

Want to Keep Tourists Away? Keep Flying Solo

A Lesson from Small Caribbean States

Cecilia Briceño-Garmendia, Heinrich Bofinger, Diana Cubas, and Maria Florencia Millán-Placci

The island states of the eastern Caribbean are wastefully competing with each other for the lucrative, yet stagnant, stay-over tourist trade by “flying solo”: separately building long-haul airports and agreeing to expensive bilateral subsidy deals with airlines.¹ Instead, they could vastly increase their tourist revenue and lower their costs through collaboration to remove barriers to inter-island travel. The linchpin of such joint efforts would be a hub-and-spoke airline system that funnels stay-over tourists to the edge of the region and then allows them to easily fly to their final destination.

\$150 MILLION

Estimated additional tourism revenue per year for the eastern Caribbean region as a whole, given a shift of just 10% of cruise-ship visitors to an average on-shore stay.

Cruise Ships vs. Stay-Over Tourists

The overall contribution of tourism to the eastern Caribbean economies ranges from about 22% in Grenada to 65% in Antigua and Barbuda. However, more than two-thirds of the tourists in the region are cruise-ship passengers, whose on-shore spending may be as little as one-tenth the consumption of stay-over visitors (those who use on-shore lodging and typically arrive by air). The region’s relatively untapped stay-over market is a potentially huge economic opportunity waiting to be grabbed.

one of the larger Caribbean destinations, including the Dominican Republic, Puerto Rico, Cuba, and Jamaica. Without a strong inter-island air service in the eastern Caribbean, international arrivals to individual OECS states are not likely to generate much of the potential boost in stay-overs that is available. Hence, for each OECS country to build its own international airport to capture the stay-over market is inefficient and mutually destructive. Yet that is the current trend.

Coordinated Local Air Transport Is Key

Air transport is the critical pipeline for hotel arrivals in the eastern Caribbean and generally for other small, “sea locked” economies. But no single OECS country is as strong a draw for stay-over tourists as

The region is far better suited to a hub-and-spoke system in which international arrivals could be concentrated in a couple of hubs outside the edges of the region (say, in Jamaica on the north and Barbados or Trinidad on the south). From there, a network of regional airlines whose schedules are coordinated with international arrivals would distribute the tourists to their final destinations throughout the region.

¹ The countries covered here are members of the Organisation of Eastern Caribbean States (OECS): Antigua and Barbuda; Commonwealth of Dominica; Grenada; Montserrat; St. Kitts and Nevis; St. Lucia; and St. Vincent and the Grenadines. For technical reasons, the data here exclude Montserrat.

However, no such local airline network exists. The inter-island system consists essentially of one carrier, LIAT, which is plagued by low revenues, frequent equipment problems, and both thin and unreliable schedules. For example, flying to St. Kitts from any other OECS country can take 4–9 hours, or even overnight travel, and up to two connections. Hence, the binding constraint on efficiently boosting stay-over tourism in the region is the lack of an extensive local spoke system that integrates frequent inter-island flights with international arrivals at regional hubs.

Heading Down the Wrong Runway

The lack of good local air service is driving each country in the region to fight on its own for a greater share of the stay-over market.

OECS states are currently served by two international air hubs: Antigua in the north and Barbados, just outside the southern edge of the region. Trinidad also serves as a connection point. However, three other OECS countries under review—Grenada, St. Kitts and Nevis, and St. Lucia—also handle wide-body aircraft. Hence each relies on direct or semi-direct long-distance flights in the absence of an adequate inter-island connectivity system anchored in two hubs. Unfortunately, both Grenada and St. Lucia have considerable excess capacity in their air terminals (with utilization rates below 50 percent), significantly raising their overheads.

Other OECS countries are starting to follow this model, likewise locking themselves into excess-capacity infrastructure investments to bypass a dysfunctional inter-island air system. St. Vincent is building a new airport with an annual capacity of 1.4 million passengers, yet it had less than 150,000 passengers in 2013. Dominica is considering options for a new airport or extending its main runway into the ocean.

The overbuilding helps drive each OECS country to secure for itself a minimum flow of tourists. Bilateral agreements with international airlines, includ-

ing subsidies that guarantee the airlines a minimum amount of traffic, have become a common practice.

In 2012, the net fiscal effect of these agreements for OECS states ranged up to 0.2% of GDP, or up to 1% of tax revenues and up to 0.3% of public debt. These payments are ultimately an indirect government subsidy to the hotel industry that captures the stay-over visitors. If the region instead developed a more efficient and coordinated air travel system, the need for such subsidies could be reduced and the funds redirected.

Getting Cleared for Takeoff

An efficient hub-and-spoke system would

- Better attract stay-over tourists to the region by pooling arrivals from long-haul flights into local loads that would make the inter-island transport system more sustainable; and
- Allow the OECS countries to negotiate with airlines as one block from a position of greater market strength.

The benefits could spill beyond the tourist industry by allowing a better matching of supply with demand during the low tourist season, when inter-island business and government travel drive the demand.

With a robust hub-and-spoke air service in place—along with other regional moves to create a seamless inter-island travel experience, including the build-up of ferry services, smoothing luggage transfers, and easing customs and immigration procedures—each OECS country can anticipate rising tourist revenues that will drive and support other tourist infrastructure improvements.

In sum, the best way for OECS countries to capture more of the highly valuable stay-over tourist market is to stop competing with one another and instead cooperate in overcoming the small size of their economies and their isolation. It is time for OECS countries to stop flying solo.

► For more information on this topic:
<https://openknowledge.worldbank.org/handle/10986/20080>

Connections is a series of concise knowledge notes from the World Bank Group's Transport and, Information and Communication Technology (ICT) Global Practice. The series is available on the internal and external online platform of the World Bank Group. *Connections* discusses projects, experiences, and front-line developments in Transport and ICT. The series is produced by Nancy Vandycke, Shokraneh Minovi, Adam Diehl, peer-reviewed by experts of the Practice on a bi-weekly basis, and edited by Gregg Forte. For more information on *Connections*, and to read other notes in the series, please visit: <http://www.worldbank.org/transport/connections>