



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.

Intra-regional 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 liberalisation 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 imposes 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

liberalisation in aviation, were empirically examined in an [Intervistas \(2006\)](#) study which shows traffic growth ranging from 12 percent to even exceeding 100 percent in some cases. Further, [Goetz \(2002\)](#) states that the deregulated environment resulted in significant reductions in prices, which substantially reduced the profits in the industry. [Goetz and Vowles \(2009\)](#) also recognize that the benefits of liberalisation are not ubiquitous even in the developed nations and rather are spatially inequitable. Moreover, [Dobruszkes and Mondou \(2013\)](#) even propose that such benefits are even less evident in developing countries, similar to those in CARICOM.

Additionally, [Duval \(2008\)](#) argues that because air transport is often viewed as a public utility ([Hanlon, 2007](#); [Abeyratne, 2012](#); [OECD, 2011](#); [Doganis, 2010](#)), national airlines have been supported and encouraged to carry out monopolistic operations through the protectionist measures of governments. Hence, regulation can also be inhibitive by protecting carriers in the industry from facing competition. [Duval \(2008\)](#) calls this highly participative political interference ‘aeropolitics’ and classifies this as where aviation interest and government policies coincide. The commercial interest of the industry is viewed as of lesser importance when this occurs. Since governments act with social consciences, when the welfare interest of the state overshadows the commercial interest of the industry, it then becomes difficult to control that political interference. Since liberal environments operate on the basis of competitive and market forces, the probability for protectionism in a liberalised environment is therefore diminished.

There has also been a dramatic reduction in fares due to liberalisation fuelled by the growth of low cost carriers ([Papatheodorou, 2008](#)), as the increased competition has led to more profitable business models emerging. Given the contestability market theory that competition can drive efficiency, it is not surprising that such new business models emerged from liberalisation ([Barrett, 2000](#)). Others ([McHardy and Trotter, 2006](#); [Duval, 2007](#)) have also extended the benefits which could ensue from increased competitiveness to include reductions in air travel prices for the consumer. Additionally, the market would also become more responsive to demand and supply changes because of the increased competitiveness ([Duval, 2007](#)), thereby fluctuating the level of available air capacity.

The more prolific financial gains resulting from the liberalisation of the aviation industry increased investment into the industry, fuelling the need for free movement of capital. However, the ability to move capital into the industry freely is controlled by regulations on ownership. Of note, even the European Union, revered for its liberal aviation policies, and the United States, for its successes and benefits gained especially in domestic deregulation, have controls on airline ownership. Many other countries also have controls ([Hsu and Chang, 2005](#)).

2. Background of air transportation in CARICOM

The development of regional transportation could not have resulted with the pre-existing inadequate agreements between the islands. In fact, [ICAO \(2003\)](#) reports there were only three formal bilateral agreements in effect in CARICOM prior to the establishment of the CARICOM multilateral. Hence, the signing of a multilateral air services agreement (MASA), effective as of November 17, 1998 stipulated that CARICOM air carriers would have unlimited and full access to traffic rights within the region. However, enshrined within the agreement is a provision that the MASA shall not contradict any air service agreement member states have already committed to ([Bertrand, 2011](#)).

Furthermore, not all of the states signed or ratified the agreement ([CARICOM, 2011b](#)). Without full participation of all member

states, fully liberal aviation practices in the region would still be unachievable since non ratification creates avenues for “artificial restrictions to traffic rights” ([Warnock-Smith, 2008](#): 157). Moreover, as denounced by the [World Trade Organization \(2008](#): 73) the MASA automatically grants third and fourth freedom rights to airlines owned by CARICOM nationals or member states, however fifth freedom rights, day tours and air taxi operations are subject to negotiations. It is no surprise therefore that [Bertrand \(2006\)](#) argues that air services liberalisation is generally well exercised in Air Service Agreements between CARICOM states and other international countries, but not similarly among CARICOM nations. [Table 1](#) provides a general overview of the articles relevant to this study. However it is important to note that there has been recent political interest and efforts in CARICOM towards a revision of the existing CARICOM MASA ([Daily Nation, 2014](#)). Up to the time of publication though, such revisions were still being developed and hence any revised agreement was not in effect.

Moreover, the [World Bank \(2006\)](#) reports that the existing MASA is inconsistent with a CARICOM economic treaty called the revised treaty of Chagauaramas. A more tenable agreement, as is intended through the ongoing revisions, would seek to enable trade and economic prosperity throughout the region by actions such as, but not limited to, enhancing competition, and service and price improvements. A deduction from the [World Bank \(2006\)](#) however has been that CARICOM is not currently disposed to reconsider its stance on competition and tariffs articles within the agreement. To do this may inhibit CARICOM governments from being able to control fierce competition and substantially low prices by being able to veto them.

Larger carriers in the wider Caribbean region include Bahamas Air, Cayman Airways; and Caribbean Airlines (CAL) which evolved from the restructuring of British West Indies Airways (BWIA). CAL subsequently merged with Air Jamaica owned by the Jamaican government who retained 16% minority interest in the merged carrier at the signing of the agreement ([International Finance Corporation, 2011](#)). However, the CARICOM market is served most predominantly by Leeward Islands Air Transport (LIAT) and to a lesser extent by CAL and smaller privately owned commuter carriers such as Grenadine Airways and Mustique Airways. However all of these carriers have to operate within an environment of high costs. [Holder \(2010\)](#), cited a study by IATA in 2008 called ‘Costs of Air Travel in the Caribbean Region’ which concluded that compared to benchmark international routes of the same distance, the average net fares in the region were 32% lower whilst overall airport fees were 61% higher.

