TOURISM EXECUTIVE BRIEF

Issue 4, Summer 2010 Edition - Part 1

CARIBBEAN TOURISM ORGANIZATION (www.onecaribbean.org)

1. INTRODUCTION

The first half of 2010 is now history and what a tough year it has been so far with a full slate of natural disasters including several devastating earthquakes, floods and a major volcanic eruption, and the threat of a worse than usual hurricane season in the Atlantic/Caribbean still ahead. However, overshadowing most natural disasters in scale and long-term consequences is the man-made catastrophe in the Gulf of Mexico where the BP oil spill has brought the world's attention to the potential dangers of deep water drilling into sharper focus than ever before. Because the BP ruptured oil well is still discharging crude at a devastating rate around 50,000 barrels a day, the full impact is yet to be determined, not only on the U.S. Gulf states thus far affected but likely for parts of the Northern Caribbean and even as far away as some coastal waters in UK/Europe according to some oceanic experts. Other experts on underwater ecology and marine life like Jean-Michel Cousteau are warning that the long-range consequences could stretch into years and even decades.

Although this may seem to some readers a topic outside of our normal trends in global economies and tourism, its impact on our industry is so profound, as already sadly demonstrated by the huge losses for tourism-related businesses from Louisiana to Florida, that we have devoted a portion of this month's Brief to discuss more dangers seen ahead and the absolute necessity to step up the region's commitment to finding and implementing more alternative energy sources. But first to other matters, including a quick update on current economic conditions in our major markets and what the travel industry is saying about the state of business at mid-year.

2. ECONOMIC CONDITIONS AND THEIR IMPACT ON TOURISM

The catalogue of man-made disasters in 2010 must surely include the mountains of sovereign debt incurred by Southern Europe countries starting with Greece and spreading to the Iberian Peninsula and beyond. It has threatened the stability of the euro and even caused speculation about its future existence. Although we place little credibility in that, it has forced stronger nations in the EU, led by a reluctant Germany and the IMF to bail out struggling members for now and the euro has plunged in value as a result.

As for financial markets, we have become accustomed to roller coaster rides in global stock markets for a long time now, but this year has set a new standard in volatility as wilder and wilder swings occur with shorter and shorter intervals. Consumer confidence has been badly shaken by the uncertainty of investments, the snail pace of recovery in the job market and continuing geopolitical concerns in the Middle East, Korea and Afghanistan – all played out daily in the mass media. It was no surprise that June saw the worst drop in major stock markets in a year, wiping out earlier gains in spite of continued strong profits in many business sectors and record low interest rates.

What are we to make of all these mixed signals? And what, if anything, can we do about it? The bears are coming out of the woods on both sides of the Atlantic and a number of pundits are predicting a double-dip recession for later this year or even a " third depression" as articulated in a late June column in the New York Times by Pulitzer –prize winning economist Paul Krugman. Happily, while widely debated on U.S. radio and TV talk shows, Krugman's theory is not shared by many.

While there are some positive signs to be found including revised figures from the U.S. commerce Department that show consumer spending increased slightly in May due to a rise in income for those employed and continued low inflation rates, there was also more bad news in the Conference Board's widely watched Consumer Confidence Index report for June. After three straight months of increases, the Index fell sharply based on pessimism about job prospects and falling confidence in short term business prospects. That undoubtedly contributed to the big end-of-month drop on Wall Street although there has since been at least a temporary recovery in stock prices.

What is the Travel Industry Telling Us?

Once again, we are presented with a mixed bag. Our own surveys of key wholesalers in the US market and several airlines serving the region as well as competitive destinations tell us that business is improving to the Caribbean but at a very slow pace over their 2009 numbers that were frankly dismal. This matches the sentiment in several consumer surveys related to travel plans for this summer that suggested more people were planning to stay close to home and spend less. More affluent families are still planning to travel but are searching for the best deals. These findings contrast somewhat with a more optimistic mid-year report from the U.S. Tour Operators Association USTOA in a poll of 28 member companies representing 49 different brands. In that poll, 99% of respondents said international travel was up over last year by an average of 30%. However, while we have no destination breakdown available, it is clear that the major beneficiary of the increase is Europe as the major reason cited was the strength of the dollar. Prices for all global destinations have stabilized for the majority of the operators (68%) which may be an indicator that heavy discounting is slowing down.

As for European operators, we have had no direct contact since earlier this year, but German market leader TUI's chief Volker Bottchner gave us a good clue as to what is going on when he told reporters in late June that business for the summer has been mixed at best and that the giant operator is looking forward to next winter for any real improvement. TUI is putting a heavy emphasis on long haul destinations for 2011 and is adding substantial capacity to some destinations including Mexico, Panama and Costa Rica. Bottchner said that their winter packages to most of the Americas including Cuba will be cheaper this winter.

