



TOURISM EXECUTIVE BRIEF

Issue One 2010 – Part 2

CARIBBEAN TOURISM ORGANIZATION (www.onecaribbean.org)

A LOOK AHEAD FROM THE THRESHOLD OF A NEW DECADE

1. HAITI – CAN IT RISE FROM THE ASHES ?

At this time of agony and despair for the people of Haiti, no person writing on Caribbean affairs, no matter the normal context, can fail to be profoundly moved or to ignore the stark reality of Haiti's latest catastrophe and its equally grim aftermath. And so it is for the author of this newsletter who has had a long-lasting business and personal relationship with Haiti going back over 40 years to the presidency of the first Duvalier.

Inevitably, many friendships were forged among Haiti's warm and multi-faceted people in many walks of life and social strata including artists and musicians, hoteliers and airline staff, doctors and clergy, government officials in trade and tourism and an unforgettable lady of Jamaican extraction who dedicated her life to rescuing and looking after young girls from the street. Not knowing the fate of so many of them only adds to the anguish but the lessons of these hardy people who have gone through so much can teach us a lot about resilience in times of trouble, maintaining a special *joie de vivre* through the worst hardships, and the ability to keep up expectations for better days ahead.

It is this inner strength that will prevail with properly focused long-term international aid that prompts optimism that out of the rubble of Port-au-Prince, Jacmel and Haiti's other beleaguered communities will come new life, founded in the belief that natural disasters can be the eventual architects of progress as has proven out in other places and in other times where population centers have suffered similar large-scale destruction and loss of life.

In this regard, we took note of a post-earthquake article in the Wall Street Journal by Smith College professor, Kevin Rosario, in which he chronicles various historical disasters that turned out to be engines of development and economic growth for cities ravaged by earthquake and fire. Prominent among them were the massive shocks that destroyed Lisbon in 1765, San Francisco in 1906, Tokyo in 1923, Tangshan in 1976 and the Great Fire of Chicago in 1871. In all these cases, Professor Rosario says "catastrophes presented extraordinary opportunities to make improvements with the right intervention." He goes on to say "these disasters demanded a response that was often impossible to muster in ordinary times."

We recognize, of course, that all the examples cited occurred in much larger and better equipped communities where hordes of speculators rushed to invest in rebuilding and investment opportunities, other than in Tangshan where the Chinese government built a model city out of the ruins. However, this earthquake struck an already impoverished nation with few remaining natural resources and virtually non-existent response mechanisms to cope with disaster on an unimaginable scale. Although money and aid are pouring in from all sides, there are signs that the "floodwaters of compassion will be ebbing soon" in the words of a New York Times lead editorial three weeks after the event. There is a huge difference between the needs and direction of emergency relief programs and the long-term requirements for sustainable development.

It is not within our provenance here to propose solutions but basic needs are obvious to anyone with knowledge of the country and many past international aid efforts diminished by the strings attached. The potential of Haiti to eventually become self-sufficient is real with its low labor costs, strong work ethic and

highly-trainable people for many more light manufacturing plants, renewable agricultural projects and of course, tourism. All depend on the development of a proper infrastructure including power, transportation and social services that was so desperately needed even before the earthquake. It is an awesome task but there are encouraging signs that major donor nations are serious about sponsoring a properly designed 10-year recovery plan in which the first steps are to be hammered out in an upcoming March meeting. The undying strength and optimism of the Haitian people can be counted on to do the rest.

2. ECONOMIC OUTLOOK

In part one of our annual forecast issue, we spoke of a seeming end to “the most volatile period in stock market history” as world markets came roaring back in the last quarter of 2009 and into early January. Only weeks later, it seems that was overly optimistic as yet another rout in stock markets spread rapidly from Europe to Wall Street and on to Asia. Fears of a meltdown in a number of euro-zone economies have been the primary contributing factor. The mountain of debt faced by Greece, Portugal, Spain and Ireland has put downward pressure on the euro which had fallen to an eight-month low against the dollar at the time of writing and even created concern about the future of the common currency if defaults occur. There has been some good news of late from our major markets, particularly in North America, in spite of continued high unemployment, so what are we to make of this mass of conflicting data. Will the recession, technically behind us, follow the V-shaped pattern of most post-war deep recessions and climb back up as rapidly as the descent, or will the bounce-back be more gradual this time. We tend towards the latter outlook, as the weak job market is likely to keep a cap on broad-based consumer spending in North America and Europe for discretionary purchases including travel for some time to come.

