Connecting the Americas through Sustainable Tourism

Challenges and Opportunities for Regional Air Connectivity

20-22 March 2018
**ICF Aviation** is one of the world’s largest and most experienced aviation and aerospace consulting firms

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  - Blend of consulting professionals and experienced aviation executives
- Specialized, focused expertise and proprietary knowledge
- Broad functional capabilities
- Backed by parent company ICF (2016 revenue: US$1.05 billion)
- Global presence — offices around the world

Barbara Mejia

22 years experience

- Aviation specialist focused on commercial strategy, route planning and fleet for airlines.
- Supports airports and tourism agencies with strategic planning and development of air services.
- Before joining ICF in 2006, Ms. Mejia worked for AeroMexico

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ICF offers a global airline client list and network of airline contacts
ICF is especially strong in international air service experience and support

U.S./Canada

Europe/Russia/Middle East

*Spain includes all airports managed by AENA

Latin America and the Caribbean

* Mexico includes all airports managed by GAP, and MEX satellite airports
Introduction

- It is indisputable that the liberalization of air travel has made a positive contribution to the growth of connectivity and tourism

- Regional air connectivity is moving in the right direction

- However, there are tensions among stakeholders who all need funding through:
  - Ticket and hotel taxes
  - Airport fees to airlines and passengers
  - Visa issuance fees (and complexities)
  - Overregulation including restrictive bilaterals

- Stakeholders need revenue:
  - Airports to operate and make capital investments
  - Hotels to build and promote
  - Government to operate, create infrastructure, regulate and promote
  - Airlines to run profitable operations

- **These tensions work at cross-purposes to achieving the greater goal, which is sustained economic impact**
Both supply and demand factors have contributed to robust passenger traffic growth rates in many countries across the region…

Passenger Traffic Growth in Sample Countries, 2011-2016 CAGR

- Canada: +5%
- Mexico: +10%
- USA: +3%
- Dominican Republic: +8%
- Colombia: +10%
- Brazil: +5%
- Uruguay: +1%
- Argentina: +7%
- Panama: +20%
- Peru: +15%
- Ecuador: -2%
- Chile: +9%
- Colombia: +10%
- USA: +3%
- Mexico: +10%
- Panama: +20%
- Ecuador: -2%
- Peru: +15%
- Chile: +9%
- Colombia: +10%
- Brazil: +5%
- Uruguay: +1%
- Argentina: +7%
...which is also reflected in the growth of tourist arrivals

Growth of Tourist Arrivals 2011 – 2016 CAGR, Top Fastest Growing in LAC

Source: UNWTO (countries not reporting 2016 data excluded)
Regional air connectivity in the Americas is moving in the right direction

- Improvement in service and traffic growth
- Big markets are already served
- Strong Latin American Carriers
- Introduction of LCC

6% traffic international average annual growth in the last 5 years within the region

The growth in number of non-stop routes served international markets within the Americas grow by 26% in the last 10 years

Latin America Full Service Carriers are profitable and have large aircraft orders

LCC in Latin America have high market shares or are gaining market shares, especially in the Domestic Market
It is widely recognized that aviation/tourism drives significant economic benefits for the broader regional economy.

Gobernador anuncia nueva conexión aérea hacia Europa

16 de noviembre de 2015 – San Juan – El gobernador Alejandro García Padilla anunció hoy la reanudación de la ruta San Juan a Madrid que desapareció hace tres años. Durante la primera temporada se esperan 7,500 visitantes, cuyo impacto económico en la isla se proyecta en $21.2 millones.

Estudio del impacto económico del aeropuerto de Mendoza

– Beneficios por el lado de la demanda para el PBI derivados del transporte aéreo (impacto directo, indirecto e inducido) se en el volumen total facturado por los servicios aerocomerciales y aeroportuarios prestados dentro del predio, que conforman el Producto Bruto Aeroportuario total, e incluye la facturación total junto a los salarios e impuestos.