CONCLUSIONS AND RECOMMENDATIONS

With admittedly less conviction than expressed in our earlier editions of the Brief this year, we hold to our stated belief that our major markets in North America and Europe will avoid any double-dip recession in the second half and that business including discretionary travel will continue on its slow recovery path with stronger bookings coming late for the winter season ahead. In this scenario of little or no real growth in the near term, we can expect the principal competition for inbound tourism share to be very active in their advertising and promotion. This includes Canada, Turkey, United Kingdom, Mexico and others, while the United States is gearing up as you will read in the postscript for a big marketing push.

Our own regional players in both the public and private sectors need to step up to the plate and match competition for a smaller market while business is still soft, insofar as budgets will allow, including better use of social networks and special promotions.

In the meantime, let us not forget that the BRIC countries are forecast to expand their outbound tourism flow at twice the annual rate of our traditional markets. We are especially bullish on Brazil as that nation's economy is forecast to grow by 7.3% this year, the fastest expansion rate in a quarter of a century while direct airline services from Brazil into the Caribbean are starting to reach meaningful levels sufficient to warrant more promotion. The BRIC countries will be clearly part of the Caribbean's future success in varying degrees and must be cultivated to reach their full potential

3. AIRLINE INDUSTRY UPDATE

Here is our regular update on those segments of the airline industry and government regulations pertaining to them that are of principal concern to the region. Not much has happened since our last report on the labor relations front, certainly nothing positive if you except the settlement of the pilot strike at LCC Spirit airlines in June and even that has some possible repercussions on ongoing negotiations between other carriers with unionized cockpit crews like American, some of whose pilots actually walked the picket lines at Spirit in support of their crew demands.

American Airlines AA

The Transport Workers Union TWU which had purportedly reached agreement with AA early in June on behalf of their fleet and ground service workers has now declared an impasse with that group and is requesting approval for release from mediation to permit a strike vote. The National Mediation Board already has a similar request pending from the Association of Professional Flight Attendants representing AA's cabin crews. The NMB appears to be in no hurry to approve these requests.

Other TWU-represented workers at AA including mechanics are unaffected by the impasse and voting was proceeding on tentative agreements as we wrote. Lastly, AA's pilot group is also an unhappy bunch although there is no immediate threat of job action. Even though AA's pilots are at the top of the industry's compensation scale, they are annoyed by large increases given to top executives at the company, saying this is not the way "to share the pain" as promised to them when they agreed to make major concessions on work rules. All in all, a sorry tale of fractious relationships between labor and management that doesn't bode well for upholding service standards and maintaining the customer loyalty that they built as the inventor of frequent flyer reward programs.

British Airways BA

At BA, there is a glimmer of hope for resolution of the long-standing dispute between their flight attendants, represented by big union UNITE, and BA top executive Willie Walsh. Management recently put forward what they deemed a "final offer" and UNITE appeared to be conceding as it put a temporary hold on further strike calls and submitted the company's offer to its members without a recommendation. Results should be known by mid-July and we can but hope there will be no further disruption of service.

Continental/United/USAirways

When we published the most recent edition of the Brief, United was already in the process of withdrawing from merger negotiations with USAirways in favor of Continental, leaving USAirways at the altar and still looking for a partner. We noted at the time that a CO/UA merger made a lot more sense as they were already involved in joint ventures and were leading members of the Star Alliance. It goes without saying that such a merger creating yet another "world's largest airline" will face many hurdles in gaining regulatory approval as well as the inevitable internal divide in their respective work forces. In fact, pilots from both carriers have already publicly aired their disagreements and we can expect more battles over issues like seniority.

In our opinion, the merger will be eventually approved by government if it doesn't fall apart by itself. The difficult economic environment suggests that one or other of these two carriers may not survive alone and the small overlap in their route structures should help. The earlier approval given to Delta and Northwest must also count in their favor. If and when this marriage comes to pass, there will be few options left for further partnerships, at least among legacy carriers, and the problems of combining one of them with a low-cost carrier LCC would seem insuperable for the labor forces involved. That leaves American and USAirways as the only logical partnership remaining.

Such a tie-up would be helpful to both carriers who may not be able to go it alone either according to some industry analysts, although both carriers have had past difficulty in swallowing staff and equipment mismatches from earlier mergers. A more sensible solution would appear to lie in the creation of a broad-based alliance short of a merger, similar to the pending deal between AA and BA.

