECS-UK bilateral agreements to allow for incorporation of single air space modalities within the agreements.

The following broad actions are proposed:

- Preparation of a draft OECS-UK air services agreement.
- Circulation to and review by OECS civil aviation and legal officials.
- One day regional consultation to finalize draft agreement.

- Submission of draft agreement to OECS Authority for endorsement
- Initiation of diplomatic contact with the UK for negotiation/renegotiation of air service agreement.

6.d OECS MULTILATERAL AIR SERVICES AGREEMENT WITH FRANCE

The need for an air service agreement between the OECS and France is particularly critical given the level of technical cooperation in civil aviation and the lack of any formal agreement at this stage. The associate membership of Martinique within the OECS signals a clear intention of authorities in that territory to further integration with the OECS.

The first step for formalizing liberalized air transport between France and the OECS will be negotiations with a view to arriving at an air services agreement between the OECS and France.

The following broad actions are proposed:

- Preparation of a draft OECS-France air services agreement.
- Circulation to and review by OECS civil aviation and legal officials.
- One day regional consultation to finalize draft agreement.
- Submission of draft agreement to OECS Authority for endorsement
- Initiation of diplomatic contact with France for negotiation of air service agreement.

6.e CONCLUSION

The negotiation and implementation of these agreements is intended to provide a liberalized aviation market within the OECS to the fullest extent possible.

In the case of the independent OECS States, and which are all members of ECCAA, this means the removal of all commercial obstacles to air services by OECS airlines within the single economic and air space, as well as liberalized access for airlines from French and UK Associate Members of the OECS.

In the case of the UK and French territories which are Associate Members of the OECS the aim should be the removal to the fullest extent possible of commercial restrictions on the operation of OECS registered airlines within their territories.

7. LEGAL AND REGULATORY ARRANGEMENTS FOR CERTIFICATION OF AIRLINE OPERATIONS

Regulatory arrangements for certification of airline operations in the OECS are established within the various harmonized civil aviation laws and regulations. These are based on standards and requirements established by ICAO as an essential component of the global air safety systems. Some degree of harmonization exists among CARICOM countries through the CASSOS arrangements.

Some concerns have been expressed that existing arrangements within the ECCAA States are unduly protracted and costly, with the overall effect being to restrict entry of airline operators

into the market and therefore constituting a *de facto* barrier to market entry. It is however essential to point out that this is not a universally held view.

Regulatory requirements for airline operators in the ECCAA are outlined in an online document, OAC-001 "Certificate of an Air Operator"[13], on the ECCAA website which provides detailed guidance on a five-step process to be undertaken by prospective airline operators. The document clearly and methodically sets out the requirements which the applicant will be expected to satisfy and the successful culmination of the process is the issue, by ECCAA, of an Air Operators Certificate (AOC), an essential requirement for operation of a commercial air service.

The process for attaining the AOC is a necessarily extensive one requiring detailed technical preparation and review processes by applicant and regulator so as to ensure that regulatory requirements are satisfied based on internationally accepted standards of civil aviation safety. The process is also a costly one for operators as it requires certain uniform staffing requirements during the certification process.

There is no doubt that the certification and licensing process is a costly one and one which is likely to present financing challenges to "small" operators. It is however difficult to see how many of these costs can be avoided if the rigorous requirements for ensuring the continuing high standards of aviation safety in the region are to be maintained. The ECCAA guidance material provides clear, accessible and explicit indication of the technical processes involved and allows applicants the opportunity for as much advance preparations as possible.

The issue of promoting an enabling environment for *bona fide* prospective operators is particularly important given the need for smaller, third tier aircraft to serve thinner OECS markets particularly in the Leeward Islands. At the same time it is critical that OECS States maintain the required standards of international civil aviation regulation.

It is recommended that the OECS Commission, along with ECCAA, engage select regional and international development partners on the possibility of establishing a Special Fund intended to assist *bona fide* start-up airline applicants through the five-step ECCAA certification process. In addition to supporting the ECCAA certification process, the initiative should also be directed to strengthening, where necessary, basic management capacities in the applicant airlines.

The aim of the initiative would be to facilitate the growth of a competitive and efficient private sector small airline sector in the sub-region, able to support feeder and other traffic within the region while maintaining a strong regulatory framework.

[13] See "http://www.eccaa.aero/images/stories/docs/acs/ops/OAC%20001%20-%20Certification%20of%20an%20Air%20Operator.pdf ".

8. CONCLUSION

The legal and regulatory framework for civil aviation in the OECS is founded on the provisions established by the 1945 Chicago Convention and the corresponding ICAO standards and recommended practices.

Reflecting the prevailing situation at that time, the Chicago Convention is based on the principles of national sovereignty while also laying the foundation for a global system of aviation safety and operations. Developments in regional integration and cooperation such as the OECS present opportunities for furthering harmonization of international aviation.

Within the OECS, arrangements for the technical regulation of civil aviation have achieved a high level of integration and harmonization through the ECCAA and UK civil aviation mechanisms.

Less progress has however been made in responding to the requirements for addressing commercial obligations arising out of the single market established under the Revised Treaty of Basseterre. Consequently no provisions exist, at the level of national regulations or bilateral and multilateral agreements, to give effect to the need for removal of any sort of restrictions on air services within the OECS. In the case of the non-independent OECS territories, existing regulatory provisions do not require special treatment for ECCAA based airlines.

While there are formal legal barriers to the grant of air service rights within the OECS, it is important to recognize that public policy interest in tourism development means that all OECS countries pursue liberalized air service policies which means that *bona fide* applications for air services within the region generally receive support from national authorities.

Nevertheless it is important that arrangements reflecting the provisions and spirit of the Revised Treaty of Basseterre are encompassed into national law and an action plan for achieving the removal of these barriers has been provided above. OECS States through ECCAA and the OECS Commission should also review the existing arrangements for certification of air operators within the OECS with a view to seeing in what way support can be provided to potential OECS start-up operators during the certification process as a practical means of promoting an indigenous OECS small airline sector able to provide additional airlift capacity within the region while meeting the required standards of international civil aviation.

PERSONS CONSULTED

1. Mr. Peter Abraham, Security Oversight Officer, Ministry of Civil Aviation, Antigua and Barbuda
2. Mr. Cosmore Barnes, Security Quality Control Officer, Ministry of Civil Aviation, Antigua and Barbuda
3. Mr. Nigel Harris, Managing Director, FLY Montserrat Ltd, Montserrat
4. Mr Benoit Bardouille, General Manager, Dominica Air and Sea Ports Authority, Commonwealth of Dominica
5. Mr Kurt Menal, Civil Aviation Officer (Safety and Security) Ministry of Civil Aviation, Saint Lucia
6. Mr Neil Dickenson, Managing Director, Caribbean Helicopters Ltd
7. Mr Denzil Jones, Airport Manager, Montserrat
8. Captain Osmond Lake – Ret. Aircraft Captain, LIAT
9. Captain George Arthurton – Fmr. Director Flight Operations, LIAT
10. Mr. Donald McPhail, Director-General, Eastern Caribbean Civil Aviation Authority, Antigua.