The high airport fees are necessitated by the small sizes of the populations of the CARICOM islands and their consequent inability to produce large amounts of passengers due to their wider societal and economic conditions. As a consequence, there are fewer passengers to distribute these costs across, thereby inflating the costs of the ticket to the consumer ([Holder, 2013](#)). Moreover, the absence of harmonized fees across the region results in vast fluctuations in fees. The high operating costs in the regional environment have therefore led governments to help regional and international carriers with the provision of subsidies. The provision of these concessions is also not surprising given the reliance of many of the member states in CARICOM on tourism as their major foreign exchange earner.

3. Method

As discussions of aviation liberalisation have tended to be focused on the tenable benefits of full aviation liberalisation, the use of qualitative and inductive methods in this study was fuelled by the desire to understand what could be constraining CARICOM’s

Table 1
Overview of relevant articles of the 1998 CARICOM multilateral.

Article	Name of article	Main issues in the article
2	Licensing Requirements	Ownership/majority control by one or more member states and or their nationals
4	Market Access	Multiple designation on country pair basis is acceptable except where the competition can be proven to be destructive.
5	Transit Rights	Automatic 1st and 2nd Freedom rights
6	Third and Fourth Freedom Traffic Rights	Subject to specific time periods; service must not be an air taxi; service does not contravene article 4
7	Fifth Freedom Rights	Subject to reciprocal agreement between the member states concerned
8	Cabotage	Not required
9	Air Taxi Operations	May be discussed on bilateral bases and subject to the traffic requirements
10	Application of Laws	Carriers of other member states are subject to the laws of other member states once within their control
11	Safety	Member states shall accept licencing and safety certificates of other member states; member states also reserve the right to question, revoke or require corrective action of safety certificates issued by other member states deemed to be of inferior standards
13	Revocation of Authorisation	Operating authorisations may be revoked by member states after consultation with the issuing member state if majority ownership and control is not vested in member states or their nationals
14	Fair Competition	All opportunities for fair and equal competition should be exploited; and the primary objective shall be the provision of enough capacity to meet the needs of the market with reasonable load factors
19	Settlement of Disputes	Disputes are firstly subject to negotiations between the affected member states; failed negotiations proceed to arbitration and the arbitrator's decision shall be binding

Source: CARICOM (2011).

achievement of the renowned benefits of air transport liberalisation. Both primary and secondary data were utilised and the data was triangulated via both secondary and primary research. In the primary research, triangulation occurred through the use of multiple sources representing different stakeholder perspectives with different interest and influence levels.

Given the qualitative nature of the study, triangulation also needed to occur with secondary qualitative data such as tourist arrival figures, visitor expenditure figures and qualitative document reviews such as news clippings. This triangulation was necessary to ensure statements by respondents were reliably supported, given the level of discord which exists among some stakeholders in the air transport industry in CARICOM. These triangulation processes also assisted in enhancing the construct validity of the data by ensuring the data was representative of a wide cross section of stakeholders and not overly influenced by any one particular group. The chain of evidence in the secondary author's review of the data also added to the construct validity.

People with extensive knowledge and/or involvement in either the tourism or aviation industries in Barbados, or both, were targeted as the focus of this research. Participants included: local and international air transport professionals and academics; air transport executives; tourism officials, and public servants. Given Barbados' small population of 280,000, a decision was taken to withhold the listing of any titles (general or specific) which may expose the identity of respondents. This was especially important given that there are so few people in Barbados who hold the positions that would be listed.

The non-probability purposive sampling method was used. This decision is supported by Patton (2002) who states that purposive sampling is more concerned with gathering information in information rich cases than it is to be statistically representative. This was the case in this study. Moreover a purposive sampling strategy, as discussed by Saunders et al. (2009), was deemed to be appropriate for application in this study since a critical case sample is selected for its unique importance and ability to make a point.

The research sample participants were allocated one of three interview schedules commensurate with their capacity to answer competently as detailed in Table 2. Interview schedule A was designed with content specific to air transport policies and practices while schedule B had both air transport and tourism content, and schedule C comprised tourism content. To determine competence and the interview schedule best suited for the participant, a review was conducted of their background by assessing professional positions they currently hold or had previously held. This

review was done by reviewing secondary data such as newspaper posts, or professional social media accounts such as 'LinkedIn'. However, the participants were also asked at the beginning of the interview which interview schedule they felt most competent addressing.

The interviews were face-to-face using Skype and in person. One interview was conducted via telephone at the respondent's request. Data collection began in February of 2014 and was completed by April 2014 with interviews generally lasting between 45 mins and 1 h. An invitation to participate in an interview was also extended to an individual from the CARICOM secretariat but that interview could not proceed due to their workload. To analyse the data from the interviews, similar ideas were colour coded, resulting in the generation of themes.

Secondary statistical data was utilised to reduce the negative implication of non-quantifiable data in the qualitative analysis. Data such as tourism arrival statistics was solicited from the Barbados statistical services website. These figures give representations of the levels of tourism demand for Barbados in the CARICOM market. Estimated visitor spend was also based on data from the Barbados Tourism Authority. This expenditure data is used merely to give an idea as to the level of visitor spend from the source markets. These figures are only estimates by the authority based on exit surveys which the authority conducts. The tourism authority in Barbados currently has no means of precisely measuring visitor spend.

4. Results and discussion

4.1. The tourism and travel industry of Barbados

Over the past decade, the major source markets for visitors to Barbados in terms of visitor arrivals have been the UK, USA, CARICOM and Canada respectively. Tourist arrivals by source markets for the period 2005–2014 are presented in Fig. 2. The arrival figures indicate that Trinidad and Tobago, when combined with 'other CARICOM', was Barbados' third largest source of visitors. Fig. 3 shows the average percentage contribution of each source market to overall arrivals over the past decade. A study of the island's tourism industry by Strategic Solutions (2012) highlighted the diverse and mature nature of the tourism product substantiated by characteristics such as good accessibility, duty-free shopping, and a destination appeal focused on the traditional sun, sea and sand tourism product.

