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Implications for CARICOM member states in the search for a 'liberally controlled' air transport market: The case of regional tourism to Barbados

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ABSTRACT

This study presents an analysis of the state of aviation liberalisation in CARICOM (Caribbean Community) and its implications for regional tourism to Barbados as a member state in CARICOM. The evidence shows that improvements to the regulatory aviation environment in CARICOM would aid improvements in intra-regional tourism. Given the benefits that have been obtained globally, previous studies have been deductive and analysed the benefits of a less restrictive aviation environment in the region. However, the inductive approach of this study reveals that before there can be a successful attempt at any such liberalism in CARICOM, there are pre-existing constraining factors which must be addressed since they will hinder the effectiveness of any such policy. The study therefore proposes that the effectiveness of the existing regional multilateral agreement is hindered by political interference, not only in the overall context of aviation bureaucracy, but also in the business operations of the regional carriers.

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1. Introduction

1.1. Air transportation in CARICOM

Bertrand (2011) asserts that CARICOM countries (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and The Grenadines, Trinidad and Tobago, Suriname, and Haiti) (CARICOM, 2011) (see Fig. 1) claim to have liberal aviation policies among themselves but do not practice them in reality. There have been past studies analysing the aviation in CARICOM (e.g. World Bank, 2006; Bertrand, 2011, 2006; Warnock-Smith, 2008), however, few improvements have actually been implemented towards a more liberal aviation environment in the region. This research seeks to explore the underlying cause of this inertia.

Intraregional travel is of significant importance for the integration and socio-economic development of CARICOM. Without intra-regional travel, many of the smaller economies in CARICOM would face enhanced economic pressures due to their reliance on intra-regional travel for business and leisure tourism. Moreover, the socio-economic integration of the region, and thereby the very relevance of the economic integration policy of CARICOM, called the Caribbean Single Market and Economy (CSME), is extremely reliant on an efficient regional air transport system for the movement of people and for trade. Therefore, this research analyses intraregional tourism and CARICOM integration as primary motives for intra-regional liberalisation.

The inductive approach to this study differentiates it from existing studies of the region and augments the literature on aviation liberalism in the CARICOM region. Whereas other studies (Warnock Smith, 2008; World Bank, 2006) took the deductive approach by analysing what benefits could accrue from a more liberal environment in CARICOM, this study begins by analysing whether the objectives of the existing regional multilateral air service agreement are actually obtained in reality. It should be noted though that the mere existence of a multi-lateral agreement in CARICOM clearly suggests some intent towards intra-regional liberalisation. Hence to fully understand the propensity for effectiveness of any subsequent intra-regional air transport liberalisation policy in the region, it is crucial to examine pre-existing constraining factors which must be addressed for any successful

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Fig. 1. Map of the CARICOM nations. Source: Heritage.org (2014).

attempt at liberalisation.

1.2. Controlling aviation through regulation

According to Forsyth (2008), aviation regulation impacts on tourism by placing controls on ownership and control of carriers, prices, airline routes, and competition; therefore influencing demand. This indicates that a direct correlation exists between the level of regulation and tourist arrivals. On this premise, Prideaux (2000) argues that if the transport access costs to an equally attractive and competitive destination are lower, then the tourist is likely to opt for that alternative destination. Alternatively, Page (2003) also suggests it may lead to suppressed demand. Accordingly therefore, Seetaram (2010) proposes that airfares are indicators as to the level of performance of many tourism destinations. The level of demand for air transport is arguably both a determinant and a consequence of regulation, and is facilitated through the regulative policy of air service agreements.

However, regulation is often viewed as necessary to prevent the anti-competitive behaviours that could emerge from the oligopolistic, sometimes monopolistic nature of the airline industry (Tacker et al. 2013). Hanlon (2007) recognizes that the challenge with airlines as oligopolies is that actions on price taken by one airline could have significant implications for competitors and it may result in collusion between them. Wensveen (2007) calls this 'mutual dependence'. If the carriers do not collude, the reasonable expectation is that the competitors would also make similar changes to their prices to maintain their market shares, effectively leading to a price war in the industry (Wensveen, 2007). Proponents therefore argue that regulation is essential to prohibit collusion and avoid price wars.

Additionally, some have argued that too much competition in the aviation industry could ultimately lead to too much cannibalization in the industry, resulting in various failed carriers. Though it proved to be beneficial, this was particularly evident with the evolution of the low cost carriers (LCCs) when they began to encroach on the market share of the legacy carriers. If the competition is too excessive, however, and all carriers fail, this could create an 'empty core' (Button, 2002). As Hanlon (2007) discusses, competition in the industry produces the most optimum level of output; this optimum level represents what Button (2002) calls the core. Therefore it logically follows if an industry is largely homogenous, for example as a result of the product, too much competition could lead to instability and thereby a less than optimum level of output. Thus to protect consumers from the reduced competitiveness which could result from 'empty-cores' in the industry, regulation was viewed as essential.

1.3. The move to a liberalised environment

Liberalisation reduces the amount of control government imparts on businesses, thereby allowing the market to dictate the operations of the firm (Duval, 2007). The increased efficiencies, caused by the increased competition which results from

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