Although making predictions in this environment is more than unusually foolhardy, we offer some suggestions on how the year may unfold in markets of special interest:

USA

The US economy is likely to rebound more rapidly than Europe’s. Retail sales and consumer confidence improved moderately in January. Consumers’ short term outlook also improved and the general trend was up for the third consecutive month. Fourth quarter GDP results came in at a stunning plus 5.7%, the biggest quarterly increase in six years. While that giddy pace is not sustainable, it sets a positive tone for the full year ahead. Much will depend on whether the log jam in Washington that resulted from the Republicans’ unexpected victory in Massachusetts can be broken to permit the passage of a budget with further stimulus programs. The current stimulus package will run out of funds by midyear only months before the midterm elections in November. Unemployment remains the dark shadow over the economy and there are few signs that companies are starting to rehire within their full time work force.

Fortunately, those who feel secure in their jobs or comfortably retired are gingerly starting to spend again although mostly still with an eye open for bargains throughout the price spectrum.

Canada

The Canadian economy mirrors the US in many ways, as there is considerable interdependence between the two nations. The IMF has revised its GDP forecast upwards for 2010 after Canada had a banner fourth quarter akin to the US. Consumer confidence hit a two-year high in January and retail sales, including travel, are trending upwards. While unemployment at more than 8% remains an issue, there have been some gains in both full time and part time jobs, especially in Ontario, the Caribbean’s main market source from Canada. Overall, we stick by our last projection that Canadian visitors to the region will show a healthy increase in 2010.

The United Kingdom

In late January, the longest recession in British history was officially declared at an end. Britain was the last of the major developed nations to stagger out of recession and it was hardly the occasion for great jubilation as the increase in fourth quarter GDP was minimal and enormous problems remain. One noted economist in Britain put it well saying, "Never has an end to a recession been so underwhelming!"

The return to economic growth was spurred by the temporary cut in taxation (VAT) on goods and services as part of the government's stimulus program last year. It gave a major boost to retail sales over the holidays as consumers rushed to buy before the moratorium ended on December 31st. The Centre for Economics and Business Research said the increase in VAT back to 17.5% on January 1 is likely to stifle the fledgling recovery. After years of buy-now-pay-later spending sprees, Britons are struggling with the heaviest individual debt burden among the G-7 nations and recovery is going to be a long road ahead.

The outlook for Britain is further clouded by the uncertain outcome of the national election this spring, which could leave the nation with its first hung parliament since 1974. The prospect of political deadlock in a possible coalition or minority-led government would make it doubly difficult to enact any significant reforms to fix the record budget deficit expected at the end of the fiscal year in April.

Sterling has come under increasing pressure of late; already historically weak against the Euro, it has fallen around 8% against the dollar since its high point of \$1.70 last summer. This sharp drop in the purchasing power of the pound overseas, when added to the already onerous UK exit tax burden, will certainly be damaging for vacation travel to the Caribbean region. However, we put our predictions into two very distinct categories: First, the mass market appetite for long haul travel to warm weather, low cost destinations which has seemed insatiable for many years will be the most affected as those consumers are likely to stay closer to home this year, while the high end market for luxury resort seems undiminished based on the empirical evidence for visitor origins available from some of the top hotels in the Caribbean so far this winter season.

3. THE OUTLOOK FOR OIL PRICES AND ALTERNATIVE ENERGY

Crude oil prices rose by 78% last year and closed at \$79.36 a barrel, within the price range that the Saudi Oil Minister and most other OPEC officials deem "excellent." OPEC predictions call for prices to hold in the \$70-\$80 range for 2010 while some analysts have higher forecasts.

In the meantime, a broad selloff in commodity prices on fears about the pace of recovery and a pricing link to dollar-denominated commodities led by oil has occurred. At one point, prices fell below the \$70 per barrel mark before March futures settled at \$71.19. We expect the volatility to continue with markets still in flux and uncertainty about potential new conflict in the Middle East high in investors' minds.

As for the longer term future, we see a bigger question taking center stage: Is the age of fossil-fuel-based energy coming to an end? Not solely because of the exhaustion of natural resources, which is inevitable, but through the emergence of a huge new range of global initiatives towards alternative energy development in a surprising mix of old and new technologies. The rapidly rising costs of crude oil and gas extraction from deep water drilling and shale as more accessible fields go dry is only part of the story as world attention turns to global warming and protection of the environment, even in a country like China which has the odd distinction of being, at the same time, one of the biggest polluters on the planet and a world leader in clean energy technology. We intend to go into some detail on these developments in Brazil, China, Europe, and, though lagging behind, in the US, in the next edition of the Brief as their importance to all of us can hardly be over-emphasized.