LaVoz

El aeropuerto de Iguazú generó un impacto económico de 1.600 millones de pesos y creó 4.270 empleos.

Denver Int’l Airport

@DENAirport

The new @CopaAirlines flight to Panama will also create 244 new jobs and $26 million annual economic impact for Colorado - via @MayorHancock
Yet many countries still present barriers to air travel and tourism, such as onerous visa requirements, infrastructure deficiencies and bilateral agreements.

In many countries in the region, taxes and airport fees add cost to airfares which could discourage air travel – but the data doesn’t always support that view.

Comparison of Ticket Taxes on One-Way International Airfare (Base fare of USD 800)

Note: Assumed a base one-way fare of USD 800 (international) to compute VAT, where applicable.

Sources: ITA Matrix Airfare Search by Google, UNWTO
Governments jointly with other stakeholders can help grow air service and tourism via a focused program – resulting in sustainable connectivity.

### Stakeholders in a Successful Air Service Development (ASD) Program

<table>
<thead>
<tr>
<th>Chambers of Commerce</th>
<th>Regional or Local Tourism Entity</th>
<th>Hotel Association</th>
<th>Specific Industry Associations</th>
<th>Economic Growth Agencies</th>
<th>Local Governments</th>
<th>Airport &amp; Advisor</th>
</tr>
</thead>
</table>

**ASD programs can consist of:**

- Market data & recent developments
- Specific route proposals
- Incentive programs
- Marketing & branding support
Stakeholders must balance conflicting goals for the greater economic impact via holistic aviation and tourism policies

**Economic Impact**

- Visa/Immigration Policy (National Security)
- Airport/Government Taxes (Need for $$$)
- Home Country Airline Interest (Political pressure)
- Passenger Traffic
- Tourist Arrivals
- Infrastructure
Thank you!

For questions related to this presentation, please contact:

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The Americas have experienced a 6% annual average growth on International Air Traffic within the Region

Air Passenger International Traffic within the Americas by Region

CAGR YE Jan 2013- YE Jan 2018

Origin-Destination Passengers (Million)

Source: IATA PaxIS
Non-stop services in the Americas have increased by 26% in the last 10 years (2.3% annual average)

Comparison Number of Non-stop Routes International Markets within the Americas
2008 vs. 2018 (excludes domestic markets)

- The Central-South America region have seen the highest growth with 6% annual average over the last 10 years
- The top destinations are already well-served within each region
- There is still huge opportunity to increase service within the Caribbean

Source: SRS Innovata Published Schedules
Latin American carriers are stronger with high level or aircraft orders and are providing good service to its customers

**Main Full Service Carriers in Latin America**

**Net Profit (loss) – million USD**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Avianca Group</td>
<td>$44.2</td>
<td>$63.0</td>
<td>$58.5</td>
<td>$69.2</td>
</tr>
<tr>
<td>Aeromexico Group</td>
<td></td>
<td></td>
<td>-$139.5</td>
<td></td>
</tr>
<tr>
<td>LATAM Group</td>
<td></td>
<td></td>
<td>-$219.3</td>
<td></td>
</tr>
<tr>
<td>Copa Airlines</td>
<td></td>
<td></td>
<td>-$225.0</td>
<td></td>
</tr>
</tbody>
</table>

**Confirmed Aircraft Orders**

<table>
<thead>
<tr>
<th>Carrier</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avianca Group</td>
<td>223</td>
<td>61</td>
</tr>
<tr>
<td>Aeromexico Group</td>
<td>80</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: CAPA
Strong Latin American carriers coupled with the LCC boom that in some countries encompass 60% of the market share in the domestic market

Low Cost Carriers Market Share in the Domestic Market
From First Year of Operation to Latest Year of Operation

- In only 6 years, Mexico’s low-cost carriers achieved a 60% market share
- Brazil took longer than Mexico and has already more than 50% of the market share
- US is a mature air market, where LCC has around 30% of the market share, similar case as Canada
- Colombia LCCs, VivaColombia and Wingo, are growing their market share with 15% in the last year