Travel and tourism directly accounted for 10.9% of Barbados'

Table 2
Interviewees who participated in the Study.

Respondent#	Area	Interview schedule
1	Editor of Aviation Academic Journal & Aviation Professor	A(FOR AVIATION PRACTITIONERS & ACADEMICS)
2	Official from Caribbean based Airline#1	
3	Official from Caribbean based Airline# 2	
4	Official from Ministry of International Transport#1	
5	Official from Ministry of International Transport#2	
6	European Commission Official	
7	Tourism Authority Official#1	B(FOR PERSONS WITH SUBSTANTIAL BACKGROUNDS IN BOTH TOURISM & AVIATION)
8	Aviation Consultant# 1	
9	Aviation Consultant# 2	
10	Barbados Civil Aviation Department Official	
11	Airline official with tourism expertise	
12	Tourism Association Official	C(FOR PRACTITIONERS & PERSONS OF INTEREST IN TOURISM)
13	Tourism Authority Official#2	
14	Hotelier	
15	Ministry of Tourism official# 1	
16	Ministry of Tourism official# 2	
17	Tourism Commentator	

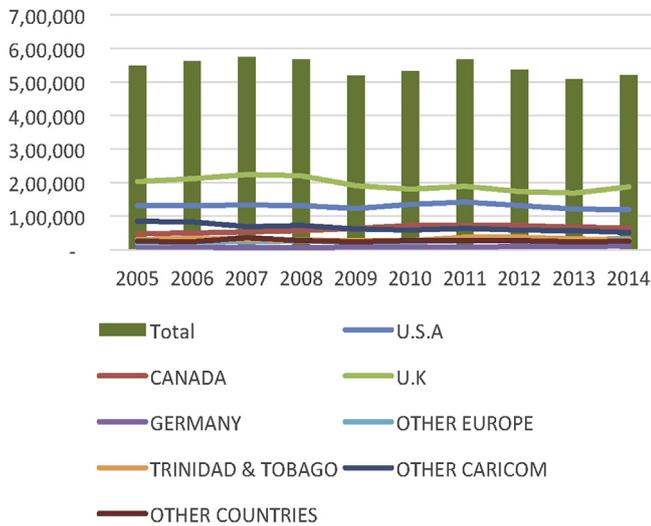


Fig. 2. Arrivals by market 2005–2014. (Source: Barbados Statistical Service, 2013).

Market averages over the past decade

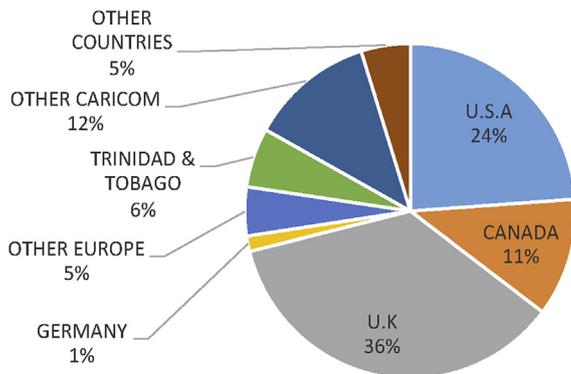


Fig. 3. Average tourism arrivals to Barbados by market % 2005–2014.

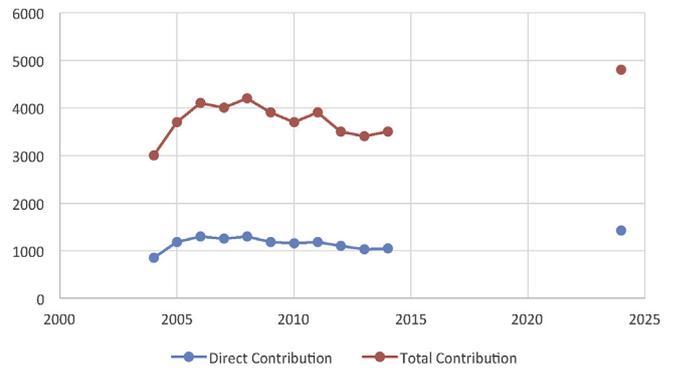


Fig. 4. Trend of direct & total contribution of tourism to Barbados 2004–2014. Source: Adapted from WTTC (2014).

to GDP was BBD \$1019.3 million (\$1 US = \$ 2 BBD), falling to BBD \$ 1010.8 million in 2014 (see Fig. 4) (WTTC, 2014). In spite of these current declines in tourism in Barbados post 2008, travel and tourism is an important industry in the Barbadian economy as on average its collective direct, indirect and induced impacts accounts for more than a third of Barbados’ total GDP. Direct impacts refer to revenue gained from direct tourist spend, indirect impacts are those other supply factors which support operations at the direct level. Induced impacts arise from the economic activity within a particular sector or industry and constitute wider economic consumer spend generated as a result of the income earned at the direct and indirect levels.

It is noteworthy that respondents suggested that CARICOM visitors have more direct economic impacts with more local businesses. This suggests that there is potentially a variance to some extent in how tourism receipts from CARICOM visitors and the international visitors are absorbed into the Barbadian economy. Such direct contributions into local businesses, and directly into the domestic market, help to reduce negative consequences of tourism such as economic leakages. However, this advantage is hampered by the high costs of air transport in the region which is likely to be suppressing or redirecting demand to other destinations as suggested by Page (2003), thereby constraining the actual size of the demand for Barbados as a destination in CARICOM. Therefore it is probable that this suppression of the demand creates a smaller market, thereby reinforcing the oligopolistic, and in most instances monopolistic structure of regional air transport, to appear to be the most efficient construct for competition in the region.