4. THE OUTLOOK FOR THE AIRLINE INDUSTRY

2009 turned out to be the worst year in airline history in terms of reduced global demand according to IATA's statistics, but will the new year be any better? That's the big question, particularly for those carriers serving the region from key markets.

The plain fact is that the industry has permanently lost the equivalent of 2½ years of growth in passenger traffic in one short year and recouping will be a formidable task requiring exceptional control of capacity to meet demand while continuing spartan cost-cutting measures.

We anticipate that the worst is over, barring new disasters outside of industry control, or another big spike in energy costs, but unresolved labor negotiations beset at least two of the largest carriers of passengers and freight to the region adding further to uncertainty.

American Airlines (AA)

AA posted a fourth quarter loss of \$344 million to finish 2009 with a net loss totaling \$1.5 billion, down from the loss of \$2.1 billion a year earlier. However, the company's top executives gave a more upbeat summary citing increased demand over the past two months and a continuing growth in ancillary revenues from checked baggage charges, on board food purchases and the like. AA also plans to continue its focus on international routes with a planned capacity increase of 3.2% in 2010 while domestic routes are cut back further.

Last year AA bolstered its cash position to \$4.9 billion through a series of innovative new financing maneuvers that included the sale of \$1 billion worth of its frequent flyer miles to its credit card partner CitiBank and selling off aircraft currently owned or on firm order to GE Capital Aviation Services who will lease the equipment back to AA. While these moves have solved any immediate problems of liquidity, it seems obvious that losses of the proportions suffered by AA over the last two years are not sustainable indefinitely.

AA also faces possible work actions from members of three of its unions that are simultaneously in mediation. They are the Allied Pilots Association, the TWU and the Association of Professional Flight Attendants who are arguably the most likely to take a strike poll if the latest round of negotiations set for late February fails to reach a settlement.

On other matters of key interest to AA this year involving international partnerships, the pending alliance program with British Airways and Iberia is still seeking antitrust immunity from the US DOT and the European Commission. The principal partners, AA and BA, remain optimistic for a favorable outcome without making crippling concessions.

Over in the Pacific, a stunning reversal of an apparent policy decision is happening in Japan. The Japanese government had apparently determined in favor of Delta in competing investment offers from Delta and AMR Corp. for a stake in Japan Airlines, which would have dumped its partnership role in the One World Alliance. JAL has now announced that it will remain with AA and One World after all. This is great news for AA and victory comes without its promised \$1.4 billion equity offer as Japanese authorities say they don't plan to accept outside financing for JAL.

British Airways (BA)

The present situation at BA presents a near-parallel picture to that of its partner AA: huge losses for full year 2009, austerity measures causing strike threats, amid signs that the iconic airline is starting to turn the corner,

which is critical for the region as it has scheduled extra seats and frequencies to a number of Caribbean countries for the coming summer season.

A big cost-cutting campaign has helped BA record its first quarterly profit in over a year as it managed to struggle back into the black in the final quarter of 2009. Although the operating profit (£25 million) was modest, it greatly exceeded analysts' predictions who had forecast an operating loss as high as £100 million for the period and BA's top executives have cooled their imminent disaster rhetoric of last summer.

The continuing strike threat from Unite representing BA's 12,000 flight attendants is an issue affecting consumer confidence in the airline when making future travel plans. According to one British site which monitors travel shopping comparisons, BA has seen a 12% reduction in passengers choosing its services since the latest strike ballot was announced by Unite. Threats of job action are also holding up the planned merger with Iberia since the deal with the Spanish carrier is contingent on solving the current £3.7 billion deficit in BA's employee pension plan.

Reason must surely prevail and the good relations restored between labor and management that until recently made BA one of the world's leading standard bearers for quality service:

Continental

Continental Airlines has deservedly earned a reputation for smart management that has steered it successfully through the worst of the recession and high fuel costs. The airline recorded a surprise \$85 million net profit in the fourth quarter 2009 compared to a loss of \$269 million a year earlier.

January results were also encouraging including some improvement in revenue per available season RASM. Continental has a new CEO, Jeff Smisek, but he is unlikely to be the author of drastic change as he occupied the number two spot under Larry Kellner for the past five years and retains the current core of seasoned executives. Like the other major US carriers, Smisek will continue Continental's expansion of international routes.

