THE VIEW FROM EUROPE

THE CARIBBEAN COUNCIL

Tax holidays can help aviation and tourism recover

If the Caribbean is to recover from the economic crisis it is facing, governments will need to stimulate tourism in unprecedented ways. ***David Jessop*** *believes that one answer may be to remove, for a while, taxes and charges on aviation and tourism.*

After years of failing to find a way to reconcile whether LIAT, the Antigua based carrier, primarily serves the interests of shareholder governments by providing tax revenue and employment or is a genuine for-profit operation rather than a form of monopoly, a moment of truth has arrived.

Late last month, courtesy of the pandemic, it was announced that with the approval of the airline's principal government shareholders, Barbados, Dominica, Antigua, and St Vincent, it had gone into liquidation.

Antigua's Prime Minister, Gaston Browne, subsequently said that he hoped that LIAT 1974 Ltd might be recapitalised as LIAT 2020 with private sector support. However, Mia Mottley, Barbados' Prime Minister, as outgoing Chair of CARICOM, said that she believed that "lean entities that are private sector-driven" should be taking the lead in providing alternative services.

"I think governments may keep small shares in whatever may be created to be able to give the private sector investors the comfort that we are not going to subject them to regulatory confusion and long, long processes - but predominantly we need lean entities that are private sector-driven, where people are focused on how do they stay afloat through making a profit and through ensuring that there is adequate cashflow, while providing service to our people," she recently told the media.

The issue has since become the subject of angry exchanges which threaten to create new fault lines within CARICOM and between OECS members.

More immediately however, the airline's demise highlights the need to find solutions that link economic development, tourism and the need for regional integration with having one or more viable, relatively low cost, lightly regulated, private sector operated intra-regional air carriers.

Understanding what is required is neither rocket science nor new. The basic answers relating to LIAT and regional aviation more generally were set out in a document published by the Caribbean Development Bank (CDB) in mid-2018.

The now two-year-old working paper, 'Air Transport Competitiveness and Connectivity in the Caribbean', demonstrated how improved connectivity could create economic growth and employment, especially in the smaller islands of the Eastern Caribbean. Its three authors noted that development was being held back by a combination of aviation related taxes, fees and charges which add to the cost of travel. They also observed that regulatory barriers, institutional impediments, and other factors were damaging competitiveness.

To remedy this, they proposed: a reduction in aviation taxes, especially for inter-regional travel; a reduction in airport charges to attract airlines to operate in markets where yields are lower; and the signing of new bilateral air service agreements to encourage competition, new routes and improved connectivity. They also recommended reductions in air fares and making travel for residents and visitors alike as seamless as possible. Such actions they observed could create around 0.2m new jobs by 2036, add about US$4.4bn annually in GDP across the Caribbean, and result in an overall 26% increase in passengers.

The solutions proposed then are as relevant today as travel and tourism struggles to recover from the pandemic.

As Vincent Vanderpool Wallace, the Principal Partner of the Bedford Baker Group in Nassau and a former Bahamian Minister of Tourism, observed during a recent webinar, the Caribbean is not only the most tourism dependent region in the world, but is also among the most aviation dependent. Airlift, he observed, was a fundamental precursor to Caribbean economic development.

Once the region establishes secure protocols that will allow the region to accept visitors from key markets like the US where there is still a high incidence of COVID-19, it will be tourism because of its holistic and externally funded nature that will drive regional economic recovery.

This will in part require heavily indebted governments, at the right moment, incentivising international carriers to resume services and increase their frequencies. It ought also to see countries giving serious consideration to stimulating air travel by removing the multiple passenger and airport taxes and charges that make travel within the region more expensive per mile than to Europe or North America.

These are matters that the international financial institutions should be paying greater attention to, by finding ways to support fiscal measures such as aviation tax holidays as an element in a package of national and regionally agreed measures that stimulate tourism and private sector led recovery.

As a recent IDB paper pointed out, the COVID-19 collapse in tourism is 'an unprecedented extreme outlier event' requiring government interventions to support the sector and citizens in equally unparalleled ways.

For this reason the recent revelation by Prime Minister Mottley that the US administration has said that it is committed to helping develop a multifaceted framework that will support both the region's immediate post-COVID humanitarian needs as well as its long term recovery, is particularly welcome.
Although the subject of a future column, this involves Washington offering to help make the case for Caribbean access to multilateral funds and debt relief on concessional terms.

It suggests that this is the moment when governments and representatives of the tourism industry should develop a joint plan: one that demonstrates how with the support of external agencies a reduction in taxation and charges on aviation and tourism, over a defined period, might stimulate airlift and visitor demand, broaden government revenues in the medium term, and hasten Caribbean economic recovery.

David Jessop is a consultant to the Caribbean Council and can be contacted at
david.jessop@caribbean-council.org
Previous columns can be found at www.caribbean-council.org
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