Gross Domestic Product (GDP) in 2014 while the total contribution for 2014 was 36.1% of GDP (WTTC, 2014). Fig. 4 presents trends of total and direct yearly contributions of travel and tourism to Barbados’ GDP from 2004 to 2014. In 2013, the direct contribution

The data revealed that Barbados in some instances extends fifth freedom rights to carriers from international countries. In these instances this would theoretically allow international carriers the freedom to operate intra-regionally. However, not only has this not occurred, but such traffic would still be subject to the approval of the receiving nation. CARICOM as an important source market has direct implications for sustainable and competitive tourism policies in Barbados. Therefore, a reduced emphasis on regional liberalisation directly implicates the ability of CARICOM to be as economically viable as it can be for Barbados. Certainly the estimates by the Barbados Tourism Authority (personal communication; Table 3, Table 4) which show estimated increased expenditure in CARICOM of 13% in 2010–2011 and then a decrease in 2011–2012 back to 2010 levels are testimony to its viability. This coincides with the introduction and subsequent collapse of the then regional Barbadian based low cost start-up carrier Redjet.

4.2. The 'liberally controlled' CARICOM air transport system

The themes emanating from the primary data are explained in Table 5. These themes and their interrelationships are discussed in the following subsections.

4.2.1. Political interference and protectionism in CARICOM

It is axiomatic that the aviation industry is highly politicised and sometimes the bureaucracy which emerges as a result of that politicisation can hamper growth and effective operations within the industry. In particular, since there is not a practically liberal intra-regional environment in CARICOM, there is a lot of potential to use bureaucracy as a means of stifling growth, stonewalling or delaying without member states having to be outright protectionist.

Some stakeholders therefore argued that the existing regulatory process just makes the applications for certificates and licenses more cumbersome; Respondent # 2 used an example to prove his point and proclaimed that "SVG air is not allowed to fly from Barbados to any point other than St. Vincent and the Grenadines, unless [they] apply each and every time for a permit." Another respondent # 7 proclaimed that he is concerned with the length of the process suggesting that it is "too complicated, costly and complex". Another instance attesting to the often encumbered processes is a respondent who suggested that they are purposefully meant to endure rigorous delays. In addressing one of the civil aviation authorities in the region respondent # 3 recapped the following:

"They would sit on your paperwork [say] we don't like how you've done your table of contents, the page number should be at the top and not at the bottom. This [expletive] happens. You will send them your manuals they will review them and they would take six weeks to get back to you, you review it you fix it, you send it back then

they come back with another problem. They just nickel and dime you to death"

Essentially therefore, the aero-politics and interference which is so intrinsic in the aviation industry (Duval, 2007) leads to a process where there is an inevitable existence of, and potential for outright protectionism, in the CARICOM regional air transport system. In the eastern Caribbean in particular, there is a perception that the major carriers are protected by their shareholding governments and this proclaimed protectionism is often proposed as being an impediment to regional growth. For example, with respect to the major regional carrier in the eastern Caribbean, respondent # 3 stated:

"By supporting LIAT the way they had done and ignoring the treaty of Chaguaramas, they have stifled the growth of the airline industry, they have stifled the growth of the hotel industry and have stifled the growth of all industries in the Caribbean."

Comments like these are often iterated throughout the region and even internationally and are not only confined to private sector investors in the regional airlines. As testimony, respondent # 7 stated:

"... we liberalize with the US and we liberalize with them but then we spend a lot of time trying to restrict regionally. I mean Jamaica and Trinidad I know are very aggressive when it comes to it and particularly as it pertains to Barbados we in turn sometimes we are very reluctant to liberalize and free up what CAL can have access to".

To the contrary however, there is also a view of some stakeholders that intra-regional CARICOM markets are so small that they cannot facilitate any significant measure of competition. Respondent # 11, in raising this point stated:

"Our populations by any standards are small ... St. Kitts has 40,000 people- well [the parish of] St. Michael [in Barbados] has more people than the independent country of St. Kitts. So these things have economic implications ..."

This claim substantiates the claim by Goetz and Vowles (2009) in the sense that the population sizes of some destinations will make benefits of liberalisation inequitable and even destructive by way of the emergence of the potential empty core phenomenon discussed by Button (2002) across some destinations in the region. Upon this basis, some people therefore argue that intra-CARICOM air transport is more a social service and not meant to be a profitable venture. As the chairman of the shareholding governments of regional carrier LIAT is quoted as saying "Air transportation inside of

Table 3
Estimated visitor expenditure 2010 Vs. 2011.

ESTIMATED visitor expenditure JANUARY to DECEMBER 2010 VS 2011										
Region	Arrivals		Length of stay		AVG. Spend		Total spend		AB CHG	% CH
	2010	2011	2010	2011	2010	2011	2010	2011		
UNITED STATES	134,969	142,414	10.2	9.2	\$ 160.15	\$ 151.43	\$ 219,425,786.91	\$ 199,281,446.30	\$ (20,144,341)	(9.2)
CANADA	72,351	71,953	12.4	11.3	\$ 151.27	\$ 144.71	\$ 135,627,579.97	\$ 117,781,754.87	\$ (17,845,825)	(13.2)
UNITED KINGDOM	181,054	189,150	12.2	11.4	\$ 180.60	\$ 167.90	\$ 398,432,781.01	\$ 361,002,515.43	\$ (37,430,266)	(9.4)
OTHER EUROPE	31,222	35,859	11.5	10.5	\$ 188.57	\$ 178.61	\$ 67,481,780.31	\$ 67,260,893.24	\$ (220,887)	(0.3)
OTHER CARICOM	86,182	100,974	10.0	9.7	\$ 127.07	\$ 132.07	\$ 109,161,718.62	\$ 128,920,979.96	\$ 19,759,261	18.1
OTHER	26,402	27,374	9.4	8.1	\$ 209.32	\$ 184.54	\$ 51,836,409.48	\$ 40,837,457.16	\$ (10,998,952)	(21.2)
TOTAL	532,180	567,724	11.2	10.3	164.51	156.38	981,966,056	915,085,047	\$ (66,881,009)	(6.8)

* All spend in \$ US; Length of stay = nights.