We may well see a resumption of merger talks between Continental and United which stalled in 2008 due to surging fuel costs and dwindling cash reserves that affected both carriers at the time. However, Smisek and United's Glen Tilton still believe that further consolidation in the industry is both desirable and inevitable.

US Airways

CEO, Doug Parker, is another strong advocate for industry consolidation and while his struggling airline appears to have weathered the cash crunch that threatened the carrier's survival last year, Parker believes that US Airways and other US airlines are still vulnerable to future shocks and he is looking once again for a viable merger partner. In a recent interview with Reuters, Parker said "while it's (merger) not required for us, I believe the right transaction would be extremely positive." He thinks that the US industry can ill afford the current five hub-and-spoke major airlines still operating independently and that the most important consolidation should start within that group. He may well be right and the recent easing of regulatory agencies in the US, Europe and Japan towards merger restrictions will make it easier to gain approval for any new applications.

In the meantime, improving demand for US Airways' seats and services should make their industry partners, including tour operators and some Caribbean tourism boards, breathe a little easier for now.

Delta Airlines

The final chapter in the long drawn out integration of Northwest into Delta was finally written on New Year's Eve when the Federal Aviation Administration gave Delta the green light and Northwest will finally disappear as a separate carrier by this spring. Delta became the world's largest carrier in October 2008 but only now can it fly under a single operating certificate.

Some analysts are already asking the question how big is too big and those concerns will no doubt be heightened over the reversal in the Japan Airlines partnership case because of fears that that alliance could not pass anti-trust regulations in the US. Nevertheless, Delta says it has already gained \$700 million in benefits from the NWA merger and annual revenues and cost savings should top \$2 billion within a few years. Delta already has the strongest cash position in the US airline industry and is expected to be profitable in 2010. Cuts in their international capacity made last September and projections for system capacity this year that are 10% lower than in 2008, despite the acquisition of Northwest, are not affecting Delta's Caribbean routes.

Air Jamaica/Caribbean Airlines

For those of us who have been around the industry in the Caribbean for a while, it seems that the wheel will have come full circle if the merger between the two most important regionally-based carriers is finalized, as now seems likely. For it was BWIA, now Caribbean Airlines, who played the key role in the development of Air Jamaica, as we recall that its first management team, under the direction of Walter Girling, were all originally BWIA staff from Jamaica and Trinidad.

A properly structured Caribbean Airlines arising from a successful merger would be a major step towards fulfillment of the long dream of a true regional airline and discussions between Caribbean Airlines and LIAT could result in adding further spokes to the wheel.

Of course, there are many thorny issues yet to be resolved, some of which were raised recently by our old friend and expert on the subject, Ian Bertrand. Ian reminds us that the current open skies agreement between the US and Jamaica requires that any Jamaica carrier benefitting must be substantially owned and controlled by a Jamaica entity and presumably, while the Jamaican government would probably maintain a minority interest in Caribbean Airlines, a renegotiation of the agreement may be required. In any event, it seems to us that the US would have nothing to gain by delaying any such approval deemed necessary. More difficult may be disagreement over the maintenance of certain routes important to Jamaica's tourism interests, but lacking in higher yield ethnic traffic. This problem has in great part contributed to Air Jamaica's big losses over the years and has no easy resolution.

In Summary, we hope that the Caribbean as a region will embrace these developments and support any future expansion that helps to guarantee a stronger, more secure regional airline presence.

5. THE OUTLOOK FOR THE CRUISE INDUSTRY

2009 was little different in its negative impact on cruise business than for the rest of the tourism industry. A huge contraction in consumer confidence and spending caused unprecedented levels of discounting by virtually every cruise line, regardless of size and category, to keep up the 100% capacity utilization that most of them demand.

While deals and discounting are still continuing during this winter season, yields are gradually improving especially with increased demand for some of the newer ships entering service.

Overall, we believe that 2010 will be a good year for the cruise industry with net profit going up and strong sales growth in several markets including Canada and the UK. We note with interest that the burgeoning leisure travel markets in developing markets like the BRIC nations is catching the attention of these canny marketers who run the big cruise lines and we can expect more penetration in the near future.

Cruise giant, Carnival, says it is considering moves towards India for its P & O brand and it is already taking a hard look at Russia, China and Brazil.