Note: Year 0 defined as the first year with >4% LCC penetration; Aires not included as Colombian LCC
Source: IATA, OAG
Market sizes within Latin America and Caribbean are still thin, therefore an opportunity for stakeholders to create critical mass

Top Market from/to Guyana by Air Traffic, CY 2017

<table>
<thead>
<tr>
<th>Rank</th>
<th>Destination</th>
<th>Annual Passengers ('000)</th>
<th>Passengers Weekly Each Way</th>
<th>Served from Guyana</th>
<th>Airlines Providing Service</th>
<th>Average Fare (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New York</td>
<td>227</td>
<td>2,188</td>
<td>✔</td>
<td>• Caribbean Airlines • Fly Jamaica</td>
<td>406</td>
</tr>
<tr>
<td>2</td>
<td>Port of Spain</td>
<td>83</td>
<td>801</td>
<td>✔</td>
<td>• Caribbean Airlines</td>
<td>235</td>
</tr>
<tr>
<td>3</td>
<td>Toronto</td>
<td>64</td>
<td>619</td>
<td>✔</td>
<td>• Fly Jamaica</td>
<td>395</td>
</tr>
<tr>
<td>4</td>
<td>Miami</td>
<td>54</td>
<td>520</td>
<td>✔</td>
<td>• Surinam Airways</td>
<td>283</td>
</tr>
<tr>
<td>5</td>
<td>Kingston</td>
<td>53</td>
<td>513</td>
<td>✔</td>
<td>• Fly Jamaica</td>
<td>315</td>
</tr>
<tr>
<td>6</td>
<td>Bridgetown</td>
<td>38</td>
<td>361</td>
<td>✔</td>
<td>• LIAT</td>
<td>233</td>
</tr>
<tr>
<td>7</td>
<td>Santa Domingo</td>
<td>17</td>
<td>168</td>
<td>✔</td>
<td></td>
<td>309</td>
</tr>
<tr>
<td>8</td>
<td>Panama City</td>
<td>15</td>
<td>148</td>
<td>✔</td>
<td>• COPA</td>
<td>303</td>
</tr>
<tr>
<td>9</td>
<td>London</td>
<td>14</td>
<td>144</td>
<td></td>
<td></td>
<td>418</td>
</tr>
<tr>
<td>10</td>
<td>Paramaribo</td>
<td>10</td>
<td>96</td>
<td>✔</td>
<td>• Surinam Airways</td>
<td>99</td>
</tr>
</tbody>
</table>

89% of Total

Note: Includes both airports in Guyana; Average Fares do not include concessions
Source: PaxIS CY 2017, Innovata Schedules YE March 2018

- There is already service to the top destinations from Guyana
- Current Average Fares are high, however increased in LCC presence with intra-region service would offer more affordable fares
Regions such as Caribbean need to develop a “multi-country” airline that would enable more connectivity within the region and to other destinations

- There is lack of global brand recognition among carriers in the Caribbean
- None of the Carriers in the Caribbean is part of a Global Alliance
- The carriers in the region are typically small airlines
- *Etihad Airways has created a multi-country model with its alliance “Etihad Partners” covering over 300 destinations worldwide*

<table>
<thead>
<tr>
<th>Current Active Fleet for Caribbean Carriers</th>
</tr>
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<tbody>
<tr>
<td><strong>Schedule Regular Service March 2018</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Caribbean Airlines</th>
<th>17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Caraïbes</td>
<td>12</td>
</tr>
<tr>
<td>Western Air</td>
<td>12</td>
</tr>
<tr>
<td>Dubana</td>
<td>11</td>
</tr>
<tr>
<td>LIAT</td>
<td>10</td>
</tr>
<tr>
<td>interCaribbean</td>
<td>10</td>
</tr>
<tr>
<td>Surinam Airways</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: CAPA and carriers website