Table 4
Estimated visitor expenditure 2011 Vs. 2012.

ESTIMATED visitor expenditure JANUARY to DECEMBER 2011 VS 2012										
Region	Arrivals		LOS		AVG spend		Total		AB CHG	% CH
	2011	2012	2011	2012	2011	2012	2011	2012		
UNITED STATES	142,414	130,762	9.2	9.3	151.43	152.55	199,281,446	186,403,908	\$ (12,877,539)	(6.5)
CANADA	71,953	72,020	11.3	11.7	144.71	147.82	117,781,755	124,390,995	\$ 6,609,240	5.6
UNITED KINGDOM	189,150	173,519	11.4	12.0	167.90	166.76	361,002,515	347,298,334	\$ (13,704,182)	(3.8)
OTHER EUROPE	35,859	37,119	10.5	10.5	178.61	168.40	67,260,893	65,482,502	\$ (1,778,391)	(2.6)
OTHER CARICOM	100,974	96,487	9.7	9.0	132.07	122.51	128,920,980	106,948,600	\$ (21,972,380)	(17.0)
OTHER	27,374	26,396	8.1	8.5	184.54	184.46	40,837,457	41,194,521	\$ 357,064	0.9
TOTAL	567,724	536,303	10.3	10.5	156.38	154.52	915,085,047	871,718,860	\$ (43,366,187)	(4.7)

^a All spend in \$ US; Length of stay = nights.

Table 5
Themes emanating from the research.

Themes	Definition (what it is)	Description of theme	Selected excerpts of Texts	Selected excerpts of Text
Political Interference	The interference in the process by individuals with political motives to somehow attempt to influence the situation. The attempted influence may be positive or negative.	Actions with the intention of stonewalling. Acts of frustration or acts of facilitation. All however with politics as the major motivation.	"We would get all the smiles and kisses and hugs from the politicians and all the time there is a knife in your back."	"[name withheld] has been banging his head against the wall now for 10 years with these politicians who have this protectionist mentality for LIAT"
Protectionism	Practices with the intention of protecting a specific carrier against competitors or acting in a manner which unduly favours a carrier to the detriment of another.	Includes, for example, providing unfair subsidies and unfairly restricting market access	"... to me it's a little bit silly but the reality is that we are more concerned about limiting competition from amongst ourselves than we are relative to larger airlines" " to a certain extent we are still of the view that protection of LIAT is necessary so that a revised MASA may be counterproductive to that"	"Now the treaty allows all of the freedoms but none of the governments actually apply it, they have all signed it but they don't apply it. It's called protectionism."
Competitive Survival	The practice where existing competitors are forced to avoid the perceived 'predator' in the market to ensure the sustained viability of their operations.	For example, avoiding routes flown by the perceived 'predator' carriers for fear of being victimized by the carrier and its supporters. Therefore, the carriers avoid challenging the perceived 'predator'.	"... going up against LIAT is suicide unless government protection for LIAT stops. LIAT is a predator and it will hunt down these carriers".	"[name withheld] tomorrow could have 12 dash 8 aircraft operating between these islands within a few weeks if we were allowed to do it, but that would be a suicide. The airplanes would park for years before we would be allowed to move them. Meanwhile all the capital that would be pumped into that would just disappear."

the eastern Caribbean is not anything of luxury type of investment. It is an absolute necessity ... a regional airline of this kind, this is not anything which is going to make money" (Iwnsvg.com, 2013).

Superficially therefore, considering claims of interference through bureaucracy and protectionism, such as those of the respondents highlighted initially, coupled with the existing MASA with its limited scope of liberalism, it appears quite clear that it is the air transport policies between CARICOM member states that accounts for the limited level of competition. However, in theory, it is a reasonable expectation that the revised treaty of Chagauramas – which governs intra-regional trade and thereby the CARICOM MASA-would not encourage such protectionist measures among member states because the treaty seeks to promote equitable growth. Therefore, as one of the respondents alluded, the revised treaty of Chagauramus suggests that at a basic minimum, no member state shall be treated less favourably than any other state. The respondent then suggested that this may be a basis upon which member states or citizens from those states may challenge issues of protectionism.

CARICOM practices also advanced the discussion of the aeropolitics concept from a different perspective, given the instances regionally where political interference has been used to support private carriers. Importantly however, respondents suggested that even though interference in the process occurs, the political

interference does serve to be a replacement for, or an inducement to circumvent, the opinion of the technocrats. Respondent # 7, addressing the failure of one of the airlines established in the region stated the following:

" he felt that if he goes to a minister and gets the minister's okay or whatever that he would automatically get a license, the minister can tell you yeah sure ... I mean because you've got to understand the role of a minister but at end of the day the minister does not issue the licenses and he expects that the people beneath him do what they need to do, so that when the license is issued under his authority it doesn't come back to bite him ..."

This comment reflects similar comments by another respondent who also attested that the political directorate and affiliates will often give impressions and assurances to potential airline investors that their businesses will be welcomed and they will receive requisite approvals unchallenged. The airlines will then consider that to mean that they will face relatively unencumbered processes because they have the support of the political directorate. This raises the point that just as political motives are used to protect public carriers, it is also clear that member states which perceive that a particular carrier will provide them significant benefits also

express favorable dispositions towards those carriers. Credence to this statement can also be found in the fact that both the now defunct Caribbean Star and LIAT were headquartered in Antigua in spite of the fact that the two carriers were both vigorous head-to-head competitors on numerous routes.