Eleven new ships with more than 27,000 new berths are coming on line in 2010. They range in size from 110-passenger capacity to RCCL's second Oasis class ship, the 5,400-passenger Allure of the Seas. All of these vessels were ordered well before the global economy tanked and several of them will be deployed outside of US ports.

In the next issue, we will deal with the new technology of communications, alternative energy developments, hotels, tour operator and an update on US/Cuba relations.

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| TOURIST (STOP-OVER) ARRIVALS AND CRUISE PASSENGER VISITS IN 2009 | | | | | | |
|--|------------------|-----------|------------------|-------------------------|-------------------|------------------|
| Destination | Tourist Arrivals | | | Cruise Passenger Visits | | |
| | Period | Tourists | % Change 2009/08 | Period | Cruise Passengers | % Change 2009/08 |
| Anguilla | Jan-Jun | 30,716 | -22.6 | - | - | - |
| Antigua & Barbuda * | Jan-Nov | 211,107 | -12.7 | Jan-Oct | 539,924 | 26.4 |
| Aruba ^P | Jan-Nov | 736,718 | -1.5 | Jan-Oct | 441,288 | 9.3 |
| Bahamas | Jan-Oct | 1,116,195 | -11.4 | Jan-Oct | 2,602,321 | 14.9 |
| Barbados ^P | Jan-Dec | 518,564 | -8.7 | Jan-Dec | 635,746 | 6.4 |
| Belize | Jan-Oct | 192,155 | -6.0 | Jan-Dec | 705,219 | 18.1 |
| Bermuda | Jan-Sep | 187,024 | -12.5 | Jan-Sep | 266,381 | 8.1 |
| Bonaire | Jan-Sep | 49,316 | -12.7 | Jan-Sep | 148,058 | 54.8 |
| British Virgin Is. | Jan-Jul | 205,914 | -17.0 | Jan-Jul | 355,065 | -10.8 |
| Cancun (Mexico) ** | Jan-Sep | 1,434,416 | -15.6 | - | - | - |
| Cayman Islands | Jan-Dec | 271,958 | -10.2 | Jan-Dec | 1,520,372 | -2.1 |
| Cozumel (Mexico) | - | - | - | Jan-Jul | 1,269,121 | -21.0 |
| Cuba | Jan-Sep | 1,856,774 | 3.3 | - | - | - |
| Curacao ^P | Jan-Oct | 300,484 | 0.4 | Jan-Oct | 310,158 | 29.7 |
| Dominica | Jan-Sep | 52,717 | -5.1 | Jan-Oct | 381,587 | 51.7 |
| Dominican Republic * | Jan-Dec | 3,992,303 | 0.3 | Jan-Aug | 374,284 | 7.3 |
| Grenada ^P | Jan-Sep | 87,580 | -14.4 | Jan-Sep | 229,415 | 26.6 |
| Guyana ^P | Jan-Sep | 104,907 | 5.7 | - | - | - |
| Jamaica | Jan-Dec | 1,831,097 | 3.6 | Jan-Dec | 922,349 | -15.3 |
| Martinique ^P | Jan-Dec | 443,202 | -7.7 | Jan-Dec | 69,749 | -19.9 |
| Montserrat | Jan-Oct | 4,462 | -17.4 | - | - | - |
| Puerto Rico** | Jan-Oct | 1,082,423 | -2.8 | Jan-Nov | 1,045,459 | -15.0 |
| Saba | Jan-Aug | 8,707 | -3.4 | - | - | - |
| St. Eustatius | Jan-Apr | 4,025 | -2.6 | - | - | - |
| St. Lucia | Jan-Nov | 251,156 | -6.8 | Jan-Nov | 589,451 | 15.0 |
| St. Maarten | Jan-Oct | 359,000 | -9.7 | Jan-Oct | 956,657 | -6.6 |
| St. Vincent & the G'dines | Jan-Oct | 60,442 | -12.1 | Jan-Oct | 104,781 | 49.2 |
| Trinidad & Tobago | Jan-Jul | 251,975 | -5.7 | Jan-May | 83,713 | 253.7 |
| US Virgin Islands | Jan-Dec | 666,051 | -2.5 | Jan-Dec | 1,582,264 | -9.9 |

* Non-Resident Air Arrivals

**Non-Resident Hotel registrations only

- No Cruise Figures are Reported

^P Preliminary figures

n.a. Figures not available

N.B: Figures are subject to revision by reporting countries

SOURCE - Data supplied by member countries and available as at March 16, 2010