Europe Merger Scene

Although he will go down fighting, we believe that Virgin Atlantic's feisty boss Richard Branson has accepted the virtual inevitability of approval for the expanded alliance between his bitter rivals AA and BA and is seeking his own partner to bolster his competitive position and cut costs. Qantas seems to be a strong candidate as the Australian airline says it is open to proposals including a merger which would allow it to grow in international markets as long as it can preserve its national identity. The merger between Air France and KLM comes to mind as a model. The situation is somewhat muddled by the 49% ownership by rival Singapore Airlines of Virgin Atlantic shares. However, divestiture by Singapore has been the subject of speculation which would open doors for another rival, Malaysian Airline Systems, which has also expressed interest in consolidation.

Other European airlines actively seeking merger partners are SAS and Polish airline LOT are:-

JetBlue

While not, as far as we know, a current candidate in the merger frenzy, we are suitably impressed by the remarkable expansion of JetBlue in the Caribbean where it has added four new cities in Barbados, Jamaica and the Dominican Republic since 2009 and now serves 18 destinations in its Caribbean/Latin American division with at least three others likely to be added in 2011. In fact, JetBlue has apparently overtaken market leader AA in traffic to the Dominican

Republic, an amazing feat in the eyes of this writer who was directly involved in the introduction of AA to the D.R. and Barbados so many years ago.

If there is an Achilles heel in all this, at least for the traveling public, it is in the lack of standard interline passenger and baggage agreements between JetBlue, as well as other LCCs, and traditional carriers serving the region. This can be a big problem when cancellations or long delays occur for any reason and passengers who cannot afford to wait must buy another, usually full-fare ticket, to get home. We were witness to such an event recently in Barbados which created some hardship and we hope that a solution can be found and soon as LCC expansion to the region continues apace.

4. USA-EUROPEAN UNION OPEN SKIES EXTENSION

The U.S. and Europe signed an expanded open skies agreement in late June but as far as EU negotiators were concerned they only got half a loaf as one major goal of removing all restrictions on cross ownership between carriers from two or more different Nations remains elusive. In principle, the latest accord does away with restrictions on majority ownership of another nation's carrier. In practice, this part of the agreement requires the approval of the U.S. Congress where there is substantial opposition to allowing foreign flag carriers to hold more than the existing limit of 25% of a U.S. airline's stock. Even after any approval by the U.S., the accord would then go back to be signed off by the E.U. another laborious process.

Nevertheless, passage of the agreement as it now stands preserves the freedom for approved carriers on both sides of the Atlantic to operate between any cities in the U.S. and Europe and that is a good thing. It may also move along approval from Europe for the expanded alliance between AA and BA which some predict will happen before the end of July. Both carriers are counting heavily on final approval and early implementation.

5. ALTERNATIVE ENERGY AND THE ENVIRONMENT

In our introduction, we spoke of the dangers already threatening parts of the Northern Caribbean from the vast Gulf oil spill and fears that much of the Gulf may become a dead sea threatening generations to come. The dispute over the dangers of deep-water drilling goes on unabated as local governments are torn by conflicting needs to protect the environment on the one hand and their need for the jobs and income provided by the oil industry.

There are undoubtedly substantial reservoirs of oil deep under the sea bed in parts of the Caribbean including off-shore Cuba and the ABC islands. Permits have already been granted to Spanish company Repsol, which says it plans to start drilling in the Florida Straits next year. Several other global oil companies have signed exploration leases with Cuba. Needless to say, another disaster akin to the BP spill would have terrible consequences for Florida's Atlantic coastline and the Keys, The Bahamas and Cuba itself. Of course, we don't have an answer for the need, but with the notoriety of the BP spill in the world's headlines daily, surely the time is now to get more serious about large scale developments in alternative energy sources of particular relevance to the Caribbean as a region.

We know that some excellent work has been done over the years by organizations like the Caribbean Council for Science & Technology, which together with UNESCO, published a comprehensive study with recommendations for action over a decade ago. For those not familiar with this work, it can be found on the Web and it is as relevant today as it was back then. It is certainly not within our area of expertise to expand on the technical aspects of this theme, but it seems to us that the Caribbean Basin is a natural place for further developments in solar and wind power and even wave power and geothermal energy on a much broader scale than previously attempted. We have commented before in this forum on the increased use elsewhere of bio-fuels and cane-based ethanol, most notably in Brazil. Ethanol made from cane sugar is cleaner and more efficient than corn-based and has drastically reduced its dependence on fossil fuels for most of its land-use vehicles.

We also know that many hotels and resorts within the region are switching to alternative energy and we applaud the focus of local bodies like the Barbados Chamber of Commerce and Industry towards wider applications of solar and wind power. But, unfortunately, all these efforts are small scale and by the most recent estimates, the Caribbean at large is still more than 90% dependent on fossil fuel.