Moreover, it is also interesting that where present, this perceived interference in support of private carriers can also reach a point of political interference that is beyond what is ordinarily expressed by member states. However, this particular practice appears to be prominent only in instances whereby the particular carrier's presence will provide substantial potential benefits to the member state lobbying on their behalf. For example, one of the respondents discussed an instance whereby there was political influence exerted on the regulatory process to get a private registered Barbadian carrier access to another member state. In reference to the carrier in question and an apparent non-existent air service agreement, respondent # 8 stated, "... I don't think there's an agreement with Jamaica I don't think, but we got him access to Jamaica ..."

In another instance, respondent # 8 also highlighted "*the air services agreement between Barbados and St. Lucia for example covered carriers with capacity up to nineteen seats ... LIAT (which operates with far greater capacity on the route) is able to service this route because of the grandfather rights LIAT acquired when the islands were all British Overseas territories*". When the respondent was questioned therefore as to how Caribbean Star also operated on such routes in spite of not having access to such grandfather rights the respondent declared that Caribbean Star would have been awarded special provisions. These acts of co-operation support the argument that member states who perceived they would benefit from a particular carrier's existence acted beyond their regular practices to support the growth of the carrier or at least to ensure its entry was relatively unimpeded.

Naturally, through this line of reasoning, it could be argued that the same level of support and facilitation would be expected across all routes in the region, since it is the member state which stands to benefit the most that will lobby on the private carrier's behalf. In fact, what is clear however, is that in the eastern Caribbean in particular, where the markets are so small, it appears that the carrier providing the best guarantee for market access, in particular in terms of frequency, gains favor over a carrier not able to provide this guarantee.

Support for this statement can again be found in the fact that Caribbean Star and LIAT were both headquartered in the same member state (Antigua), both had a hub positioned in Barbados and both served the same market. The LIAT - Caribbean Star relationship is best detailed by the chairman of LIAT who stated:

"it was competition to the death and it was no secret that Caribbean Star duplicated the LIAT schedule country by country and fare wars were the order of the day. More often than not Caribbean Star and LIAT left airports within minutes of each other with half empty loads because of the excess capacity on the routes" (Holder, 2010: 85).

However, the difference between Caribbean Star and other private owned carriers was that Caribbean Star provided a similar sense of guaranteed existence to LIAT because it was financed through the backing of billionaire Sir Allan Stanford. According to Holder (2010: 27), over the six and three years of existence of Caribbean Star and Caribbean Sun respectively, losses "were estimated at US \$ 156, 296,629, probably twice those of LIAT." However, in spite of these very large losses, the carrier continued to provide market access to the member states. This reinforces the extent to which member states could view the carrier as being a long term

partner. It is necessary to point out however, as Holder (2010) details, continuous losses between LIAT and the Stanford owned Caribbean Star and Sun led to their subsequent merger.

4.2.2. Airline survival in CARICOM

The proposed regional attribute of small market sizes, and the resulting limited viability in theory, make a very conducive environment for the evolution of the empty core phenomenon as discussed by Button (2002). Effectively, the inference, which can be drawn from the protectionist proponents in the eastern Caribbean supporting this postulate, is that the downward pressure which competition exerts on price on the viable market routes in the region puts a strain on the overall finances of the government supported carriers, which also have to service numerous social routes. The fact that these social routes are not in many instances directly subsidized by the other benefiting member states reinforces the negative effect of servicing these routes, suggesting that the carriers have to redirect profits from more profitable routes to cover losses on these social routes.

Naturally, private air carriers will not ordinarily want to pursue these social routes because they offer little to no potential for economic returns at present unless subsidization is offered to counter the losses, and therefore it is reasonable to expect that the private carriers would also be most interested in the more profitable routes. On the other hand, as discussed above, the only returns gained by the government supported carriers are those on the more profitable routes and these profits are required to support their entire operations whether the operations are efficient or not. This gives some probable explanation as to why public carriers are perceived as being protected. Similar to Wensveen (2007) and Hanlon (2007) therefore, respondents in this study also contended that to prevent the empty core phenomenon (Button, 2002) it would be essential that a regional competition authority with fully enforceable influence be established in the region.¹

It is most logical though, as shown in CARICOM, that the sustained political interference and protectionism will avoid the evolution of the empty core, largely because the governments themselves are the actors in the market and are committed to ensuring some continued form of air transport for market access. However, the resulting implications have been that the other existing carriers are forced to act for competitive survival and do not attempt to grow their operations. They only do so much as is necessary to maintain the existing routes and their share of the market, so as not to upset and incite retaliation from the government supported carriers which they perceive to be predators. The monopolistic or oligopolistic nature therefore is maintained on the respective routes and rivalry among the existing carriers remains low, thereby resulting in no increased demand. In fact, respondent # 3 attesting to his fear of pursuing growth in his airline suggested:

"[name withheld] tomorrow could have 12 dash 8 aircraft operating between these islands within a few weeks if we were allowed to do it, but that would be a suicide. The airplanes would park for years before we would be allowed to move them. Meanwhile all the capital that would be pumped into that would just disappear."

In this regard, it is also likely that if insufficient demand persists, the region could quickly collapse into the empty core in the absence of the government supported carriers if the private carriers fail. However, as discussed further below, this research suggests that

¹ The role of the competition authority is mentioned further in the subsequent subsection.

there is a need to give greater consideration to the propensity for increased intra-regional travel demand and the barriers hindering this. Further consideration of the fact that the market is potentially larger than that which currently exists, *ceteris paribus* discounts the probability of demand decreasing below its current level. Moreover, the derived demand nature of air transport coupled with the previous suggestion that air transport in the region is not meant to be a luxury, augments the relevance of a high level of price elasticity of demand in air transport in the region.

