

Why Jamaica should generally welcome low-cost airlines

BY KEITH COLLISTER Business Observer writer

AS part of the preparation for the national summit between the Government and the private sector late last year, I wrote a report entitled from "Celtic Tiger to Carib Tiger – Lessons from Ireland", which like the majority of the other papers from that important summit, is now on the PSOJ's website. This was actually a slightly updated version of the report that I had prepared for the Jamaica Chamber of Commerce after the Digicel-sponsored trip to Ireland in October 2003 by a Jamaican team including representatives of the private sector, unions, academia, government and the then opposition.

At the end of that trip, there was a discussion between the "potential" social partners, moderated by one of the chief architects of Ireland's turnaround, Padraig U'Hugin, about what parts of the Irish model were relevant to achieving an economic turnaround in Jamaica. Almost the last point he made to the group was the critical importance of cheaper air travel.

"Ireland moved from 1.7 million tourists in 1986 to six million over a six-year period, driven by a huge increase in British tourists due to cheap flights from London. The key to Ireland's tourism success was cheaper air lift, better overseas promotion, improvement of facilities and a better value for money proposition. Ireland deliberately kept down the equivalent of Special Consumption Tax (in Ireland this was called excise tax) to encourage tourism."

Clearly, cheaper air lift was a critical part of Ireland's economic turnaround, particularly at the beginning when they still had a relatively weak economy. The massive expansion in passenger arrivals has continued as the Irish Aviation market was liberalised further. Not coincidentally, this coincided with Ireland's massive 1990s boom, and its emergence as a key business and not just tourism destination.

A study by the Dublin Airport Authority (DAA) reveals that Ireland has seen 16 consecutive years of growth in passenger arrivals in the period between 1992 and 2007, or compound growth of almost 10 per cent per year, with Dublin Airport handling 23.3 million passengers in 2007. It projects passenger arrivals to reach nearly 25 million in 2008.

According to the DAA, 42 new routes were launched in 2007, with 92 per cent of passengers travelling on scheduled flights, at an overall load factor of 75 per cent. Even more impressively, low cost carrier Ryanair and stateowned national carrier Aer Lingus account for the vast majority of the traffic, at 9.415 million and 7.635 million passengers respectively. Despite the largest number of passengers being from the UK (8.661 million), mammoth British Airways accounts for only a negligible 217,000 of that traffic. Irish indigenous carriers now carry roughly 80 per cent of travellers, showing a clear ability to compete.

In fact, it is no accident that British Airways recently hired the man responsible for Aer Lingus's turnaround, Irishman Willie Walsh, as their chief executive.

Aer Lingus had suffered a cumulative loss of over euro 150 million in the 1990s. After making a euro79 million profit in 2000, the company suffered a euro50 million operating loss in 2001 attributed to the consequences of 9/11 on the entire airline industry.

In the month immediately after 9/11, Aer Lingus estimated that if they carried on with their old strategy in the current climate, they would experience losses of euro156 million in 2002. Aer Lingus decided to take drastic action and implemented a low-cost strategy on the 19th of October 2001, which they appropriately named the "Survival Plan".

The critical element of the plan was then chief executive Willie Walsh's decision to benchmark their operation against their principal competitor, low-cost carrier Ryanair.

In late 2005, I wrote a Gleaner article entitled "Air Jamaica Study does not include costs", referring to The Massachusetts Institute of Technology (MIT) International Centre for Air transportation study by Jamaican-born Dr. John Paul Clarke.

The MIT study quantified the benefit of Air Jamaica to Jamaica between 1995 and 2004 at US\$5.49 billion, of which 33 per cent (US\$1.83 billion) was a direct contribution to the economy, with the remainder being indirect.

In our interview for the article, Dr Clarke noted that this "economic impact" study made no attempt to model the cost side. What was not recognised at the time however, was that in calculating the benefits of Air Jamaica, he had made the conservative assumption that price was constant without an Air Jamaica. This is despite the fact that he thought that air fares would be significantly higher with American Airlines as a monopolist, as appears very likely from the experience of our smaller Caribbean neighbours, now suffering from both high fares and less capacity.

In our interview moreover, Dr Clarke agreed with my position that Aer Lingus's success story had lessons for Air Jamaica, and that in moving to a low-cost model in August 2001 they "did the right thing at the right time". In fact, he added that, in his opinion, "a low-cost Caribbean airline that did the same type of route expansion should be profitable."

The MIT study showed that the estimated economic impact of air transportation on Jamaica, even with the relatively low growth in passenger arrivals over the period of the study, was huge. In calculating the impact, they assumed Air Jamaica was carrying approximately half the passengers to Jamaica over the period. However, if instead of their assumption of "constant" prices, they had modelled the economic impact to Jamaica if fares were significantly lowered, in a similar fashion to what occurred in Ireland, it is likely that the economic impact of air transportation would have been orders of magnitude higher, worth tens of billions of US dollars over a similar period. This is particularly important, as in the short to medium term, the industry with the most potential to impact Jamaica's economy positively is tourism.

This does not include the positive impact of business travel from Jamaica becoming a gateway to our region, as Ireland also managed to do. In the same interview, Dr Clarke himself noted that the potential benefits of Air Jamaica's former hub were understated, citing for example the success of Dubai's hub, "a shopping mall surrounded by two runways".

Nor does this estimate of economic benefits include the impact of lower fares in inducing greater homeward travel by Jamaica's overseas diaspora. In Ireland, instead of flying home once a year, as was typically the case, their huge diaspora were now able to afford to fly home once a month. A similar rise in frequency here would have an enormous impact on Jamaica's economy.

The economic impact on the Jamaican economy would be even greater if Jamaica was able to maintain two indigenous carriers, say an Air Jamaica and an Airone, in a similar fashion to Ireland's Aer Lingus and Ryanair, as a much higher proportion of the revenues generated would be retained in Jamaica, eg wages, aircraft servicing, etc, and indigenous airlines would not be likely to "cut and run". Moreover, in my view, our dynamic Minister of Tourism Ed Bartlett's ambitious "drive for five" target to almost triple the number of tourist arrivals over the next five years (with the enormous positive economic impact that would involve) can only be achieved, as it was in Ireland, through much lower air fares.

The clear conclusion is that economic importance of cheaper air travel to Jamaica's economy is such that the entry of potentially indigenous lowcost carriers into Jamaica cannot wait for the sale of Air Jamaica, which in any case will be very difficult to achieve in the current environment, other than to a strategic buyer. In any case, such a buyer will know that the market will very soon be liberalised, as it already is for American low-cost

carriers, not to mention other countries under the Economic Partnership Agreement, so that this will play a negligible role in their investment decision.

The current aviation environment is such that we may in any case be forced to hold onto Air Jamaica longer than planned. We should note that Aer Lingus would not have restructured their operation in 2001 without Ryanair. This led not only to the national carrier's survival but allowed it to ultimately become a profitable business. In my view, it is very unfortunate that Airone (or any other planned indigenous lowcost carrier for that matter), has not already been given a licence in time to begin operation for what is likely to be a tougher tourist season in the fall. The sooner we create an enabling environment of lower fares, thereby expanding our tourism and other travel markets, eg business and the diaspora, the faster Jamaica's economic take off is likely to occur.

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