Thinking outside the box, there are undoubtedly other possibilities which could reduce oil dependency for transportation inside the Caribbean besides cane-based ethanol production. Some may seem fanciful, even Luddite, as they return to earlier technologies. For example, there is a small but growing interest in airships for commercial and tourism purposes by government and private sector companies in Canada, France, Germany and the U.S. In America, Boeing is working with Canadian company SkyHook on a commercial airship to transport heavy equipment, which they hope to have in service next year. French and German companies are working on other projects including the use of airships to carry parcels for the postal service. Perhaps there is an application for the Caribbean, where airships could be used both as a tourism attraction and to carry freight.

Unfortunately, we know that the development of alternative energy on a large scale involving grid systems as is happening now in Europe and takes equally large scale investment, but perhaps some of that could come from outside the region from a country like China, which rightly now considers itself a world leader in the green revolution technology and could gain much from aiding the Caribbean in a showcase regional project.

Finally, our last word on this subject comes from a broadcast we were listening to during a writing break on the successful flight of a solar powered aircraft in the Swiss Alps. The project co-founder, Bertrand Piccard, of ballooning fame said this "when you take off it was another era. You land in a new era where people understand that with renewable energy you can do impossible things….we hope this will motivate other people to do the same." Amen!

6. POSTSCRIPT

We close with a comment on the U.S. Travel Promotion Act, which was signed into law by President Obama earlier this year. The bi-partisan act passed the Senate with an overwhelming majority of 78 to 18 and sets the stage for the first ever national tourism marketing and support campaign which is hoped to be implemented in late 2011. The bill will impose a $10 charge on all visitors to the U.S. who are not required to purchase a visa and will also be funded by contributions from the private sector. The program is expected to raise up to $200 million a year which would be used to promote the U.S. in foreign destinations and distribute official information to travelers and travel agents on U.S. entry and security requirements. The program is to be administered by a not-for-profit Corporation for Travel Promotion with an 11-member board.

It is not without its critics, some of whom feel that the introduction of another fee will be counter-productive and others who believe that the U.S. is already well served by its various state boards. If all this sounds very familiar, it should as the program is a virtual carbon copy of the Caribbean's regional marketing program in the early 90s, including much the same proposals for funding. Anyone actively involved in that project and its successes and failures like this writer will be following the results of the U.S. attempt with more than passing interest.

TOURIST (STOP-OVER) ARRIVALS AND CRUISE PASSENGER VISITS IN 2010						
	Tourist Arrivals			Cruise Passenger Visits		
Destination	Period	Tourists	% Change 2010/09	Period	Cruise Passengers	% Change 2010/09
Antigua & Barbuda *	Jan only	22,230	-1.9	Jan-Apr	310,464	-17.5
Aruba	Jan-May	349,939	3.9	Jan-Feb	168,984	-7.4
Bahamas	Jan-Mar	352,796	1.6	Jan-Mar	1,016,294	12.4
Barbados P	Jan-May	236,661	3.1	Jan-May	350,298	0.7
Belize	Jan-Apr	95,370	1.6	Jan-Apr	358,033	23.6
Bermuda *	Jan-Mar	28,865	-10.5	Jan-Mar	985	100.0
British Virgin Islands	Jan-May	169,264	10.8	Jan-May	350,615	2.3
Cayman Islands	Jan-May	137,020	5.0	Jan-May	747,365	3.2
Cozumel (Mexico)	-	-	-	Jan-May	1,266,869	29.5
Cuba	Jan-May	1,225,717	1.2	-	-	-
Curacao	Jan-May	137,329	-9.4	Jan-Apr	200,964	-15.8
Dominica P	Jan-Apr	25,277	9.2	Jan-Jun	324,234	4.9
Dominican Republic *	Jan-May	1,850,412	2.0	-	-	-
Grenada	Jan-May	46,491	-7.9	Jan-May	202,436	-6.2
Guyana	Jan-May	54,613	7.4	-	-	-
Jamaica	Jan-Apr	696,889	7.3	Jan-Apr	357,409	-13.7
Martinique	Jan-Apr	179,540	16.1	Jan-Apr	51,482	46.5
Montserrat	Jan-Mar	1,453	-8.4	-	-	-
Puerto Rico **	Jan-Feb	257,607	10.2	-	-	-
Saba	Jan-May	5,972	6.3	-	-	-
Saint Lucia	Jan-May	139,863	11.1	Jan-May	396,508	2.8
St. Maarten *	Jan-Mar	138,039	7.0	Jan-Apr	685,801	-0.2
St. Vincent & the G'dines	Jan-Mar	19,963	2.1	Jan-Mar	64,625	-27.8
Trinidad & Tobago	Jan-Feb	67,976	-11.4	-	-	-
US Virgin Islands	Jan-May	337,425	9.3	Jan-May	916,388	15.9

** 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 July 26, 2010*