Having considered claims of protectionism and justifications for limiting competition, to conclude that the regulatory environment is the factor constraining liberalism in aviation in the region is to assume that the regulatory environment is functioning as it was intended to function. However, when considering the same head-to-head competition that existed from 2000 to 2007 between LIAT and Caribbean Star, it seems a very just argument that article 4 of the MASA (see [Box 1](#) below) should ironically have acted to protect either of these carriers from the serious losses they both supposedly incurred as a result of the proposed excess capacity and price wars discussed by [Holder \(2010\)](#). Occurrences such as this can be used as evidence to insinuate that even in its current non-liberal state there are still instances of subversion of the MASA. On the one hand, this suggests that member states genuinely see the need for the agreement to be revised because of how they circumvent it, and on the other hand it reinforces that member states alter their perceptions and practices of air transport in the region based on the level of direct benefits received.

In opposing traditional protectionist practices, according to one respondent, a more efficient solution to the management of fair competition within the region is a strong and vigilant competition authority with ubiquitous ability to issue enforceable sanctions (“*on one hand the competition authority should be alert but on the other hand CARICOM as an organization should make sure that a member state does not undermine the efforts of another member state ...*”, Respondent # 1).

4.2.3. “What’s in it for us ?”

The inductive approach to this study meant that it commenced by examining the position that CARICOM governments wanted to pursue a more liberal environment, but still position themselves to maintain some degree of control in the airlines. This study suggests that it is the paradox in this position that has generated the inertia behind a more liberal air transport environment within CARICOM. This is not to say that governments should not have ownership of air carriers, and, for example, such a claim could easily be rebuffed by referring to the successes of the Singapore government’s ownership in Singapore airlines. However where this case appears to offer no credence is in the notion that the government as the major shareholder influences the decisions of the airline. The separation of power prohibits political interference into the management of the carrier.

Box 1

article 4 of the existing MASA

“A Member State shall accept multiple designation on a country-pair basis by another Member State, except in cases where by virtue of the nature of the route and, in particular, the characteristics of the market, the operation of air services by additional CARICOM air carriers would lead to serious financial loss to the existing air carriers licensed by both Member State.”

Since governments in CARICOM have the authority not only to retain ownership but also control in regional air carriers, respondents proclaimed that what results is the appointment of governmental gatekeepers in the carriers. Further, as for the regional airline LIAT, this government ownership is not through any united regional consolidated fund, but rather individual governments investing in the carriers.

In essence, the research acknowledges a perspective in the wider social context of CARICOM societies that as a citizen of CARICOM state X whose government is investing in the airlines in the region, it is best that the government be involved in the carrier to ensure that benefits accrue for the citizens of CARICOM state X. This perception is rooted in the fact that the particular carriers are not profitable and therefore benefits must be sought in whatever other way possible. These benefits, for example, could be through employment opportunities or the provision of air services to the country. For instance, [Box 2](#) below is a compilation of news excerpts from [Richards \(2015\)](#) with the most recent public political exchanges between member states when the Prime Minister of Antigua recently claimed that there was a plan in motion to replace regional carrier LIAT with a Barbadian carrier.

This thought process of insular benefits, coupled with the perceptions of an unprofitable market, seems to have crafted and then cemented a philosophy of air transport management in the region that intra-regional air transport in CARICOM, and in particular the eastern Caribbean, is first and foremost a public utility. Therefore it can be argued that the governments, by their very nature and obligation to provide social services, have socialised air transport in CARICOM.

In reality, what the results of this study suggest is that the political interference and protectionism used to maintain control over both the aviation bureaucracy and the carriers is what is undermining efficiency in the regional air transport environment. The insular objectives of the various governments, creates a lack of cohesion within the collective intra-regional air transport environment in CARICOM. The governments of the region benefit from the social services the government owned carriers provide, and the carriers in turn rely on the profitable routes to help maintain their already challenged cash flow and profitability ratios. Perhaps the air transport environment in CARICOM and attempts at liberalising the environment are best summarised by respondent # 8 who stated,

Box 2

public political exchanges in CARICOM

Antiguan Prime Minister: “Antigua’s Prime Minister Gaston Browne recently condemned the alleged plan, warning that it could be the demise of LIAT and damage Antiguan interests in the airline.”

Minister of Commerce ... Barbados: “The Outspoken Minister of Commerce Donville Inniss has told Antigua and Barbuda’s Prime Minister Gaston Browne to take a breath and have a sober conversation with his regional counterparts about LIAT, instead of making undiplomatic and outlandish statements”.

Former Antigua and Barbuda Prime Minister: “[Antigua] has a right to do so, because we put more money into it than any other country. Barbados only latterly bought the shares, but Antigua has been putting significant sums of money into LIAT for donkey years, so we are concerned about what impact it would have on our economy. We have a right to do so.”

Trinidad doesn't necessarily want it because Trinidad has what it needs, Jamaica doesn't want it because Jamaica has pretty much what they need or they feel they have what they need. Barbados would probably stand to benefit the most in my opinion from freeing up the system and changing the liberalization but to a certain extent we are still of the view that protection of LIAT is necessary so that a revised masa may be counterproductive to that ... I think that some of the governments are not interested in any change in LIAT simply because they are scared of what a profitably run LIAT may mean to them."

Based on this analysis, it appears a just conclusion that profitability in air transport in the region is perhaps unequivocally synonymous with a loss of market access and other benefits to some member states. Thus, this loss will require member states benefiting from the carriers to contribute more directly to them to incentivise them to provide access to their destinations. Some respondents suggested one such incentive could be through the offering of PSOs (Public Service Obligations) by member states on specific routes which are not commercially viable. Given the insular perspectives discussed, this suggested approach of PSOs helps in avoiding these insular approaches, and the resulting beggar thy neighbour concept, by making individual member states more accountable and responsible for the subsidisation of their social routes. However, given that the member states in many instances do not have the resources to allocate to such subsidization, capacity reductions on the social routes with respect to the carrier sizes could reduce that socialisation by increasing load factors.

4.2.4. Implications for Barbados and other member states

Both the primary and secondary research proposes that there are high financial transport access costs which persist and are often exacerbated by factors such as high taxation and transport infrastructure costs. Guided by the model of [Prideaux \(2000\)](#), these high transport access costs thereby contribute to creating suppressed demand or reduced spend. Given the quick and less costly generation of tourism demand from CARICOM to Barbados, lower transport access costs would facilitate increased economic benefits during the islands' traditional tourism 'low season'. With the CARICOM market especially responsive to events, this could enable the creation of temporary event attractions thereby enticing greater direct, indirect and induced impacts from this source market.

Respondent # 13 reiterated this position when they explicitly declared in eight of the seventeen questions asked that the problem in CARICOM is the high costs of travel. Therefore, the respondent maintained that it was not that the Barbados tourism authority was not taking CARICOM seriously as a market, but rather that the high costs of travel are prohibitive. The respondent also stated that *'the increased traffic flows Redjet brought to Barbados are an example of the claim that the high airfares in the region constrain travel from the CARICOM source market.'*

Naturally, given the importance of international tourism to Barbados, liberal air service agreements within the international community are justifiably of importance. However, the environment in CARICOM is not as liberal, and as discussed this restricts intra-regional tourism and the prospects of CARICOM integration. In the absence of a more liberal environment, it could be expected that this should create the regulatory power to control the transport access costs given the higher perceived political participation. However this does not occur, thereby suggesting that air transport in the region is a secondary supporting sector for other more developed economic activities such as tourism, more than being an industry in itself.

However, the results from this study support [Barrett \(2000\)](#) application of the contestability market theory by showing that if the regional aviation environment was more subjected to the competitive forces, this could result in increased efficiency and thereby destination competitiveness. With the current limited competition, the probable efficiencies achieved through competition prohibit new product developments, such as regional multi-destination packages in CARICOM, from emerging or developing fully to further diversify the regional tourism product offering. However, from another perspective, increased competition could also lead to inefficiencies such as cannibalization or even the fatal empty core, especially with consideration of the stated losses which persisted with the excess capacity on numerous eastern Caribbean routes when LIAT and Caribbean Star coexisted. This potential therefore further supports the necessity for having regional competition control mechanisms to guard against such occurrences.

As with the [World Bank \(2006\)](#) study, respondents in this study also argued that this political interference is as a result of the interest by countries in some of the existing carriers for maintaining access to their destination. Essentially, respondents contended that economies of many of these nations are largely dependent on maintaining the survival of these carriers. Though political interference does exist, as discussed it is set in the context of individual island civil aviation policies. Therefore, any resulting frustration would be as a result of the idiosyncrasies of the sovereign right of each member state to pursue aviation development how they deem fit.

Alternatively, if the monopolistic or oligopolistic environment, perpetuated by the political influences and protectionism fails, then the other carriers are able to emerge from acting for competitive survival, and efficiency from competition could potentially result. However, in this instance, as [Hanlon \(2007\)](#) asserts, it is important that too much competition does not arise and lead to the collapse of the core if there is a less than optimum level of output. This would especially be so on routes in the region where there is limited demand. In summary, liberal attempts in the region have to aggressively seek to avoid and prevent any further proliferation of the beggar thy neighbour concept. Access for these member states is important, and any member state which socialises air transport without fully financing or seeking to control the cost of the said socialisation threatens the viability of any liberal system within the region given the issues outlined above.

5. Conclusion

This research considered CARICOM air transport from a Barbadian perspective. However, the issues outlined in this study should not be viewed as being solely representative of air transport practices in Barbados. Barbados does not have a national carrier and with the exception of regional Carrier LIAT, of which Barbados is currently a shareholder, Barbados does not have a vibrant domicile commercial carrier industry. However, this lack of a national carrier is a characteristic of most of the CARICOM nations. It would be interesting to examine how this issue is viewed in other CARICOM countries which depend more on regional aviation.

Respondents in the study, while in some instance addressing issues of air transport specific to Barbados, also addressed practices by other CARICOM nations given the fact that all commercial air transport traffic within Barbados, and within most other CARICOM nations, is trans-border. The results acknowledge the presence of an extremely interdependent regional air transport system with member states relying on each other to service and finance each other's intra-regional carrier requirements. This suggests that the occurrences discussed herein are a part and parcel of a system with

the potential to impact any carrier in any member state.

The interviews facilitated the collection of informed responses. However, the interviews led to some participants maintaining certain positions which were later rebuffed by other participants, with no way for the opposing parties to debate those issues. To address this, future research could utilise a focus group method.

The tourism stakeholders in Barbados appreciate the importance of the CARICOM source market and propose that it could be made more viable given a more conducive aviation environment. The most substantial drawback of CARICOM liberalisation would perhaps be the emergence of an empty core. However, given the economic dependence of the member states of this region upon each other, the probability of this occurring in a relatively stable CARICOM socio-economic environment seems questionable.

In summary, genuine attempts at air transport liberalisation in CARICOM should address and attempt to fully resolve these issues critically and impartially given the existing inertia which emerged from it, and its potential to protract that inertia into the future of the industry. This research suggests that the first solution to any successful attempt at liberalism in CARICOM has to be a decision to collectively abandon any perception of air transport as being an undisputed social service in the region. Instead social needs should be addressed on a case by case basis through subsidisation, or capacity constraints as a means of increasing load factors. For so long as national or regional carriers are being forced to adopt all-encompassing social policies in their management, those carriers and their political affiliates will have to guard profitable routes to cover both their cost structures and losses on the unsubsidized or poorly subsidized social routes.

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